

Date: 2 March 2016

Item: Savings and Efficiencies Programme Review

This paper will be considered in public

1 Summary

- 1.1 The purpose of this paper is to report the findings of the 2015/16 review by PricewaterhouseCoopers (PwC) of the Savings and Efficiencies (S&E) programme and update the Committee on plans to close off the programme.

2 Recommendation

2.1 The Committee is asked to:

- (a) note the findings from the PwC review; and
- (b) approve the closure of the current Savings and Efficiencies programme.

3 Background

- 3.1 The S&E programme was launched in 2009/10 with the objective of delivering an overall target of £16bn in the period to 2020/21.
- 3.2 In response to a commitment made to the Committee to provide an annual review of the programme, this is PwC's third review. The report includes recommendations on future management of cost reduction at TfL and an update on progress against recommendations from previous reports.

4 Proposed changes

- 4.1 The S&E Programme is in its sixth year and for the third consecutive year PwC have recommended that the programme be rebaselined.
- 4.2 In a letter dating 14 January 2016, the Budget and Performance Committee of the London Assembly, following its meeting on 7 January 2016, has welcomed a commitment from management to reset the 'savings counter' to zero in 2016.
- 4.3 PwC has also recommended that new savings targets should be set over a much shorter timeline and use either 2015/16 outturn or 2016/17 Budget as the baseline for the new savings target. The Report highlighted that many FTSE100 companies only set one or two year savings targets.

- 4.4 TfL agrees with this recommendation. It is proposed that savings targets will be set during the annual budgeting process. Reporting on progress against this savings target will be achieved through TfL's business as usual forecasting and management reporting.
- 4.5 With the current Programme ceasing to exist, it has been agreed with PwC that the proposed management actions in the report will be closed off outside this process. These actions will be enacted through TfL's new budgeting and forecasting process and the Business & Finance Review.
- 4.6 It is therefore proposed that the programme will be closed at year end 2015/16 and the three year agreement with PwC to provide assurance (of which two years have been used) will be terminated.

List of appendices to this paper

Appendix 1: PwC Transport for London Savings and Efficiencies Review 2015/16

List of Background Papers

None

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Savings & Efficiencies Review 2015/16

**Transport for
London**
January 2016

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Limitations of scope

The services do not constitute an audit or a review carried out in accordance with generally accepted auditing standards and PwC gives no assurance on the contents of the schedules underpinning TfL's savings and efficiencies programme. If PwC were to perform additional procedures or an audit or review of the schedules underpinning TfL's savings and efficiencies programme, other matters might come to its attention that it would report to TfL.

We do not offer views on the overall achievability of the overall savings target or savings targets for each initiative. Our observations relate to the maturity of the control environment that will support achievability.

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1. *Executive summary*

The Savings and Efficiencies (S&E) programme is scheduled to deliver £15.6bn of savings by 2020/21. The most recent TfL report (Q2 2015/2016) noted £13.6bn of this total had been secured, and £2.0bn of savings remained unsecured.

This report provides an update on the progress made on previous recommendations and agreed management actions from independent assurance reports from 2013 and 2015. We also set out a number of additional recommendations on the future shape and structure of the programme, considering the upcoming opportunities and challenges for both the S&E programme and TfL more widely.

TfL has continued to make progress in implementing previous assurance recommendations. These have been taken seriously by management and tangible actions have been taken resulting in improvements to controls and governance of the programme. A number of strategic changes mean that TfL's approach to identifying, monitoring and reporting savings will need to change in the future, and this is understood and accepted by the senior finance team. The recent Spending Review has resulted in a significant reduction in TfL's grant from central government. The forthcoming mayoral election also creates further opportunity for change. These developments come together to create an opportune moment for TfL to reconsider how it approaches the savings and efficiencies agenda, whilst building on the S&E work undertaken to date that has delivered significant benefits.

We have highlighted in our report where activities currently in the S&E programme should be reframed in this changing context:

- A new target for cost savings should be set with a clear fixed baseline starting point against which to measure savings and a shorter timeframe for implementation;
- TfL is currently undertaking a Strategy Review and Business and Finance review to identify new cost savings opportunities. The S&E programme and the Business and Finance Review should be considered together as they are related in a number of ways. Learning from the S&E programme can provide significant insight into where savings have already been identified and secured. If the two programmes are not considered together there is a risk of duplicated effort in the identification of savings and a missed opportunity to leverage the good practice and experience from the S&E programme;
- In addition to focusing on potential cost savings, good practice suggests a more multi-disciplinary approach adds considerable value. Ensuring there is an effective business case template and evaluation process is particularly important. Management should consider if it would be possible to expand benchmarking activities underway to support the identification of new S&E initiatives;
- Where possible, savings and efficiencies should be integrated into the TfL financial management processes and systems. Tracking S&E through the SAP general ledger will eliminate the additional processes which have been introduced to track, monitor and evidence savings and will allow for reconciliation of savings and efficiencies at a total programme level with the financial performance and forecasts for TfL. We understand a pilot is planned to test this approach in one area;
- Once savings proposals have been approved, TfL and other organisations in both the private and public sectors adjust budgets and their baseline financial position to strip out the promised efficiencies. However, many of these other organisations do not continue to monitor them in detail as part of a stand-alone savings programme;
- Interviewees have recognised the importance of a savings culture across TfL. Increased direct accountability and ownership of savings targets at local level is an important tool for supporting this. The controls currently in use have been optimised for current S&E objectives, but these may not wholly meet the changing requirements for savings. This might include updated governance, guidance and ways of working;
- As requirements and risks change for this programme, we believe that the assurance requirements for the programme should also evolve. Following up on historic recommendations when the nature of the programme has changed will add limited value. The development of an assurance framework and fit-for-purpose controls to meet the new objectives should be a priority.

