**Finance and Policy Committee**

**Date: 11 March 2015**

**Item 8: Savings and Efficiencies Programme Review**

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**This paper will be considered in public**

## 1 Summary

1.1 The purpose of this paper is to outline the findings of a review by PricewaterhouseCoopers (PwC) of the Savings and Efficiencies (S&E) Programme, which was commissioned in December 2014.

## 2 Recommendation

2.1 **The Committee is asked to note the paper.**

## 3 Background

3.1 The S&E programme was launched in 2009/10 and has grown to an overall savings target of £16bn to 2020/21. TfL is currently reporting its targets to the 2023/24 period.

3.2 In October 2011, TfL engaged Deloitte to undertake a 'Fresh Eyes Review' of the programme and in May 2013, PwC undertook a new review on the governance of the TfL S&E programme. A commitment was made to the Committee to provide an annual review on the S&E programme.

3.3 In December 2014, TfL commissioned PwC, under a three year agreement, to undertake a follow up review of the governance, controls and processes associated with the S&E programme. A review on the progress against the recommendations from the May 2013 report has been undertaken and augmented by a deep dive assessment into seven significant stand-alone initiatives reported within the portfolio.

## 4 Next steps

4.1 PwC's S&E Programme Review for 2014/15 report is attached as Appendix 1. TfL's management responses to the specific recommendations from PwC have been noted in Appendix B of the report.

4.2 In order to respond to these recommendations, TfL's Efficiencies team will present an action plan to the Finance Leadership Team in April 2015. An update will be provided to the Committee in due course.

**List of appendices to this report:**

Appendix 1: PwC's Savings and Efficiencies Programme Review for 2014/15

**List of Background Papers:**

None

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# *Transport for London*

# Savings & Efficiencies Review for 2014-2015

FINAL

February 2015

Transport for London

# Contents



**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.

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.

# 1. Introduction and background

## *Background to this review*

Independent assurance reviews on the Transport for London (TfL) Savings and Efficiencies (S&E) Programme were undertaken in November 2011 and June 2013. These reviews were commissioned to provide wider independent assurance to the Finance and Policy Committee (FPC) and wider stakeholders including the Greater London Authority (GLA) on the governance and deliverability of the programme.

The June 2013 review set out six main recommendations. TfL developed a management action plan dated December 2013, which split activities to address these recommendations into four main themes (governance, reporting, systems and data retention). The action plan also broke out short term and long term actions.

## *Our current role*

PwC was appointed by TfL in November 2014 to undertake a further independent assurance review of the S&E Programme. This work will be undertaken annually as part of a three year programme of reviews. We undertook our fieldwork for year one during a four week period in December 2014 and January 2015. Our work involved the following:

- Understanding and evaluating the current governance, reporting and controls at TfL Group and Business Area level;
- Following up progress against the recommendations made in the June 2013 report with a focus on short term recommendations;
- 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;
- Working with management to develop an assurance strategy for the S&E Programme over the three year period; and
- Producing a written report and action plan to set out our findings, conclusions and recommendations and agreeing these with key stakeholders.

## *Background to the S&E Programme*

TfL's 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. 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).

Failure to deliver the savings target or clearly demonstrate how it has been achieved could cause significant reputational impact for TfL.

As set out in the TfL 'Savings and Efficiencies Governance' document dated August 2014, to be eligible to be included in the S&E Programme, all savings identified must be cashable and demonstrate that a saving or efficiency has reduced the net financial cost compared to a previous budget or forecast. Non-cashable savings should be excluded from the S&E Programme. This treatment is consistent with National Audit Office (NAO) and Cabinet Office guidance.

***Efficiencies*** are considered by TfL to be delivered through two key routes:

- Securing/negotiating lower prices for goods and services; or
- Providing the same output using less resources by changing working methods to optimise the use of resources.

A ***cost saving*** is generally deemed by TfL to be the removal of cost through:

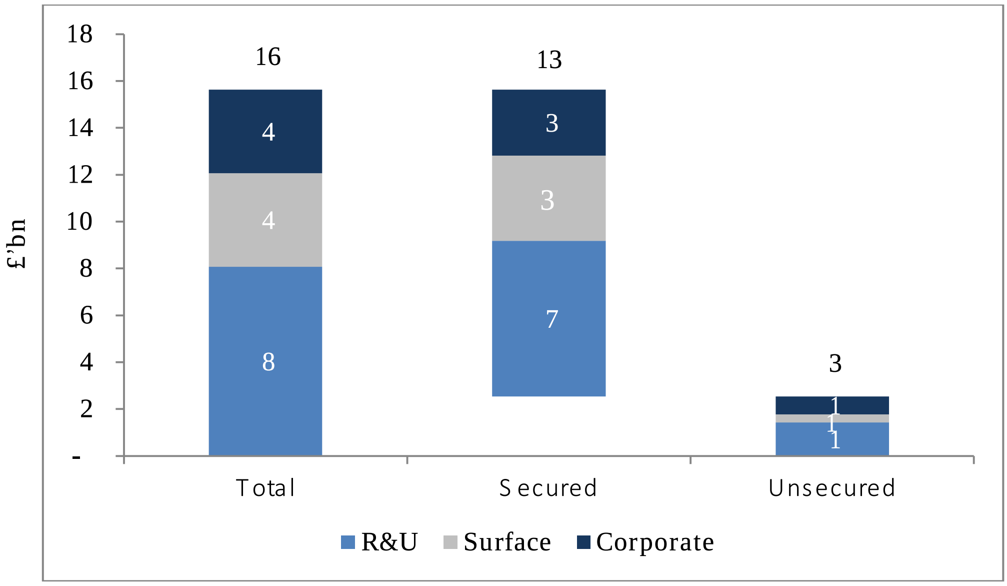
- Cancelling or stopping a service or product;
- Reduced demand for a product or service; or
- Reduction in the scope of specification of a service or product.

The aim and purpose of the 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. For example, TfL's expenditure increased by 26% from £5.4 billion in 2008/09 to £6.8 billion in 2013/14. The operating context for TfL during this period is an increase in passenger numbers between 2009/10 and 2013/14 of around 15% and consistent improvements in service performance.

## *Current status of the S&E Programme*

TfL has publically committed to delivering the £16 billion S&E Programme savings. 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** –
data taken from 2014/2015 Quarter 3 'Value Group Efficiencies Programme Update'




As of Quarter 3 2014/2015, 84% of the total target savings were classified as secured, with the remaining 16% of the target not secured. Approximately 56% of the unsecured savings were allocated to R&U, with the remainder split between Surface Transport and Corporate. £3 billion of savings are currently unsecured. These are likely to be the hardest to identify and secure as the easier to achieve savings and efficiencies have arguably already been captured.

TfL uses the following definitions for secured and unsecured savings:

- ***Secured savings***:
  - Savings which are considered banked and reflected in local budgets (D1 – Delivered 1); and
  - Savings which are considered banked and reflected in local budgets but changes to future planning assumptions may require reappraisal of value of recurrence (D2 – Delivered 2).
- ***Unsecured savings***:
  - Implementation plans exist, but material risks or uncertainty remain (I1 – Identified 1);

- Initiative is identified but implementation is yet to be fully assessed (I2 – Identified 2);
- Local budget centre overlay (O1 – Overlay 1); and
- Operating Business or Group budget centre overlay (O2 – Overlay 2).