TfL's Savings and Efficiencies – An Introduction

TfL's current S&E programme is large, complex and covers a 12 year period from 2009/10 to 2020/21. The total savings and efficiencies target of £16 billion is significant and challenging – it is difficult to both find this level of savings, and then evidence that the savings have been realised. The programme comprises a large number of varied initiatives that are managed by TfL's three business areas – Corporate, Rail and Underground (R&U) and Surface Transport (ST).

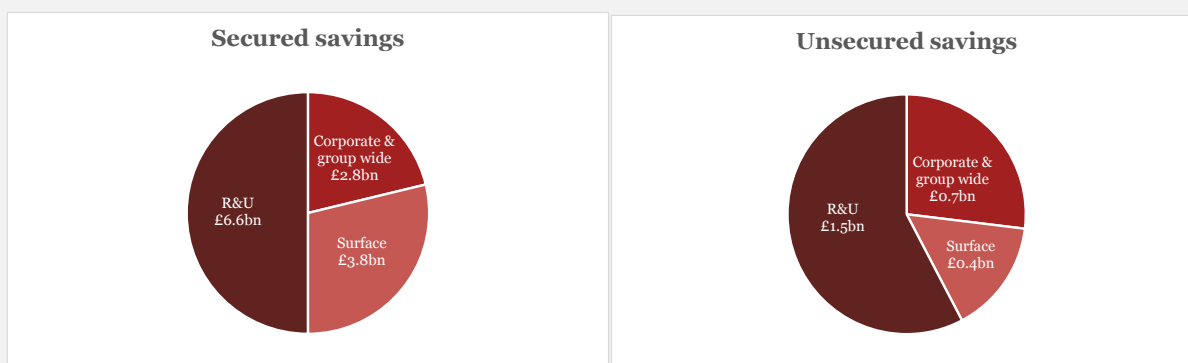
The aim and purpose of the current S&E Programme is to identify cashable savings which facilitate TfL investment in transformation and capital programmes. Initiatives are calculated, maintained and monitored outside of the SAP general ledger system. It is therefore not possible to directly reconcile the total savings and efficiencies delivered by the S&E Programme to the budget and reported financial performance of TfL. This reduces the clear line of sight between S&E and actual financial performance of TfL.

Failure to deliver the savings target or clearly demonstrate how it has been achieved could cause significant reputational impact for TfL. This is particularly important as the S&E programme moves away from a focus on cash releasing savings to a clear requirement to make large operational cost savings – delays or failures to realise savings will have a tangible effect on the financial position of the organisation and its ability to deliver services.

Current status

The diagram below shows how the total £16 billion can be broken down by the three business areas and the current split between 'secured' and 'unsecured' savings.

Current status of TfL S&E programme



TfL uses the following definitions for secured and unsecured savings:

- Secured savings:
 - Savings which are considered banked and reflected in local budgets
 - Savings which are considered banked and reflected in local budgets but changes to future planning assumptions may require reappraisal of value of recurrence.
- Unsecured savings:
 - Implementation plans exist, but material risks or uncertainty remain
 - Initiative is identified but implementation is yet to be fully assessed
 - Local budget centre overlay
 - Operating Business or Group budget centre overlay.

The changing nature of the S&E programme

TfL's work on savings will need to change. The recent Spending Review has resulted in a significant reduction in TfL's grant from central government – cuts of £700m p.a. will be phased in over three years. This will create greater urgency in developing and implementing savings across the business. Furthermore, the forthcoming mayoral election creates further opportunity for change.

It is important to recognise the significant amount of work that been done as part of the S&E programme so far to develop a consistent methodology, processes and controls and to review savings areas across the business in significant detail. This work provides a strong springboard for the challenges ahead.

The table below summarises our understanding of how the next phase of savings work may differ from the current approach:

<i>Characteristics of the current S&E programme</i>	<i>Our suggestions on the future approach to savings</i>
<ul style="list-style-type: none"> • Focused on cash releasing savings – i.e. freeing up money to be invested elsewhere in the business 	<ul style="list-style-type: none"> • Greater focus on direct cashable savings and a need to significantly reduce ongoing operating expenditure
<ul style="list-style-type: none"> • Long term programme, covering 2009/10 to 2020/21 	<ul style="list-style-type: none"> • Re-baselined with a much shorter time frame – likely to be aligned to a Mayoral cycle (or shorter)
<ul style="list-style-type: none"> • Relies on memorandum accounting 	<ul style="list-style-type: none"> • More fully integrated into financial planning, monitoring and reporting processes
<ul style="list-style-type: none"> • Principally documented and managed off ledger 	<ul style="list-style-type: none"> • Captured and managed on SAP where possible
<ul style="list-style-type: none"> • Targets set at overall Business Area level with limited direct accountability at a local budget holder level 	<ul style="list-style-type: none"> • Increased direct accountability and ownership of savings targets a local level
<ul style="list-style-type: none"> • Complex methodology, database and calculations 	<ul style="list-style-type: none"> • Simpler design principles and processes

2. Background to this review

Previous assurance activities for the S&E programme

Independent assurance reviews on the S&E Programme were undertaken in November 2011, June 2013 and January 2015 – this report forms the fourth of these reviews. The reviews were commissioned to provide independent assurance to the Finance and Policy Committee (F&PC) on the governance and deliverability of the S&E programme.

These reviews have identified a number of recommendations, as follows:

- The June 2013 review set out six recommendations – the TfL management action plan dated December 2013 identified twelve actions to address these points; and
- The January 2015 review added a further ten recommendations, each with a corresponding management action.

Our role

PwC was appointed by TfL in November 2014 to undertake annual independent reviews of the S&E programme over three years. This report is the output of the second of these reviews. Our work has involved the following:

- Understanding and evaluating the current governance, reporting and controls at TfL Group and separate Business Areas
- Refreshing our understanding of the current delivery context – for example, changes in the senior leadership/ finance team, the Building a Better Finance Function programme, the Strategy and Business and Finance reviews kicked off by management in late 2015, and the potential impact of forthcoming mayoral elections and the recent SR announcements;
- Following up on progress for the recommendations included in the June 2013 and January 2015 reports;
- Working with key stakeholders in finance and Internal Audit to agree a risk assessed sample of unsecured savings initiatives to review then undertaking a detailed review of these initiatives. This has included looking at how benchmarking is used in these initiatives, as well as the achievability and maximisation of savings;
- Providing a view on how the approach to S&E could be refocused and further developed to respond to changes in the current financial environment; and
- Producing a written report and action plan to set out our findings, conclusions and recommendations, and then agreeing this with stakeholders.

Structure of the report

This report provides an update on the progress made on previous recommendations and agreed management actions. We also set out a number of additional recommendations on the future shape and structure of the programme, considering the upcoming opportunities and challenges for both the S&E programme and TfL more widely.

This report is structured as follows:

- Section 1 highlights the key findings from this review and provides a primer on the S&E programme
- Section 2 explains previous assurance activities and the approach for this review
- Section 3 sets out our key findings, and summarises the current status of previously agreed actions

- Appendix A includes the detailed findings on the current status of previous agreed actions for 2013 review
- Appendix B includes the detailed findings on the current status of previous agreed actions for 2015 review
- Appendix C sets out our new recommendations and agreed management actions
- Appendix D provides further detail on the scope of this review.

Approach to the review

A detailed scope of work was developed (as set out in Appendix D).

We undertook both desktop document review, held interviews with a range of key stakeholders across the business and observed Values Group meetings.

We also reviewed a number of individual initiatives. Initially, management indicated a preference to review secured initiatives. Subsequently, given the ongoing financial pressure, we were asked to refocus on unsecured initiatives, as in the 2015 report.

The TfL Savings and Efficiencies Virtual Team selected a short list of initiatives which were then explored. This discussion considered where initiatives had already been reviewed, how best to focus on high value/ high risk initiatives, and to ensure the initiatives were being actively pursued rather than early stage feasibility options. Following this analysis, we selected four initiatives from across TfL.

Once the sample was confirmed, the testing focused on the following areas:

- How are the identified initiatives following the S&E guidelines developed during 2015?
- How has TfL been using benchmarking in the identified initiatives since the 2014/2015 review?
- What is the process that initiatives follow to ensure achievability and maximisation of savings?

We discussed emerging findings with management, then developed a draft report. This was refined with further input from stakeholders and a management action plan was agreed.

Our interim findings were presented to the Finance Leadership Team (FLT) on 14 December 2015 and our full report on 25 January 2016.

Fieldwork took place from October – December 2015.

3. Key findings

The key findings from our work are set out below. We have grouped these into:

- Areas of good practice; and
- Wider observations on the S&E Programme and how activities should be reframed for the next phase.

Good practice

Progress on the 2013 and 2015 recommendations

TfL has continued to make progress in implementing previous assurance recommendations. These have been taken seriously by management and tangible actions have been taken which have resulted in improvements to controls and governance of the programme. In particular, we noted:

- The further development of the S&E wide guidance document;
- Use of a standard database across all divisions to track savings;
- Improvements to the reporting process for the S&E programme;
- Better retention of data on individual initiatives;
- Independent assurance on the standard database has taken place;
- New approaches to risk management for initiatives are being trialled;
- Developing a pilot to better integrate S&E activities with the ledger; and
- Using project management discipline to make change happen and track implementation progress.

Strengthening the Virtual Team

A “virtual” team to support the S&E programme has been further strengthened since the 2015 report. Staff across the business consistently noted that this has led to more effective communication and collaborative working approach for the S&E programme and provides a helpful mechanism for sharing new approaches across TfL. Additional resources for S&E has enabled all business areas and Group to make further progress. Interviewees noted there could be further opportunities for sharing good practice and linking in with other work areas such as business case development and benefits tracking.

Benchmarking within R&U

R&U currently have the biggest unsecured savings target and have developed a number of innovative approaches to meet this. In particular, benchmarking activities are more mature – staff felt that this could be used even more widely to help identify new or wider opportunities for S&E initiatives, as well as the current focus on costing known options.

Wider observations on the S&E Programme – reframing activities for the next phase

The forthcoming mayoral election offers opportunities to reframe the programme and link it more directly to the £700 million per annum savings challenge posed by the recent Spending Review.

Staff recognise that the current S&E programme has helped TfL implement a wide range of savings. Significant work has been undertaken as part of the S&E programme to develop a consistent methodology, processes and controls and to review savings areas across the business in some detail. This work provides a strong

springboard for the challenges ahead - the next phase of delivery will require a refreshed approach to meet the new challenges.

Based on our experience of savings programmes across both the private and public sectors, we highlight the following principles. Some of these principles are already evident in the way the S&E programme is run but a number of them would require changes to the way TfL identifies, manages and monitors cost savings.

Good practice principles for savings programmes

- There should be a clear and understood baseline starting position for any savings programme - This represents the “one version of the truth” and needs to be transparently set and consistently accepted. Measurement of savings achieved is then against this one clear position. – for TfL, this could be the 2015/16 outturn position or the 2016/17 budget.
- Savings programmes typically work best over a shorter timeframe – for example, central government savings programmes are tied into electoral cycles (i.e. five years) and FTSE100 companies would tend to have a one or two year detailed savings programme.
- There is a requirement for a structured process to identify, evaluate and approve new savings initiatives. Benchmarking can be one useful technique to support this work as can a clear business case evaluation process.
- Once identified and approved, expected savings should be top-sliced from the budget and baseline position. This avoids any need for developing separate audit trails to evidence how savings have been delivered – instead, this will be captured through existing financial controls. For S&E initiatives already underway, the savings due after 1 April 2016 should be recalculated and then included in the future forecast.
- There is clear ownership of savings targets at a local level and accountability for performance against these with appropriate incentives and performance management.
- Controls to support savings should be designed upfront. These processes should be straightforward and support the organisation in saving more money in a safe way. As far as possible, they should be part of the day-to-day financial processes of the organisation (for instance, budgeting, forecasting, and monitoring).
- There are a number of ways of managing savings targets and oversight of delivery – management should consider what would work best for TfL. For example:
 - How to encourage a ‘savings culture’ across the business and what communications, training and performance management is required to support this.
 - Savings targets could be broken down into targets for each individual business area or cost centre – this would mean all parts of the business would need to engage with the savings exercise and be held accountable for achieving these.
 - Separate monitoring might be required on the risk rating or delivery status of key initiatives. This would give a richer picture on progress but might require off-ledger manual monitoring processes. This would be most useful for larger initiatives e.g. over £5m.
 - Assurance has a key role to play in reviewing the design and operation of controls. Obtaining independent ongoing assurance on the governance, deliverability and performance of the savings programme is important.