## *Structure of this report*

This report includes the following:

- Section 2 sets out our key findings, and summarises the current status of previously agreed short term actions;
- Section 3 explains in the approach we have adopted in this work, including how our sample was selected;
- Section 4 includes our observations on future assurance activities for the S&E programme;
- Appendix A includes the detailed findings on the current status of previous agreed short term actions;
- Appendix B sets out our recommendations and agreed management actions; and
- Appendix C provides further detail on the scope of this review.

# 2. Key findings

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

- Overall observations on the S&E Programme and its current controls and governance across TfL Group and the business areas; and
- The current status of previously agreed short term actions from the June 2013 report.

## Overall observations on the S&E Programme

### The control environment has been strengthened but is still developing

Notable progress has been made in a number of areas since the June 2013 review. Management has chosen to concentrate on short term actions to date before turning attention to longer term actions.

None of the short term actions have however yet been implemented in full in all business areas (R&U, Corporate and Surface Transport). The pace of improvement in each Business Area and the extent to which this is formalised and embedded varies. For example R&U are capturing all initiatives in a savings model but, at the time of this review, this approach had not been fully adopted by the other two business areas.

Different business areas face different challenges and therefore their risk profile and complexity vary. The S&E Programme in R&U is £8 billion compared to £4 billion in Corporate and £4 billion in Surface Transport. In addition, the proportion of 'secured' savings varies across the business areas. Together, this has led to different control and governance environments emerging. This may result in a lack of consistency across the programme, with a particular impact on monitoring and maintenance of audit trail on completed initiatives.

Since June 2013 R&U has made more progress than Corporate and Surface Transport in developing its control environment and actioning short term recommendations. R&U has developed the 'Savings and Efficiencies Governance' document which provides guidance on the methodology for calculating and monitoring initiatives. This guidance is not yet complete or being used consistently across all business areas and needs further tailoring to enable it be used effectively in each area.

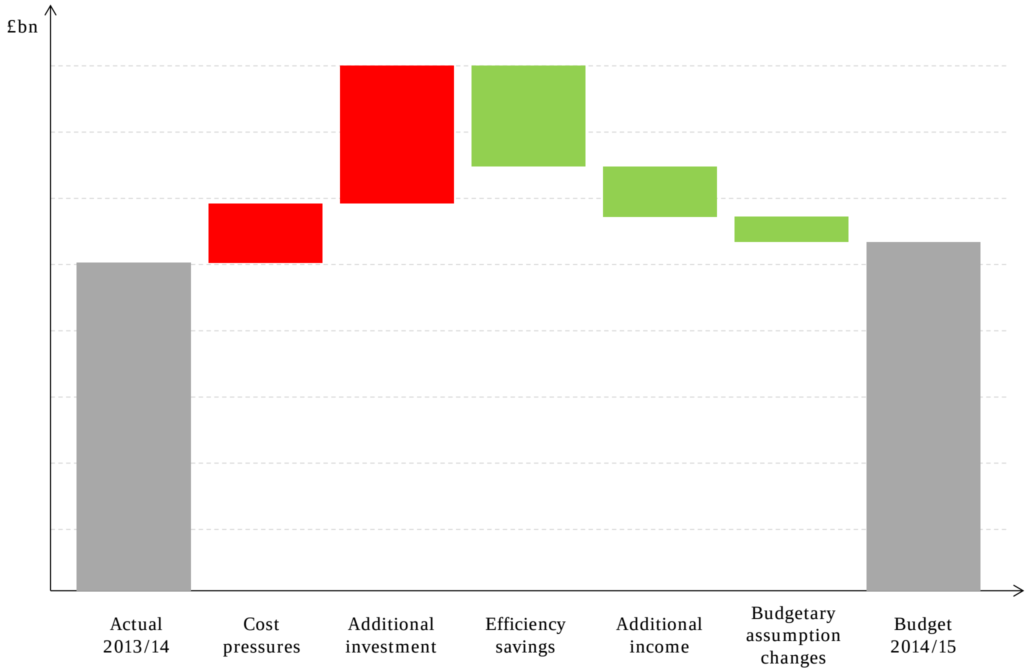
### The S&E Programme is manually intensive, managed "off-ledger" and cannot be fully reconciled to TfL financial performance

The S&E initiatives are captured, reported and managed through stand-alone tools, rather than on the main accounting system (SAP general ledger). We understand there is reconciliation of individual initiatives with SAP through the quarterly causal reports. It is not possible however to reconcile savings and efficiencies at a total programme level with the financial performance and forecasts for TfL.

The S&E Programme should be an integral part of the TfL budget setting, forecasting and ongoing financial management. This would enable a clearer line of sight between savings and efficiencies and organisational financial performance. This will become more important as the political and economic pressure to identify further savings increases.

The diagram below shows an illustrative analysis of how the 2013/14 outturn could be bridged to the 2014/15 budget if the S&E Programme was more tightly integrated into wider financial processes.

**Suggested budget 2013/14 to 2014/15 bridge diagram – illustrative purposes only**




Historically, different tools have been used across and even within business areas to capture and manage S&E initiatives. Surface Transport and Corporate are in the process of transitioning to use the R&U savings model which should provide a more complete and consistent approach by June 2015. The previous processes for capturing, reporting and reconciliation are manually intensive and do not support clear audit trails and evidence retention in the longer term. However, as a business critical model, independent assurance on the design and operation of the R&U savings model would be useful.

## *Different savings targets for different financial years makes tracking difficult*

Over the life of the S&E Programme, TfL has reported against a number of different savings targets tied to different financial years. For example at the time of our June 2013 report, the savings target to 2021/22 was reported as £20 billion. This fluctuation makes it more difficult to track the overall scale and current delivery of the S&E Programme. In comparison, the Cabinet Office Efficiency Reform Group (ERG) calculates savings for one financial year compared to the base year 2009/10.

As TfL continues to grow and change over the 12 year period it will become increasingly difficult to identify savings erosion, avoid double counting of savings and maintain a clear audit trail of evidence and systems able to capture the high volume of information. It may be easier to focus on annual savings targets, which would make controls and progress easier to understand and manage. A perspective on the cumulative position through to a consistent end point would be required, but it is likely that more value will be added to day-to-day operations by focusing on the effectiveness of short term savings activities.

As the timeframe for the S&E Programme extends out from its start year of 2009/10, TfL should agree at what point to re-baseline the Programme. We understand this has been considered and the timetable will align with the next Mayoral cycle. This would involve assuming all savings relating to previous periods to have been secured and delivered and restarting the savings target.

In our experience, a maximum timeframe of five years is considered usual practice for the recognition of savings given the rate of change expected within an organisation. For example, a reduction in the number of staff posts would expect to be treated as a saving for the following five years, but not beyond that period. There is currently no defined expiration date for savings set out in the TfL S&E Programme methodology. The timeframe for the S&E Programme could be aligned to an appropriate medium term period for TfL such as the Mayoral Cycle or Comprehensive Spending Review (CSR).

## *Dedicated and consistent resources will be required to support the S&E Programme*

A "virtual" team of finance specialists from across the business areas was established following the June 2013 review. Since then this team has made significant progress in developing the control environment.

Virtual team responsibilities have been taken on alongside day-to-day roles. The manually intensive nature of reporting the savings internally means that certain key individuals have been pivotal, as well as acting as the key management controls for spotting double counting and savings erosion. This creates a "key man" risk, which has been an issue in all three business units recently as staff turnover and movement within TfL has impacted the S&E specialists. Management should ensure that the resource dedicated to the management and reporting of the S&E Programme is sufficient for a programme of this size, complexity and importance. Management actions are underway to increase the level of S&E dedicated resources which will help to manage these risks.