We further explore these issues and the potential implications for TfL in the section below. See Appendix C for details of our recommendations.

Setting a target for cost savings with a fixed baseline and shorter timeframe

The current S&E programme covers a 12 year period. This makes maintaining an audit trail of business cases and assumptions against the baseline year increasingly challenging, not least because the nature and shape of the business is likely to change significantly over that time. The 2013 and 2015 assurance reviews recommended that re-baselining should take place, but this was seen as not achievable given political commitments. The forthcoming mayoral election creates the potential to re-baseline the savings programme and move to a shorter control period – for example, the Commissioner recently discussed a potential move to a new target and the Mayor has approved this stance. Staff across the business agreed that this would be easier to manage and give greater focus on short term actions – we support this approach.

Identification, analysis and approval of S&E efficiencies

TfL is already undertaking both a Strategy Review and Business and Finance Review which will identify new savings opportunities. Once possible projects for saving costs are identified, these should be impact assessed and approved. Rather than simply focusing on potential cost savings, good practice suggests a multi-disciplinary approach to impact assessment adds value. For example, this should consider the net benefit (i.e. take account of implementation costs), impact on service levels and strategic priorities, achievability, risks and wider dependencies. It may be appropriate for larger, riskier initiatives to be subject to more assurance/ approval activities. The current S&E programme already includes a number of these aspects but it should be a more fully integrated part of the process to set the budget. This process should also take account of existing S&E initiatives in delivery – these should remain in scope

Good practice would highlight an effective business case template and evaluation process as particularly important. We understand the business is currently looking at developing such a template. This should:

- Make sure that an appropriate range of options are identified and compared consistently;
- Whilst savings targets should be baselined, it should be possible to change them in the light of additional information which materially changes forecasts;
- Challenge key assumptions that underpin the business cases. Some of the individual initiatives we reviewed were based on quite simplistic assumptions that had not held up over time.
- Take account of any double counting.

Benchmarking activities have increased since the 2015 report, in particular in R&U – benchmarking is one useful tool for identifying and validating S&E initiatives. Working with Independent Investment Programme Advisory Group (IIPAG) who oversee benchmarking work, there is potential to expand the number and scope of benchmarking exercises undertaken by the benchmarking team to help identify more savings and efficiencies across TfL. Management may wish to consider if it is possible to expand the capacity of the team to undertake more of this type of work, and where this function might best sit in the organisation. There is scope to do more work focusing on driving identification of savings and options analysis. Benchmarking primarily focuses on international comparators - management should consider if there are further opportunities to use internal benchmarking to identify where additional efficiencies could be released, for example allowing comparisons within and between business areas.

Embed savings and efficiencies into the TfL financial management processes and systems

Implementing a more system driven solution and tracking S&E on SAP will help to eliminate the additional processes which have been introduced to track, monitor and evidence savings and will allow for reconciliation of savings and efficiencies at a total programme level with the financial performance and forecasts for TfL. We acknowledge that work is already underway to further consider and pilot change of this kind through the BBF programme, and believe that the new savings challenge increases the impetus for a more systems integrated approach.

Once savings proposals have been approved, TfL and other organisations in both the private and public sectors adjust budgets and their baseline financial position so that the promised efficiencies are removed. The mechanisms for doing this may vary dependent on organisational need. This creates a stronger driver to realise the potential benefits and makes it simpler to track progress – following regular financial monitoring processes will highlight if there is slippage in the savings initiatives. This approach may not provide deep insight on the implementation of the savings, but does have the benefit of being quicker to implement and part of business as

usual. Some interviewees thought it would be important for the next phase of the S&E programme to continue to track delivery and risk status – which would have to take place off ledger. It will be for management to decide how best to manage these competing priorities and how radical it would like to be in redesigning the approach to cost savings.

Changing requirements for savings require updated controls and a different approach to assurance

The controls currently in use have been optimised for current S&E objectives, but these should be reviewed in the context of new requirements and challenges. For example, TfL is likely to need updated controls that better meet the updated objectives for this programme as follows:

- The process for identifying, analysing and approving S&E initiatives, what governance bodies may be involved, and the extent to which this is more integrated into business performance and operational processes;
- How records should be maintained and the level of audit trail needed to support savings; and
- Set out how contingencies should be managed.

Interviewees have recognised the importance of a savings culture across TfL. Increased direct accountability and ownership of savings targets at local level is an important tool for supporting this.

As requirements and risks change, we believe that the assurance requirements for the programme should also evolve. We identify a number of potential options below:

- **Refocusing the follow up** - many of the recommendations from the 2013 and 2015 reviews may be less relevant in the light of the new requirements – we do not therefore suggest that these are all followed up in next year's assurance report. However, as the recommendations from this 2016 report (set out in Appendix C) have been drafted to take account of recent developments, we do think it would be useful to follow up on these new actions.
- **Ongoing requirement for assurance framework** – in the 2015 report, we suggested that an assurance framework should be developed. In our view, this recommendation still stands although we recognise that TfL's thinking on assurance frameworks is still developing. Mapping the assurance framework in place for S&E would help to inform an assessment of control maturity and enable audit and assurance interventions for this programme to be better targeted. This should ideally take place as the new controls and ways of working are being developed.
- **Assurance input to the design of controls** – management may wish to consider focusing assurance resources on providing input to the design of controls, rather than reviewing the implementation of new or still evolving controls. Timely, independent input during the design process can add more value than critiquing immature control environments.