TfL is currently undertaking a finance transformation programme, Building a Better Finance (BBF), which will consider controls, reporting, forecasting, systems, and culture. Management have confirmed that the S&E Programme should be in scope for BBF. The BBF programme should provide greater visibility and traction for implementing further S&E Programme improvements.

## *There are opportunities to both simplify and strengthen reporting and management information*

Management information is produced quarterly for the Value Group (a meeting of Finance Directors and senior finance managers). This information reports S&E Programme performance from a range of perspectives: historic achievement, current in-year delivery and the achievability of future year forecasts. There is limited use of exception-based reporting, diagrams or dashboards. The management information is hard to understand and interpret, making it harder for management to take informed decisions. We understand that work is in progress to introduce new graphs and dashboard analysis to the reporting, and this should be in use for quarter four reporting. Simplification to include reporting by exception would also be beneficial and we understand is being considered.

## *Definitions used within the S&E Programme could be simplified and clarified*

The S&E Programme uses a number of definitions for delivery status – secured/ unsecured, D/I/O, and D1/D2/I1/I2/O1/O2 (see definitions on pages 3&4). This is complicated and can be confusing. Simplification of the definitions with a closer alignment to the specific risk of delivery would helpful. For example, it would be more prudent and in line with good practice to only recognise D2 savings as "secured" when they fall due, rather than recognising them in advance while some aspects remain at risk and undelivered. Under the current methodology, if a D2 initiative with large savings still to be delivered needed to re-profile its activities, it would result in changes to "secured" savings (where as we would typically expect secured savings to remain fixed).

The S&E Programme does not currently report savings by classification. Some types of savings such as budgetary assumptions or income generation schemes are not explicitly defined in the programme governance and it is not clear therefore when they should or should not be included. For example, for two initiatives, staff did not have a consistent view on the nature of the projects, that is, if they should be considered as savings initiatives. We identified a number of income generation schemes in the S&E Programme obut understand that not all income generation schemes are included with the S&E Programme. In relation to changes to forecast assumptions, further guidance is required to set out when a change in an assumption constitutes a valid S&E initiative and when it does not. We would expect an assumption change to only be included where it is the result of a direct and considered management action rather than simply adjusting an assumption based on more up to date and accurate information.

## *Better targeting on-going assurance interventions*

We recommend that an assurance framework should be developed for the S&E Programme as a whole. Mapping the assurance framework in place would help to inform an assessment of control maturity and enable audit and assurance interventions to be better targeted. In Section 4, we set out a number of suggested assurance interventions which can be used to develop a multi-year assurance plan. These include:

- Obtaining independent assurance on the R&U savings model which is a complex and business critical business model; and
- Considering the development and allocation of the overlay savings to enable the processes used to identify and evaluate early stage savings.

We will work with internal audit, finance and management to develop a tailored assurance approach over the three year period of our review which uses a risk based approach to target different areas of the S&E Programme each year.

### *Maximising the opportunity to identify further savings*

Identifying and securing the remaining £3 billion of unsecured savings is recognised as one of the key risks to the successful delivering of the S&E Programme. There is however also likely to be further value that can be generated from the S&E Programme. For example, there may be further opportunities to feed in the insights generated from this programme into key business decisions.

During our work it was noted by management that the majority of new savings opportunities are currently being identified from a "bottom up" perspective. There are further opportunities to use benchmarking to identify where additional efficiencies could be released – for example allowing comparisons within business areas, between business areas, and also with other national/ international comparators in the rail and other industries. This is recognised by both Group and the Business Areas to be a key area of focus going forward and work is already underway.

## *Current status of previously agreed short term actions*

The table below sets out our assessment of the current status of the previously agreed management actions from the June 2013 report. Our assessment is based on a group wide perspective (rather than considering individual business areas). The management action plan did not set out deadlines for each action – we recommend that any future improvement plans are linked to specific job roles with implementation target dates.

| Short term action | Description | Current status |
|---|---|---|
| **Governance** | | |
| Calculation rules introduced | To add consistency and certainty over Savings & Efficiencies values, consider principles for different saving types/segments. | Implementation underway |
| Control framework development and implementation | With the aim to ensure delivery of an initiative. Draw on Asset Performance Directorate (APD) best practice through the use of a 'light touch' one page document to control an initiative from inception to delivery, initiatives to follow framework to be based on their size and risk. | Implementation underway |
| Risk management policy review | The methodologies and tools used should be consistent and aid delivery. | Implementation underway |
| Main governance pack updated | Update main governance pack for all improvement themes. | Implementation underway |
| **Reporting** | | |
| Baseline review | What reports should show, either whole programme or split of secured/ unsecured efficiencies. | Implementation underway |
| Segmentation Categories | Define Business Area segments and likely TfL wide segments and seek agreement with stakeholders on the most useful. | Not yet implemented - TfL has considered a number of segmentation categories but has not yet decided which categorisation would be most appropriate. |
| Segmentation Reporting | Provide examples of segmentation reporting on agreed segments versus cost bases and as a tool for presenting external reporting themes. | |
| **Systems** | | |
| Database Standardisation | Standardize database - content and format to follow minimum guidelines. | Implementation underway |
| Run Better | Run Better Savings & Efficiencies system specifications captured. | Not yet implemented – the Run Better project has now been included in the BBF |

| | | |
|---|---|---|
| | | programme. The BBF programme was starting up at the time of fieldwork. |
| **Data retention** | | |
| Processes well documented | Document processes well for ease of review by future auditors and for a more straightforward handover to other colleagues. | Implementation underway |
| Stored location for 'Efficiencies' Repository | Stored location for 'Efficiencies' Repository - make use of internal drives to kick start the data retention process alongside SharePoint investigation to explore how this can store the documentation easily and securely, may need Information Management input. | Implementation underway |
| Collate repository evidence | Collate repository evidence - from the significant initiatives that have been tested in the last 2 years and then focus on forward looking. | Implementation underway |

Our detailed findings are set out in Appendix A.

# 3. Our detailed approach to the review

The key activities we undertook as part of the year one review were:

- Working with TfL stakeholders in Finance and Internal Audit to agree the preferred areas of focus for year one, to agree the key staff members who should feed into the review and what areas should be covered (for example, how should we follow up previous recommendations). We initially planned to review both short term and long term S&E action plans for the business however following initial discussions with management, it became clear that efforts had been predominantly focused on the short term actions and limited progress had been made with the longer-term plan. Our work for year one therefore focused on the short term action plan;
- Undertaking a risk assessment across the current S&E Programme. This involved meeting key S&E contacts in the business areas to understand the current scope and size of the Programme and its individual initiatives;
- Working with management to develop a proposed assurance strategy incorporating existing assurance activities for the S&E Programme across all three years of our review;
- Identifying an appropriate sample of initiatives for detailed testing (see below for more detail), and undertaking that testing through interviews and documentation review. This considered if management actions had been implemented and how controls and governance are supporting achievability. We undertook interviews with staff members, reviewed documents and observed demonstrations of key management tools;
- Seeking further input from a PwC expert panel to identify if there are further opportunities for additional savings or stronger controls for managing the delivery of savings already identified; and
- Testing our findings with key stakeholders to confirm factual accuracy and confirm high-level workable action plans prior to issuing our final report.

For further details please see **Appendix C.**

## *Sampling of initiatives*

Our approach to sampling in year one was driven by management's preference to focus on unsecured savings. As noted in Section 4, this review forms part of a three year assurance strategy – other categories of initiatives and risks/controls will be reviewed in subsequent years.

At the time of our work, the unsecured savings totalled £3 billion. The risk in relation to the delivering of these savings is considered by management to be higher than for others that have already been realised and "banked". We undertook the following steps to identify a suitable sample:

- **Established the total population of initiatives** – we identified the main unsecured S&E initiatives for each business area which formed the total population we would select from;
- **Focused on "identified" -** following discussion with management, we concluded that it would not add value to focus on the "overlay" initiatives at this time – these are early stage ideas with correspondingly immature controls. The decision was taken to focus on "identified" initiatives as they would be more developed;

- **Weighted sample size according to unsecured savings to be delivered** – R&U has unsecured savings of £2 billion, Surface Transport >£0.5 billion and Corporate >£0.5 billion. We selected sample projects in line with this profiling;
- **Concentrated on higher value initiatives** – the impact of slippage or underperformance for the larger value initiatives is assumed to be greater. We therefore focused on larger initiatives so assurance insight would add most value; and
- **Selected different types of savings initiatives** – the initiatives included transformation, contract award, changing assumptions, opportunities and other categories. Selecting a sample that included a number of different types of savings would give a wider perspective on how the S&E Programme dealt with a range of savings activities.

Following these principles we identified four initiatives from R&U, two from Surface Transport and one from Corporate that formed our sample for testing.

# 4. Assurance strategy for subsequent years

We have been engaged to provide assurance input to the S&E programme for three financial years – 2014/15 – 2016/17. This section sets out a proposed approach to providing assurance on the programme over that three year timespan.

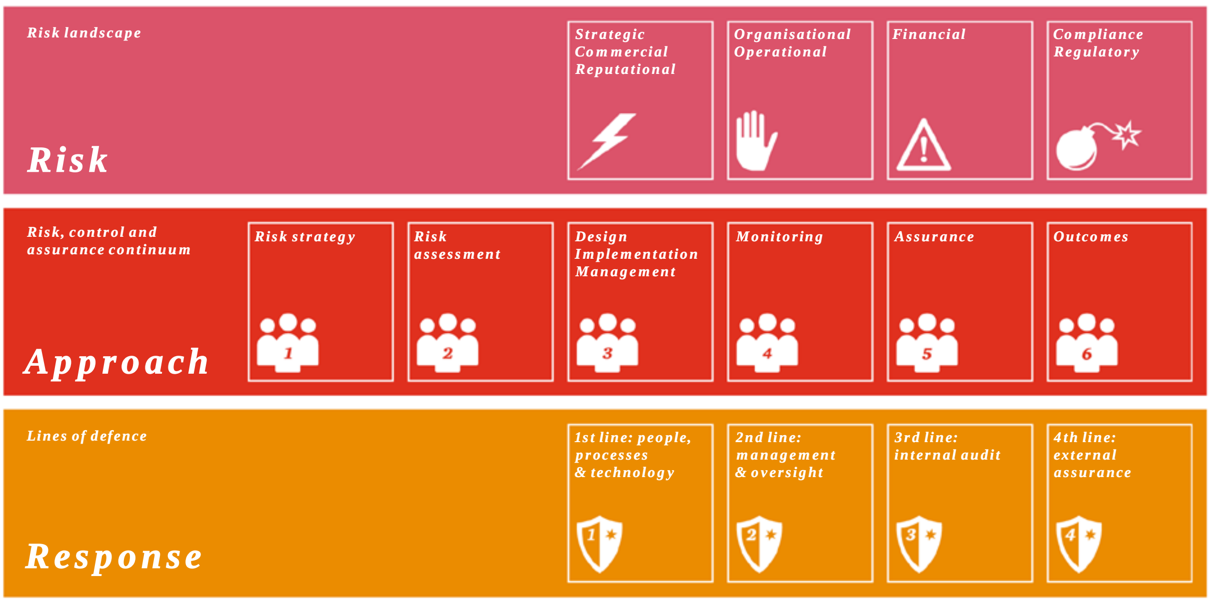
Leading practice in audit methodology would suggest that S&E assurance activities should be risk-focused on core systems of controls and representative testing should be undertaken on a sample of the total population of initiatives. The size and nature of the sample would typically be set with reference to organisational risk appetite. A multi-year perspective could be adopted – for example, not all aspects would need to be tested each financial year.

However as noted in this report, controls are still developing and are not yet operating consistently across the TfL Group. Further work is required to map the assurance controls operating in practice across the S&E Programme before a detailed plan can be produced. This section sets out our thoughts on the development of an assurance framework for the programme, and highlights a number of assurance interventions that may be helpful for managing the key risks going forward.

## *Assurance framework*

As an initial action, we recommend that an assurance framework should be developed for the S&E Programme as a whole.

HM Treasury good practice defines an assurance framework as a structured means of identifying and mapping the main sources of assurance in an organisation, and co-ordinating them to best effect. This should typically be informed by assurance mapping, showing how key risks are covered by the "lines of defence" (that is, the first line of defence includes operational or line controls, the second management assurance, the third independent assurance and the fourth external assurance). For example, the following diagram sets out a potential approach which is used by PwC and is based on a four lines of defence model:



Mapping the assurance framework in place helps to inform an assessment of control maturity and enables audit interventions to be better targeted. For example, if the first and second lines of defence are not yet mature for certain key risk areas, then commissioning independent assurance is likely to add less value because it will be able to highlight gaps but not identify opportunities for improvement.

We recognise that work in the Building Better Finance programme may start to change the control environment – however, this should not prevent the initial work from taking place, because we would expect all assurance frameworks to be regularly reviewed and updated over time.

We recommend that work to develop the assurance framework should take place in the first half of 2015/16, and should involve key stakeholders from the business areas, central finance and Internal Audit. This should consider:

- What are the key risks facing the S&E Programme? It may be helpful to consider risk proximity alongside risk impact and probability – this will help inform priority when it comes to developing a multi-year assurance strategy
- What controls exist across the four lines of defence?
- How mature are the controls across the four lines of defence?
- Are there any gaps, overlaps or vulnerabilities in the lines of defence?

## *Options for assurance interventions in future years*

Drawing upon our work on the S&E Programme to date, we highlight the following as potential options for assurance interventions. On completion of the assurance framework, we can work with management to agree a prioritised plan based on risk appetite and resource availability.

The potential options include:

- **Periodic review of continuing progress -** this could cover the actions agreed in relation to the June 2013 report as well as this report. It may be helpful to use specialist audit tools such as TrAction to support follow-up analysis over time.
- **Advisory input on the design and implementation of controls** – repeating independent assurance reviews may offer diminishing returns, particularly given the challenges we note on implementing the short/ long term management action plans. This work would provide direct input to management in helping to build strong controls. In our experience, this hands-on input can lead to better controls that incorporate good practice principles from the start.
- **Model assurance** – R&U initiatives are captured and managed in an MS Excel based model that has been developed in-house. At the time of fieldwork, both Surface Transport and Corporate were transitioning their S&E initiatives to this model. We recommend that independent assurance on this model should be sought, to provide assurance on the key risks for business critical models (for example, governance and controls, quality assurance and resilience). This could be supplemented with functional testing to check how calculations and formulae are performed.
- **"D1" secured savings** – these initiatives are historic with all savings being fully recognised. Key risks relate to strength and completeness of the audit trail (particularly for the older initiatives), savings erosion and assumptions on how savings have been rolled forward to future years.
- **"D2" secured savings** – these initiatives are considered by TfL highly likely to be delivered, but elements of residual risk remain. Key risks include strength and completeness of the audit trail, how the percentage at risk has been calculated, how achievability is being managed for the savings remaining at risk, and reasonableness of the classification. Further input from the second/third line of defence would be useful to ensure that these risks are being managed appropriately across all areas in the business.
- **Defining an approach to reviewing historic savings initiatives** – £13 billion of the £16 billion total savings are classified as "secured". It would be useful to develop a more systematic approach to the assurance of these completed initiatives, principally related to the completeness of the audit trail

(for example on the business case, key assumptions, reconciliation of savings achieved). This could involve developing a stratified sampling approach, based on the number of initiatives in the business areas and the time profile of savings – our assumption would be that earlier savings may be more likely to have an incomplete audit trail. The assurance approach could draw on a number of techniques from self-assessment to independent compliance-based testing. If a large enough sample was selected it may be possible to extrapolate any findings on incomplete audit trails across the total population (for example, assuming error rates are consistent across all completed initiatives). We would recommend that this is not seen to be an annual process – undertaking these checks at more frequent intervals would maintain focus and prevent any drift.