Appendix A - Current status of 2013 management action

GOVERNANCE

G1 Calculation rules introduced

Replaced by new recommendation 'M5 S&E guidance'

G2 Control framework development and implementation

Replaced by new recommendation 'M2 Develop assurance framework'

G3 Review risk management policy

Agreed TfL Action

The methodologies and tools used should be consistent and aid delivery

PwC Observations

Since the March 2015 report, TfL has delivered risk awareness training to 300 managers, updated the risk guidance for the S&E guidance document and have instigated a deep dive review into risk management within the savings and efficiencies programme, specifically with Rail and Underground.

However, the S&E guidance document has a number of weaknesses in its coverage of risk and is not consistently being used across the business areas. The risk guidance is very high level and the risk rating is driven by the implementation status of the project rather than a more substantive risk assessment exercise. Without a clear understanding of where the risk lies within the S&E programme and how these risks are being mitigated, it is difficult for management to understand how much risk exposure there is and whether this can be managed effectively.

Some interviewees recognised the need to improve the risk management process for S&E. To address these points, in September 2015, a risk review of the top 25 initiatives within R&U was kicked off to refocus on risk mitigation and management, looking to move from a finance driven process to project management focus. The review is aiming to validate the total risk value associated with initiatives and break this down into key risks and associated values including actions to address the risks identified. The report is due to report to the Value Programme Board in February 2016. The initiatives that reported to this Board so far included key risks and mitigations in their reports providing a much more detailed view of where the risk lies and the value associated.

Further follow up required?	Less relevant – further follow up may not be required.
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G4 Main governance pack updated

Replaced by new recommendation 'M5 S&E guidance'

REPORTING

R1 Baseline review

Replaced by new recommendation 'L1 Re-Base lining Targets'

R2 Segmentation Categories

Agreed TfL Action

Define Business Area segments and likely TfL wide segments and seek agreement with stakeholders on the most useful.

PwC Observations	
The R&U model does contain segmentation categories but these have not been agreed as pan-TfL and are not being used by Corporate or Surface Transport. We understand that senior finance staff previously reviewed the need for segmentation for unsecured initiatives and concluded that this was not relevant for reporting purposes.	
Further follow up required?	No longer relevant – follow up not required.

R3 Segmentation Reporting	
Agreed TfL Action	
Provide examples of segmentation reporting on agreed segments versus cost bases and as a tool for presenting external reporting themes.	
PwC Observations	
We understand that senior finance staff previously reviewed the need for segmentation for unsecured initiatives and concluded that this was not relevant for reporting purposes.	
Further follow up required?	No longer relevant – follow up not required.

SYSTEMS

S1 Database Standardisation	
Agreed TfL Action	
Standardised database - content and format to follow minimum guidelines.	
PwC Observations	
<p>The movement to a single database for all efficiencies aimed to enable standardisation of data across the three business areas. At the time of the March 2015 report the data for Corporate and Surface Transport efficiencies had recently been inputted into local copies of the R&U savings model but a 'single' database was still not being used.</p> <p>Since March 2015 the business areas are now using the same model to record and update progress on S&E initiatives but each business area holds its own version of this model as a local database. Using the same model should provide better consistency and standardisation in the data collated. However the business areas, in conjunction with the group finance team, made the decision that the R&U model's full functionality is too complex for their way of working and therefore do not all use the database to record exactly the same information in the same way. For example, Surface Transport and Corporate do not use the macros in the spreadsheet that were introduced to ensure data accuracy in a process involving multiple data enterers and non S&E specialists, potentially resulting in issues with data quality. Instead they have continued reporting S&E using pivot tables. There are numerous columns and tabs in the database which are not used by Corporate and Surface Transport for tracking and management of their savings, and in addition Surface Transport have been adding additional information for their own reporting purposes.</p> <p>As per the S&E guidance document once a business case is approved the local database is updated during the quarterly process and the Virtual team rollup quarterly reports from the master model for their business area. Each business area uses the same report template for their Group reporting which pulls the information from the local database.</p> <p>This action only deals with the consistency of use of the S&E database. The March 2015 report subsequently recommended seeking assurance on the integrity of the model. Please refer to Appendix B, M1 for the current status of this specific management action.</p>	
Further follow up required?	Less relevant – further follow up may not be required.

S2 Capture Run Better savings and Efficiencies system specifications
<i>Replaced by new recommendation 'M4 Integrating S&E activities with wider financial management and planning'</i>

DATA RETENTION

D1 Processes well documented

Replaced by new recommendation 'M5 S&E guidance'

D2 Stored location for 'Efficiencies' Repository

Agreed TFL Action

Stored location for 'Efficiencies' Repository - make use of internal drives to kick start the data retention process alongside Share Point investigation to explore how this can store the documentation easily and securely, may need Information Management input.

PwC Observations

A Share Point site specifically for S&E initiatives has now been set up. We noted that business areas used a range of approaches, for example;

- R&U - a folder is maintained with documents supporting their top 25 initiatives;
- Surface Transport - the approach is slightly different. All information relevant to the initiatives are stored on a local shared drive then on a quarterly basis the submissions to the group team (e.g. a cut of the database for that quarter) are uploaded on the Share Point; and
- Corporate - all documents relating to reporting on initiatives are stored on the Share Point and a local shared drive.

Further follow up required?

Less relevant – further follow up may not be required.

D3 Collate repository evidence

Agreed TFL Action

Collate repository evidence - from the significant initiatives that have been tested in the last 2 years and then focus on forward looking.

PwC Observations

Informal guidance has been given to business areas to find supporting documents as far back as at least 2013. The S&E guidance document does state that business cases and the relevant database should be stored on Share Point. Specifically for each business area we noted the following evidence on Share Point:

- R&U have uploaded the business cases for the top 25 efficiencies and are currently developing standing data packs which contain milestones, measures of success and risk registers for these initiatives;
- Corporate upload the key reporting document outputs in the Corporate Business Finance (CBF) Share Point but this does not currently have any business case documentation for historical initiatives as they are finding it a challenge to identify supporting documentation; and
- Surface Transport are building up the backing and case logic for each initiative from 2013 onwards and we were able to view the business case documentation for the specific initiative under review.