- **Overlay savings** – these are classified as unsecured, and are split between "O1" where there is a business unit commitment to make efficiencies, but an initiative has not been identified, and 'O2' is a commitment to make the efficiency, but it has not yet allocated to a business unit. It would be possible to consider the development and allocation of the overlay savings, and evaluate the processes used to identify/ evaluate early stage savings ideas.
- **Identifying appropriate assurance arrangements for sensitive/ controversial initiatives** – a number of future savings initiatives relate to contentious activities (for example on staffing levels, pay and conditions or as yet unapproved policy ideas). The sensitivities associated with the initiatives may make it more difficult for key assurance activities to take place (for example, independent assurance reviews such as this one). Work to agree an assurance approach to these initiatives would be helpful – this would allow management to benefit from assurance insight without compromising delivery or communications.

These activities could be delivered by either PwC as independent assurance providers, Internal Audit or through self-assessment in the business units, dependent on budget and the need for specialist assurance input.

We also considered if other activities, such as continuous auditing, would add value to the S&E programme. However, this would not be recommended at present – continuous auditing works best when the control environment is mature and operates consistently. The controls for S&E are not wholly consistent across the business or fully embedded so we do not believe this approach would be suitable.

# Appendix A - Current status of previously agreed short term actions

| Previously Agreed Action | Assessment of Action Taken | |
|---|---|---|
| **1 GOVERNANCE** | | |
| **G1 Calculation rules introduced** | | **Overall assessment -** Implementation underway |
| To add consistency and certainty over Savings & Efficiencies values, consider principles for different saving types/segments. | High level guidance on calculation rules has been developed, but there are a number of areas where the guidance could be improved. The sample initiatives we reviewed were not calculating efficiencies in a consistent way, but some showed evidence of good practice.<br>The governance pack which has been developed by R&U contains a section on calculation methodology. This is the only documented calculation methodology or rules currently in place. This methodology does not contain prescriptive rules or processes for initiatives to use when calculating savings other than the rule that 'the efficiency identified should be adjusted for RPI each year if the cost base is inflated by RPI in the forecast.'<br>The guidance sets out four examples of different efficiencies. Two of the four examples involve simple reductions in costs. The third example covers a contract re-let but the calculation used is not clear to follow or understand. The fourth example displays a non-cashable saving, providing an example of an efficiency which should not be included in the S&E Programme based on the TfL governance pack.<br>All of the sample efficiencies were using different methodologies and processes to calculate savings. Some efficiencies were using more complex models, where savings were based on a mix of different factors, such as staff costs, maintenance costs, and service performance levels. However, for other initiatives, interviewees were not able to explain how the figure had been calculated or derived. | |
| **G2 Control framework development and implementation** | | **Overall assessment -** Implementation underway |
| With the aim to ensure delivery of an initiative. Draw on Asset Performance Directorate (APD) best practice through the use of a 'light touch' one page document to control an initiative from inception to delivery, initiatives to follow framework to be | **Lifecycle controls**<br>The governance pack includes high level guidance on the use of a business case and how efficiencies should be defined. In addition, it contains some guidance on programme assurance methodology, particularly in relation to R&U governance bodies. It also details the TfL gateway process for projects as methodology to use for managing the delivery of efficiencies.<br>Delivery of efficiencies is being controlled in different ways, both across business areas and even within the same business area. There was evidence of four efficiencies using the TfL gateway process to manage delivery.<br>**One Page Business case**<br>The guidance sets out that a business case should be created for any efficiency over £1m per annum or £10m in total when the | |

| Previously Agreed Action | Assessment of Action Taken |
|---|---|
| based on their size and risk. | efficiency has been 'identified.'<br><br><u>Template</u><br><br>A one page business case template has been developed by R&U. The documentation we received included different versions of this template with minor changes - it was not clear which version should be used by initiatives. See finding G4 for further details. The template does not currently capture any internal or external dependencies for the efficiency.<br><br><u>Use of the business case template</u><br><br>R&U were using the business case template for their top 25 initiatives. For the R&U efficiencies sampled, only one had any details contained in the efficiency calculation section, and none had any baseline data included. All other sections of the documents sampled contained some information, although not every field within these had been completed.<br><br>Corporate and Surface Transport were not using the business case templates for any of their efficiencies.<br><br><u>Updating the business case templates</u><br><br>The business case templates used by R&U are updated with data from the R&U Savings Model as part of the quarterly forecast process. Their main purpose appears to be to capture the latest update on the efficiency in one document, which can then be used in discussions with efficiency leads at the next quarter. As no baseline data is included in the document and the data can change on a quarterly basis, this control is operating as a reporting tool rather than a business case. This type of control will not assist in managing the delivery of the efficiencies to planned targets if baseline data is not included to measure progress against.<br><br>The ‘business cases’ are saved in SharePoint, however, only the latest version is ever saved. Therefore, it is not possible to see an audit trail of changes to the document without extracting the data from the Savings Model.<br><br><u>Approval of the business case template</u><br><br>In R&U, the efficiency data which imports into the ‘business cases’ is usually completed by finance leads rather than business leads. Good practice would suggest that in order to ensure the update includes the correct position for finance, milestones and risks on the efficiency, the business case should be signed off by the Sponsor, and there is currently no evidence of this on the business case template. |

| Previously Agreed Action | Assessment of Action Taken | |
|---|---|---|
| **G3 Review risk management policy** | | **Overall assessment -** Implementation underway |
| The methodologies and tools used should be consistent and aid delivery. | **Corporate risk management**<br>An updated corporate risk management policy was approved by the Audit & Assurance Committee in October 2014. Following this update, a re-launch of risk management is being rolled out across the organisation in January 2015. As part of this exercise, risk management training is scheduled to take place from February 2015 for more than 300 managers. Risk management for the S&E programme is not specifically referred to in the policy, however, the aim of re-launching the updated risk management policy is to ensure risk management is happening in a consistent and appropriate way across the organisation, including S&E programme efficiencies.<br>**Strategic risk management**<br>Strategic risk management was implemented in 2013 with the setting up of the Strategic Risk Panel reviewing strategic risks, and the introduction of quarterly strategic risk reporting. In 2014, further developments have been introduced, such as updating the strategic risk register and working towards quantification of strategic risks.<br>The escalation of strategic risks, including risks to delivering efficiencies, takes place from the three business areas to Group level. These are incorporated into the top level TfL strategic risk TFL01 'Maintaining a long term strategic, balanced plan.' Consistency of strategic risk templates for reporting across the three business areas has also been evidenced.<br>**Risk management in individual initiatives**<br>In the sample efficiencies tested, some risk identification and management activities were evidenced, but there was variation in maturity of risk management. Guidance on calculating the amount of efficiency at risk is set out in the governance pack. The guidance needs further refinement to make it easier to understand, and to provide clearer guidance on the principles and thresholds for efficiencies to follow in calculating the Estimated Monetary Value (EMV) figure. The guidance in the governance pack states that it is to be used only if an efficiency does not have a modelled scenario for risk or a more accurate methodology to use. As the EMV is a key figure used in the reporting and management of efficiencies it is important to have consistent methodology used by all efficiencies.<br>Across the efficiencies sampled, a general judgement of the finance lead or business lead was being used to calculate the EMV. Although this approach is in principle following the high-level guidance set out in the governance pack, it creates the opportunity for inconsistency between efficiencies, by providing greater possibility for optimism bias and personal style to affect the calculations. | |