Further follow up required?

Less relevant – further follow up may not be required.

Appendix B - Current status of 2015 management actions

SHORT TERM ACTIONS

I1 Develop a plan to implement Short and Long Term Actions	
Agreed Tfl Action	
<p>The Tfl Efficiencies Team will present a prioritised action plan for 2015, along with a roadmap of activities and milestones to the Finance Leadership Team (FLT) in April 2015. The plan will focus on how Tfl will address the short and long term recommendations from this report. A regular monthly meeting between the Efficiencies Team have been scheduled to address these recommendations and identify any future issues.</p> <p>A standing agenda item will be created for future FLT meetings and a regular update on progress against targets/milestones will be given.</p>	
PwC Observations	
<p>The Group team has put in place an action plan and roadmap for the completion of the recommendations. This includes a roadmap of activities and milestones but did not include deadlines for completion. Each recommendation has been allocated to an individual who will lead on a specific issue. Updates from the leads identified for the recommendations are presented at the monthly Virtual Team meetings and update papers are presented at the Value Group (essentially the Finance Leadership team) on a regular basis. As part of the fieldwork we received the November 2015 Value Group paper which presents updates on the actions as defined in the management actions of the March 2015 report.</p>	
Further follow up required?	No longer relevant – follow up not required.
I2 Resourcing the S&E Programme	
Agreed Tfl Action	
<p>Following on from the presentation of the plan to the FLT, management should agree the correct resource requirements. Currently, Rail & Underground (R&U) have dedicated resources for Efficiencies in place and both Group Business Planning & Performance (GBP&P) and Corporate have created a dedicated Efficiency roles to support the programme. Surface Transport (ST) finance managers will explore options for a dedicated efficiencies role. A dedicated team with focus on the Efficiency programme will enable better ways of working, improve governance of the programme and reduce any resilience risk noted in the report.</p>	
PwC Observations	
<p>According to the update on recommendations to the Value Group in November 2015 a review of Corporate, R&U and Group resources highlighted a gap for Surface Transport. As a result a paper was produced recommending that a short term resource was required for three months, after such a time the Surface Transport Planning and reporting team believe activities could be reprioritised so that ongoing pressures can be managed within business as usual resource.</p> <p>A temporary staff member was engaged on a three month contract, ending January 2016, to help Surface Transport implement a number of specific tasks for S&E. Following the completion of the three months a review will take place as to whether permanent additional resource is required.</p> <p>At the time of reporting the long term resource requirements for S&E have not been reviewed. Please refer to new recommendations in Appendix C.</p>	
Further follow up required?	Less relevant – further follow up may not be required.

I3 Improve quality of reporting	
Agreed Tfl Action	
As part of the new Group Efficiency Manager role, reporting of efficiencies is already looking to simplify the management reporting of the Programme. Following discussions with each of the FLT and with the Efficiency virtual team a new dashboard and paper format is being used for the 2014/15 Q3 quarterly report and is continuing to be refined. An update on this will be presented to the FLT in April 2015.	
PwC Observations	
Some simplification of reporting has been undertaken by the Virtual Team since the March 2015 report with additional work still in development with the R&U team and the BBF team. Specific changes that have been made to the reports prepared by the Virtual Team for management reporting to GBPP and FLT include a one page dashboard report which presents phase reporting of secured and unsecured totals vs target with commentary on the main movements between quarters, theme reporting across the programme and a risk assessment for the top 25 savings or efficiencies. R&U have been developing an exception and variance based dashboard which they have rolled out to their Value Programme Board but has not been implemented in the other business areas. Full implementation of this action requires input from BBF - a date for finalisation and rollout is not yet confirmed. Consideration is being given by the Group as to what information is required for reporting and timeliness of forecasting which is wider than the initial recommendation.	
Further follow up required?	Less relevant – further follow up may not be required.
M1 Seek assurance on Business Critical Model	
Agreed Tfl Action	
Given the complexity of the model being used, we would agree with the recommendation that the model needs to be reviewed and that an independent assurance on the integrity of the model is required. It will also be an opportunity for the Efficiencies Team to agree what changes/amendments can be made to make the use of the tool easier. A timetable to complete this review will be included in the FLT update on April 2015	
PwC Observations	
Two independent reviews on the model have taken place since the March 2015 report. The findings highlight a number of areas requiring action. An initial review of the database was conducted by a Group Insight Analyst from Group Business Planning which assessed the: <ul style="list-style-type: none"> • Consistency of the model against guidance; • Methodology of macros in the model • Suitability of error checks • Business area specific processes; and • Model’s scalability potential. This initial review was followed up by an Internal Audit review which verified the findings and also provided additional assurance on key risk areas: <ul style="list-style-type: none"> • Logical access controls; • Data structure; • Data input methods; • Input and output validation; • Change management; and • Supporting documentation. The internal audit review (December 2015) identified a number of findings on the design of controls. A management action plan has been agreed including 23 actions – one has already been implemented, the rest are scheduled to be implemented between March – October 2016.	
Further follow up required?	Less relevant – further follow up may not be required.

M2 Develop assurance framework	
Agreed Tfl Action	
The Efficiencies Team will work with both Tfl Internal Audit and PwC to agree continuous assurance of the programme throughout the year focusing on the areas identified in this review. A plan to implement this will be presented to the FLT in Summer 2015. A formal version of the assurance framework plan will be presented to both the F&PC and Audit & Assurance Committee in due course.	
PwC Observations	
At the time of fieldwork the S&E programme had not developed an assurance framework. The Tfl approach to assurance mapping is being developed by Internal Audit. S&E considered developing their own approach but limited work has been completed to date. Please refer to Appendix C and recommendation 4.	
Further follow up required?	Remains relevant – further follow up required.