| Previously Agreed Action | Assessment of Action Taken |
|---|---|
| **G4 Main governance pack updated** | **Overall assessment -** Implementation underway |
| Update main governance pack for all improvement themes. | A governance pack has been developed by R&U and was sent to the Finance Leadership Team (FLT) in August 2014. It covers areas such as efficiency definitions, calculation methodology, and guidance on using the R&U Savings model.<br>The update to the FLT in August 2014 stated that a pan-TfL version would be developed over coming months; however, at the time of fieldwork, no further changes had been made.<br>We noted the following areas where further improvement is required:<br>• **Multiple versions** of the governance pack are in circulation. The versions provided by the three business areas are different to the version sent to FLT. However, all versions are labelled as 'version 2' despite having different dates and slightly different content. This may mean that the business areas were not operating controls consistently. **Awareness** of the governance pack throughout the three business areas is inconsistent. Some teams working on efficiencies were not familiar or aware of the pack's content.<br>• **Integration** of the processes in the governance pack with standard processes in the three different business areas could be improved. For example, it would be helpful to include details of governance arrangements for each business area and how S&E reporting and management of the delivery of S&E initiatives integrates into those.<br>• **Efficiency categorisation –** the guidance does not address the categorisation of types of efficiencies or any category-specific controls required to manage and assure them. For example, specifying what would qualify an efficiency as a business-as-usual (BAU) activity or a change activity (project), and the controls which would then apply. There is evidence of inconsistency in the categorisation of efficiencies sampled, with some change activities being categorised as BAU activities.<br>• **How to apply the guidance -** the guidance does not clearly identify if the activity is required or recommended.<br>• **Reporting –** we noted a number of areas where the guidance should be expanded:<br>- The requirements for Group level reporting were not currently in the governance pack. This may result in inconsistent understanding of responsibilities by those feeding into the reporting process. Additionally, this may lead to inconsistent reporting between the business areas. We noted a number of minor differences in format between quarterly dashboards for business areas – this makes it harder to compare business areas.<br>- The governance pack we reviewed did not set out: the governance bodies receiving reports; frequency of reporting; the data to be provided for each efficiency, including format of reports; and agreed thresholds to set which initiatives are reported, such as level of risk, EMV value, or overall savings total.<br>• **Governance –** the governance arrangements for managing and reporting S&E initiatives and how these arrangements should integrate with each business area's own governance arrangements are not currently defined in the governance pack. This may mean that the appropriate level of approval of S&E data for reporting purposes does not take place. In addition, those managing the delivery of efficiencies may not be aware of the governance bodies they need to report and escalate to.<br>• **Assurance –** the governance pack includes material on Programme Assurance but this is focused on R&U local governance, and it is not clear how this applies to other business areas.<br>• **Calculation rules –** finding G1 sets out a number of detailed points in relation to the coverage of calculation rules. |

| Previously Agreed Action | Assessment of Action Taken | |
|---|---|---|
| **2. REPORTING** | | |
| **R1 Baseline review** | | **Overall assessment -** Implementation underway |
| What reports should show, either whole programme or split of secured/ unsecured efficiencies. | The agreed management action in this area was to define what baseline figures for efficiencies are included within reports. No clear process documentation identifying this has been evidenced.<br>Interviewees have described the reporting controls for Group level, and we noted the following points:<br>• **Reporting on completed initiatives -** the quarterly dashboards to the Leadership team include the secured/ unsecured savings targets with all prior years savings back to 2008/09. These reports also provide information on savings targets for future years where all completed initiatives (D1) have been removed. In our view, this gives a clearer view of the savings to be achieved, and a stronger focus on the newer initiatives. But this approach is not used consistently across the programme – the Value Group reporting does not strip out D1 fully achieved savings.<br>• **Changing efficiency targets in reporting** - the unsecured efficiency targets for future years and D2 'secured' efficiency targets can be changed – staff said this was supposed to happen on an annual basis. However, when we compared Q1 and Q2 reports we noted a number of instances where the targets changed. The reporting format cannot show original and revised targets. The ability to change targets makes it more difficult to accurately compare forecast vs target performance, making it harder for management to take appropriate action in the event of slippage.<br>• **Variance on individual initiatives -** efficiency reporting at Group level only includes targets and forecasts at the business area level, and does not clearly set out either targets or forecasts for individual initiatives. In R&U, we have identified quarterly reporting on efficiencies, which compares forecast vs target at directorate level. Additionally, variance for the key (larger) individual initiatives in R&U is highlighted. We have been unable to identify any additional business area-level reporting that compares forecast vs target for individual initiatives in the other business areas. This makes it harder to understand performance against plan for individual initiatives, and for management to take timely corrective action if required. | |
| **R2 Segmentation Categories** | | **Overall assessment -** Not yet implemented |
| Define Business Area segments and likely TfL wide segments and seek agreement with stakeholders on the most useful. | There is limited segmentation of efficiencies data taking place:<br>• In the R&U Savings Model, categorisation is by directorate, programme, portfolio and asset type, but does not cover type of savings, like workforce, assumptions, or contract renewal<br>• In Corporate segmentation is performed only when requested by the Deputy Mayor<br>• Surface Transport maintains categorisation information on savings initiatives (for example, by directorate, by activity type and whether they are headcount related or not)<br>• No segmentation categories have been defined at a pan-TfL level.<br>It is beneficial to segment types of efficiencies for more effective management and reporting. Segmenting efficiencies allows comparison between similar types of efficiencies on the programme. This can enable benefits such as identification of trends; provide internal benchmarking for future efficiencies; increased accuracy on calculation of savings; improved risk management through earlier identification and mitigation of risks | |

| Previously Agreed Action | Assessment of Action Taken | |
|---|---|---|
| **R3 Segmentation Reporting** | | **Overall assessment -** Not yet implemented |
| Provide examples of segmentation reporting on agreed segments versus cost bases and as a tool for presenting external reporting themes | As segmentations have yet to be defined and agreed at business area level and pan-TfL level, no segmentation reporting is taking place at these levels<br>The only segmentation reporting identified was at the COO level in reports to the R&U Value and Sustainability Programme Board (VSPB). The report segmented efficiencies into nine themes including headcount reductions; contract renegotiations; maintenance standards; and technology. For each theme, the report showed the target savings; savings to date; and remaining savings. | |

| Previously Agreed Action | Assessment of Action Taken | |
|---|---|---|
| **3. SYSTEMS** | | |
| **S1 Database Standardisation** | | **Overall assessment -** Implementation underway |
| Standardize database - content and format to follow minimum guidelines. | **R&U data**<br>R&U have developed a savings model in Excel and this is being consistently used by R&U efficiencies to capture the data for quarterly updates. R&U efficiencies have now been using the model for several quarters, and in the sample R&U initiatives tested, there was a good level of familiarity with the process and system.<br>**Corporate and Surface Transport data**<br>The data for efficiencies in Corporate and Surface Transport has recently been inputted into the R&U Savings model; however, reporting of Q3 data was collected using their previous individual spreadsheets. Q1 data for 2015/16 for Corporate and Surface Transport efficiencies is scheduled to be collected and reported using the R&U Savings Model.<br>**R&U savings model**<br>Moving to a single database for all efficiencies will enable standardisation of data across the three business areas. However, there are a number of areas of concern to highlight with the current model:<br>• The model developed is in Excel and uses a large number of macros to manipulate the data. It has been designed to be used by non-expert users, however, is still a large and complex spreadsheet.<br>• The model has been developed in-house and no independent assurance has been carried out. Staff rely on the model to produce reports with no independent checks on data other than the partial reconciliation with SAP through the causal reports. If there were errors on data such as the EMV figure, or division of savings between DIO categories, it is not clear how these would be spotted.<br>• Continuing to use a separate Excel model to track efficiencies in the long-term is not efficient, as the lack of integration with SAP and other business systems means multiple updates and reconciliations are required.<br>• It is not clear how scalable or resilient the model will be over time as it grows in size. It already contains approximately 3500 rows of data and as all business areas begin to use it, the growth rate will increase. See the assurance strategy (section 4) for our suggestions on model assurance. | |
| **S2 Run Better** | | **Overall assessment -** Not yet implemented |
| Run Better Savings & Efficiencies system specifications captured. | We have been unable to identify any evidence of the system specifications. Staff have confirmed that the original intention was for the S&E systems requirements to be captured by the Run Better project. This project has now been included in the BBF programme. Management have confirmed that the S&E Programme should be in scope for BBF. | |

<table>
<tr><th>Previously Agreed Action</th><th colspan="2">Assessment of Action Taken</th></tr>
<tr><td colspan="3">4. DATA RETENTION</td></tr>
<tr><td colspan="2">D1 Processes well documented</td><td>Overall assessment - Implementation underway</td></tr>
<tr><td>Document processes well for ease of review by future auditors and for a more straightforward handover to other colleagues.</td><td colspan="2">A number of processes involved in managing the S&E programme efficiencies have been documented. These include:<br>• Governance pack – documenting the requirements for a business case to be stored in SharePoint; methodologies for calculating savings and risk; and guidance for users of the R&U Savings Model.<br>• R&U efficiency model and reporting guidance – documenting the processes, contacts and timescales for administrators of the R&U Savings Model and efficiency reporting in Rail & Underground.<br>• One of the sample efficiencies had documented the methodology used for calculating the opex staff cost savings.<br>There are a number of gaps, with processes not documented or identified weaknesses in documentation. These include:<br>• As noted in G4, for group level guidance, there are gaps in relation to version control, integration with local governance, efficiency categorisation, how to apply the guidance, reporting, governance and assurance. As noted in G1, there are gaps in relation to calculation rules.<br>• In Surface Transport and Corporate there is no guidance documented on how S&E processes should be followed. The document for administrators of the R&U Savings Model does not cover the sign-off and approvals process for reports, only stating to ‘ensure commentary is checked with the appropriate person.’</td></tr>
<tr><td colspan="2">D2 Stored location for ‘Efficiencies’ Repository</td><td>Overall assessment - Implementation underway</td></tr>
<tr><td>Stored location for 'Efficiencies' Repository - make use of internal drives to kick start the data retention process alongside SharePoint investigation to explore how this can store the documentation easily and securely, may need Information Management input.</td><td colspan="2">R&U<br>R&U have established a SharePoint folder to store documentation from the individual initiatives. The latest version of the one page business case is exported from the Savings Model and saved into the SharePoint folder. For the sample R&U efficiencies tested, this was the only document stored in the folder. Previous versions of the one page business case, and original baseline business cases were not stored here. Additionally, no evidence of sign-off or approval has been stored here. Other documentation is still held locally at project or initiative level.<br>Corporate<br>In Corporate the teams are encouraged to store all the project related files on a shared drive. The intention is for all projects to move to SharePoint in the near future. Some larger projects have a dedicated SharePoint site to store their data.<br>Surface Transport<br>In Surface Transport there is no SharePoint site or central repository for the documents supporting individual efficiencies. There is a shared drive which includes quarter by quarter financials, plus some other supporting documentation.</td></tr>
</table>

| Previously Agreed Action | Assessment of Action Taken | |
|---|---|---|
| **D3 Collate repository evidence** | | **Overall assessment -** Implementation underway |
| Collate repository evidence - from the significant initiatives that have been tested in the last 2 years and then focus on forward looking. | **Rail & Underground**<br>In R&U, we viewed documents stored for the individual initiatives which had previously been considered by the June 2013 report. The Sharepoint folder included a separate folder for each initiative. The folders for the separate initiatives contained varying amounts of data. For example for one sample initiative, only a one page business case was included. However for another of the initiatives, we noted a business case, change control, milestone dashboard and risk documents.<br>**Corporate**<br>In Corporate, we viewed documents stored for the 2 initiatives which were selected for testing for June 2013 report. The data was stored on the Corporate Finance team's shared drive. One initiative had a dedicated folder which contained a document for reporting to FLT. A business case was not noted. For another project, a dedicated folder was not noted and a supporting one page business case was missing. Information relating to this initiative can be found in another folder, in the consolidated reporting files for Corporate. However, programme documents at initiative level were not seen.<br>**Surface Transport**<br>In Surface Transport there is no SharePoint site or central repository for the documents supporting individual Surface efficiencies. The only information held centrally in Surface Transport is the quarter by quarter financials.<br>**Savings Calculations**<br>The recommendation in the previous report was that original calculations of the savings on efficiencies should be stored in a central repository, along with supporting evidence of these calculations.<br>Some of the sample initiatives we tested did not have a documented calculation methodology in a central location, such as the R&U Savings Model or SharePoint. | |

# Appendix B – Recommendations and management actions

| Recommendation | Agreed Management Action | Target Date/ Person Responsible |
|---|---|---|
| **IMMEDIATE ACTION REQUIRED** | | |
| **1. Developing a plan for implementing short term and long term actions** | | |
| Management should take steps to ensure that the remaining aspects of the previously agreed "short term" actions for the S&E programme are implemented. It would be helpful to draw up a plan that sets out activities and milestones for completion. Progress should be regularly monitored by the Value Group.<br>In addition, this action plan should be expanded to cover the "long term" activities previously agreed but not yet implemented. | The TfL Efficiencies Team will present an 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.<br><br>A regular monthly meeting between the Efficiencies Team have been scheduled to address these recommendations and identify any future issues.<br><br>A standing agenda item will be created for future FLT meetings and a regular update on progress against targets/milestones will be given. | **April 2015**<br><br>**Rob Titheridge – (Group Efficiencies Manager – Finance)** |
| **2. Resourcing the S&E programme** | | |
| Management should ensure that the resource dedicated to the management and reporting of the S&E programme is sufficient for a programme of this size, complexity and importance. We recognise that actions are underway to increase the level of S&E dedicated resources. Developing the action plans noted in recommendation 1 will help identify what further resources will be required when, and identify if there are any "pinch points" or gaps. | Following on from the presentation of the plan to the FLT, management should agree the correct resource requirements.<br>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.<br>A dedicated team with focus on the Efficiency programme will | **April 2015**<br><br>**Rob Titheridge** |