M3 Set annual savings target	
Agreed Tfl Action	
Due to the challenges to implement this initiative, the Efficiencies Team will consider how it can address this recommendation as part of its report to the FLT in April 2015.	
PwC Observations	
Interviewees recognised this approach would be helpful to give greater urgency and clarity on savings work. This was reviewed, and management concluded that this would be looked at as part of benchmarking. Please refer to Appendix C.	
Further follow up required?	Remains relevant – further follow up required.

M4 Integrating S&E activities with wider financial management and planning	
Agreed Tfl Action	
Building a Better Finance is looking at the wider performance cycle process and the Efficiencies Team are already working closely with the team to identify how Efficiencies can become better integrated into the Performance Cycle. A roadmap of work will be included in the presentation to the FLT in Summer 2015.	
PwC Observations	
Work has been underway with the Building a Better Finance (BBF) team to improve the S&E reporting process and potential utilisation of SAP as part of the main financial forecast. BBF plan to track projects against a cost centre on the BPC (Business Planning and Consolidation) system where efficiencies will be directly identified on the system when budgets are reduced. The risk status of each initiative will be included on the BPC system. Qualitative information, such as risks and segmentation will still need to be held offline as SAP cannot store this information. It is expected that the system component will be available by Q1 2016/2017. Requirements may have to be reconsidered in the light of any changes to how the S&E programme will make in the future. Please refer to Appendix C.	
Further follow up required?	Remains relevant – further follow up required.

M5 S&E guidance	
Agreed Tfl Action	
The review has identified a number of inconsistencies in the use of guidance between the three business areas. An updated guidance pack for Q4 2014/15 is being prepared and will be continually monitored each quarter. An update on progress will be provided to the FLT in April 2015.	
PwC Observations	
A guidance document was introduced by the group in March 2015, was updated in July 2015 and has been circulated to all of the business areas and is available on the S&E SharePoint. Future changes were identified in the update paper to the Value Group in November 2015. There is no specific plan or associated deadlines as when these changes will be included in the guidance document as they are reliant upon other recommendations been completed.	
Further follow up required?	Remains relevant – further follow up required.

LONG TERM ACTIONS

L1 Re-Base lining Targets	
Agreed Tfl Action	
This recommendation was already given in the last assurance review in 2013. It was agreed by Senior Management that this will be reviewed after the next Mayoral cycle.	
PwC Observations	
No re-baselining has taken place so far. Interviewees noted that the beginning of the 2016/17 financial year marks a natural point to re-baseline in line with the mayoral elections. The Commissioner recently discussed a potential move to a new target and the Mayor has approved this stance. Please refer to Appendix C	
Further follow up required?	Remains relevant – further follow up required.

L2 Benchmarking	
Agreed Tfl Action	
Tfl are using benchmarking to set Efficiencies targets already. Based on a paper to the Finance & Policy Committee in March 2015, 11% of secured efficiencies have used benchmarking. The paper however recognised that there are opportunities for Tfl to use benchmarking more. An action plan to incorporate benchmarking into Efficiencies will be discussed at the FLT in Summer 2015. An update on the use of benchmarking in efficiencies will be presented to F&PC after the next review.	
PwC Observations	
<p>Benchmarking is being used more widely, and we observed some good practice underway.</p> <p>During the review we identified areas where benchmarking has been used to support S&E initiatives already identified (for example Access Transformation Programme and Total Procurement Services) but limited use to identify future potential S&E's. There is no associated action plan to incorporate benchmarking into efficiencies and the work within the benchmarking team is focused on external benchmarking with no plans to do any internal benchmarking work in the near future. No benchmarking has been used within Corporate in the initiatives under review or as identified in the paper presented to the Finance and Policy Committee.</p> <p>The benchmarking team delivered a workshop for Senior Leadership in April 2015 looking at what other metros are doing and how Tfl can utilise benchmarking. The workshop used information from COMET and NOVA but struggled to provide examples of how this can be applied in Surface Transport and Corporate as the data sources are not as rich to mine the information.</p> <p>A Benchmarking steering group was established that was meeting quarterly but has been reduced to every six months. Independent Investment Programme Advisory Group (IIPAG) oversee benchmarking work. Please refer to Appendix C.</p>	
Further follow up required?	Remains relevant – further follow up required.

Appendix C – New recommendations and management actions

<i>Recommendation</i>	<i>Agreed Management Action</i>	<i>Target Date/ Person Responsible</i>
1. A new target for cost savings should be set with a clear fixed baseline starting point against which to measure savings and a shorter timeframe for implementation		
2. The S&E programme and the Business and Finance Review should be considered together as they are related in a number of ways. Learning from the S&E programme can provide significant insight into where savings have already been identified and secured.		
3. Work already underway should continue to integrate savings and efficiencies into the TfL financial management processes and systems		
4. Once savings proposals have been approved, consideration should be given to adjusting budgets and their baseline financial position to strip out the planned efficiencies.		
5. An action plan should be developed to further embed a savings culture. Increasing direct accountability and ownership of savings targets at local level may be one technique to support this work.		
6. Controls to support the S&E programme should be refreshed. This is likely to include: <ul style="list-style-type: none"> • How initiatives should be identified, analysed and approved – for example, the business case template should be updated and the impact assessment process should be refreshed • What records should be maintained to provide an audit trail • Governance arrangements for approving and overseeing delivery 		
7. The assurance requirements for the S&E programme should be revisited.		