| Recommendation | Agreed Management Action | Target Date/ Person Responsible |
|---|---|---|
| | enable better ways of working, improve governance of the programme and reduce any resilience risk noted in the report. | |
| **3. Reporting for the S&E programme** | | |
| Management should continue work underway to improve the reporting for the S&E programme. For example, it would be helpful to consider the following improvements:<br>• Exception based reporting<br>• Use of diagrams and RAG based dashboards<br>• Variance reporting, for example showing target vs forecast, would be helpful to track how expectations have changed during the year. | As part of the new Group Efficiency Manager role, reporting of efficiencies is already looking to simplify the management reporting of the Programme.<br><br>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.<br><br>An update on this will be presented to the FLT in April 2015. | **Continuous**<br><br>**Rob Titheridge** |

| **Recommendation** | **Agreed Management Action** | **Target Date/ Person Responsible** |
|---|---|---|
| **ACTION REQUIRED IN THE NEXT 6 – 12 MONTHS** | | |
| **4. Assurance on business critical model** | | |
| Management should consider seeking independent assurance on the design and operation of the R&U savings model. | 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.<br><br>A timetable to complete this review will be included in the FLT update on April 2015 | **October 2015**<br><br>**Rob Titheridge** |
| **5. Assurance framework for S&E programme** | | |
| Management should develop an assurance framework for the S&E programme. This should involve key stakeholders from the business areas, central finance and Internal Audit. It should consider:<br>• What are the key risks facing the S&E programme?<br>• What controls exist across the four lines of defence?<br>• How mature are the controls across the four lines of defence?<br>• Are there any gaps, overlaps or vulnerabilities in the lines of defence?<br>This should be used as an input for designing the assurance activities required in subsequent years. | 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.<br><br>A plan to implement this will be presented to the FLT in Summer 2015.<br><br>A formal version of the assurance framework plan will be presented to both the F&PC and Audit & Assurance Committee in due course. | **July 2015**<br><br>**Rob Titheridge**<br>**Colin Garland (Senior Manager – Internal Audit)**<br>**PwC** |
| **6. Annual targets for S&E** | | |
| Management should consider focusing savings and efficiency targets on an annual basis. This would avoid the complications associated with managing against different financial targets associated with different financial years. | 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. | **April 2015**<br><br>**Rob Titheridge** |

| Recommendation | Agreed Management Action | Target Date/ Person Responsible |
|---|---|---|
| **7. Integrating S&E activities with wider financial management and planning** | | |
| Management should consider how the S&E programme could become an integral part of the TfL budget setting, forecasting and ongoing financial management. This may be through work planning in the BBF programme. | 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.<br><br>A roadmap of work will be included in the presentation to the FLT in Summer 2015. | **July 2015**<br><br>**Rob Titheridge**<br>**Adam Pratt**<br>**(Building a Better Finance workstream lead)** |
| **8. S&E guidance** | | |
| Management should consider updating and expanding the S&E related guidance. This should include the following points:<br>• Setting a maximum timeframe for the realisation of savings (for example five years for savings on staffing)<br>• Simplifying the definition of savings categories. For example it would be more prudent and in line with good practice to only recognise D2 savings as secured when they fall due<br>• Clarifying how other types of savings (such as income generation or budgetary assumptions) should be treated in the S&E programme<br>• Explaining how S&E elements should be considered by project/ programme governance, particularly for the larger transformation initiatives.<br>Once developed, it would be helpful to ensure that all staff working on S&E initiatives are aware of any specific requirements. This should include the delivery team as well as finance specialists. | 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.<br><br>An update on progress will be provided to the FLT in April 2015. | **April 2015**<br><br>**Rob Titheridge** |

| Recommendation | Agreed Management Action | Target Date/ Person Responsible |
|---|---|---|
| **LONGER TERM GOOD PRACTICE** | | |
| **9. Re-baselining S&E targets** | | |
| Management should consider re-baselining the S&E programme at an appropriate date. This may need to be aligned to the mayoral electoral cycle or next CSR. This could involve considering all savings related to previous periods to have been secured, and restarting the savings target. | 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.<br>A review of this will be conducted after the 2015 General Election. | **July 2015**<br><br>**Rob Titheridge** |
| **10. Use of benchmarking in S&E** | | |
| Management should consider if there are further opportunities to use benchmarking to identify where additional efficiencies could be released, for example allowing comparisons within business areas, between business areas and also with other national/ international comparators in the rail and other industries. | 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.<br><br>An action plan to incorporate benchmarking into Efficiencies will be discussed at the FLT in Summer2015.An update on the use of benchmarking in efficiencies will be presented to F&PC after the next review. | **April 2015**<br><br>**Rob Titheridge**<br>**Aydin Sheibani**<br>**(R&U Head of Benchmarking & Value)**<br>**Tom Page**<br>**(ST Head of Programmes & Strategy)** |

# *Appendix C – Detailed scope of work*

This section is drawn from the engagement contract that was agreed for this work.

## 1. 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 stakeholders including the Greater London Authority, need accurate and focussed information to give you assurance that current and planned projects are 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 appendix 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 in this appendix.

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

### *Stage One each year for three years commencing December 2014*

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).

### *Stage Two - Risk assessment across the current S&E "universe"*

PwC will work with the TfL S&E team to update our understanding of the current scope and range of savings, as captured in TfL's S&E Excel based databases. PwC will undertake stratification analysis to understand the composition of the S&E activities, for example according to:

- Life cycle stage (for example newer initiatives may be riskier);
- Changes to scope, savings or costs;
- High value/ high impact;
- Current performance or "early warning indicators" – for example, current RAG score, evidence of slippage or other risk of delay;
- Noting where individual initiatives have previously been reviewed so they can be excluded from future assurance work
- Areas where you have particular concerns around complexity and delivery

Taking a perspective across these filters will inform a weighted risk assessment which will then inform our reviews to identify your key risks and actions required to support successful delivery of the programme.

### ***Stage Three - Assurance strategy***

An integrated approach to assurance would be required for this kind of complex programme; PwC will work with management to understand the existing assurance framework in place, drawing on HM Treasury best practice and their experience in effective controls across the three lines of defence for similar savings programmes.

PwC will then work with management to **develop an assurance strategy** incorporating the existing assurance activities for the programme across all three years of the engagement. The assurance activities should be risk-focused on core systems of controls, and representative testing will be undertaken on a sample of the total population of initiatives. PwC would consider how and where the assurance activities should take place to provide sufficient challenge on a year by year basis, as well as covering the three year period.

Possible further innovations – for example using PwC's TrAction tool for follow up reporting and exploring if continuous monitoring of key controls (say on a quarterly basis to align with your current reporting to the S&E Board) would add further value and insight.

### ***Stage Four - Detailed testing***

Based on PwC's risk assessment, PwC will identify an appropriate sample of initiatives for detailed testing. The testing will focus on:

- Are **short term** recommendations implemented in all cases?
- Is progress being made on **longer term** recommendations?
- Are there further control weaknesses or **other opportunities** that should be highlighted?
- What **level of confidence** is there in the deliverability of the initiative? Are the planned savings achievable?

### ***Stage Five - 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.

### ***Stage Six - 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:

- An overview of current deliverability of the programme based on the testing PwC have undertaken;
- A summary of the current control environment
- The results of PwC's risk assessment
- The results of the detailed testing undertaken
- A proposed outline assurance strategy covering the next two years
- Any further areas for savings and efficiencies which PwC have identified.

***Stage Seven - Years 2 and 3***

PwC will evolve and develop their approach over years two and three by building the knowledge and capability within TfL's teams to bring further review efficiencies and feedback from year one. For years two and three PwC will undertake stages one to six above.

For the avoidance of doubt, PwC will not comment on the validity of any of any of the assumptions that underpin the calculation of the savings.

## 2. 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.

## 3. 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.