Recommendation	Agreed Management Action	Target Date/ Person Responsible
<p>(a) The follow up of previous S&E recommendations should only consider currently relevant actions</p> <p>(b) An assurance framework for the S&E programme should be developed in line with the new controls</p> <p>(c) Input into the design of controls should be considered.</p>		
<p>8. The benchmarking activities already underway should be further strengthened. In particular, we highlight the following points:</p> <p>(a) How could benchmarking be used to identify future potential S&E initiatives for example on option identification and appraisal</p> <p>(b) International benchmarking for R&U is already reasonably mature. Other areas of benchmarking should now be developed, for example:</p> <ul style="list-style-type: none"> - Internal benchmarking (within and between business units) - Strengthening the approach for both Surface Transport and Corporate <p>(c) Developing an action plan to better incorporate benchmarking into efficiencies. This should consider:</p> <ul style="list-style-type: none"> - If it would be possible to expand the team or use different delivery approaches to undertake more of this type of work - Where this function might best sit in the organisation. <p>This may require separate work with Independent Investment Programme Advisory Group (IIPAG).</p>		

Appendix D – Detailed scope of work

Services to be provided by PwC

TfL's savings target is £16 billion by 2020/21. Delivering this quantum of savings while protecting front line services and striving to continually improve and transform these is key to the successful achievement of TfL's strategic objectives. TfL's Finance and Policy Committee, and your key Authority, need accurate and focussed information to give you assurance that current and planned projects are stakeholders including the Greater London progressing and a clear understanding of risks to delivery of savings. This independent annual review can contribute significantly by providing clear messages and recommendations.

This terms of reference sets out the scope of services that PricewaterhouseCoopers LLP (PwC) will provide for Transport for London (TfL). Any terms contained within this attachment apply only to the services specified.

PwC will perform the following procedures on TfL's savings and efficiencies (S&E) programme each year for three years commencing December 2014.

This terms of reference specifically covers the Year Two review (starting work in November 2015).

Scope

PwC will brief their core team and Subject Matter Expert (SME) panel.

PwC will work with key TfL stakeholders in finance and Internal Audit to agree the preferred areas of focus, key staff members who should feed into the review, and what areas should be covered (for example how should the follow up of previous recommendations be handled).

This will involve conducting a follow up review on previous recommendations from 2013/2014 and the 2014/2015 reports to:

- Validate closure of 2013/2014 recommendations or identify where they have been amalgamated into 2014/2015 recommendations; and
- Assess the current status of recommendations in the 2014/2015 report.

Detailed testing

A sample will be selected for detailed testing, and the process of selecting that sample will involve both PwC and TfL.

To start with, TfL will undertake an initial filtering of initiatives – the priority for this year's work is to look at unsecured initiatives, and the initial filtering will identify the largest, riskiest initiatives in each business group, where possible excluding initiatives that have been previously considered in the 2013/14 and 2014/15 reviews. PwC will support this exercise with feedback and challenge.

Once the sample has been confirmed, PwC will undertake more detailed testing. The testing will focus on:

- How are the identified initiatives following the S&E guidelines developed during 2015?
- How have TfL been using benchmarking in the identified initiatives since the 2014/2015 review?
- What is the process that initiatives follow to ensure achievability and maximisation of savings?

Additional opportunities

PwC will seek further input from our expert panel to identify if there are further opportunities for additional savings or stronger controls for managing delivery of the savings already identified. PwC will test these with stakeholders in finance and the S&E programme prior to reporting.

Once PwC's detailed review of initiatives is complete, PwC's findings will be discussed in a roundtable workshop using PwC's SMEs and TfL Project and Internal Audit teams.

PwC plan to use this forum to bring additional challenge on current and forecast deliverability and new ideas for further savings.

Emerging findings and Reporting

PwC will work with management to share their emerging thinking during the course of fieldwork. PwC's written report will contain the following:

- A summary of the current control environment;
- An independent perspective on the current status of previous recommendations, which will draw upon the results of detailed testing; and
- If applicable, further recommendations that may be useful for management to consider. For example, any further areas for savings and efficiencies which PwC have identified.

TfL responsibilities

TfL's officers have prepared the schedules underpinning the savings and efficiencies programme (as set out in 'The services to be provided' above) and will remain solely responsible for them and for the creation and maintenance of all accounting and other records supporting its contents.

TfL is responsible for determining whether the scope of the services is sufficient for its purposes.

TfL will provide PwC with timely access to the data sets of initiatives that form the savings and efficiencies programme, and to further supporting information for the selected sample initiatives.

Limitations

The services will not constitute an audit or a review carried out in accordance with generally accepted auditing standards and PwC will give no assurance on the contents of the schedules underpinning TfL's savings and efficiencies programme (as set out in 'The services to be provided' above). If PwC were to perform additional procedures or an audit or review of the schedules underpinning TfL's savings and efficiencies programme (as set out in 'The services to be provided' above), other matters might come to its attention that it would report to TfL.

The PwC reports will be prepared solely for the purpose and use of TfL. PwC will not accept or assume any liability or duty of care to any other party to whom these reports are released or into whose hands they may come. PwC understands TfL may wish to disclose the reports to the London Assembly and/or the Greater London Authority (GLA), and whilst PwC consents to this, as the reports were not prepared for these bodies and their subsequent usage is unknown to PwC, TfL should advise these bodies that PwC will not accept or assume any liability or duty of care to these bodies. The work performed by PwC will not be completed for the purposes of these bodies. If these bodies rely on PwC's work they do so at their own risk.



The services do not constitute an audit or a review carried out in accordance with generally accepted auditing standards and PwC gives no assurance on the contents of the schedules underpinning TfL's savings and efficiencies programme. If PwC were to perform additional procedures or an audit or review of the schedules underpinning TfL's savings and efficiencies programme, other matters might come to its attention that it would report to TfL.

We do not offer views on the overall achievability of the overall savings target or savings targets for each initiative. Our observations relate to the maturity of the control environment that will support achievability.

This PwC report has been prepared solely for the purpose and use of TfL. PwC will not accept or assume any liability or duty of care to any other party to whom this report is released or into whose hands it may come. PwC understands TfL may wish to disclose the report to the London Assembly and/or the Greater London Authority (GLA), and whilst PwC consents to this, as this report was not prepared for these bodies and their subsequent usage is unknown to PwC, TfL should advise these bodies that PwC will not accept or assume any liability or duty of care to these bodies. The work performed by PwC was not completed for the purposes of these bodies. If these bodies rely on PwC's work they do so at their own risk.