

TRANSPORT FOR LONDON

FINANCE AND POLICY COMMITTEE

**SUBJECT: VALUE FOR MONEY INDICATORS: 2008-2009 BENCHMARKS**

**DATE: 9 JUNE 2010**

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**1 PURPOSE AND DECISION REQUIRED**

- 1.1 The purpose of this paper is to inform the Committee of the findings from TfL's recent participation in the '*Value for Money in Public Sector Corporate Services*' annual benchmarking exercise.
- 1.2 The Committee is asked to note the report.

**2 BACKGROUND**

- 2.1 '*Value for Money in Public Sector Corporate Services*' is a joint project by the UK Public Sector Audit Agencies. In 2006, the public sector audit agencies commissioned KPMG, which worked with more than 100 public sector organisations, to develop a suite of value for money indicators covering the five main functional activities that typically comprise corporate services: finance, human resources, Information Communications Technology (ICT), estates management and procurement.
- 2.2 The stated objectives of the Value for Money (VfM) joint project are as follows:
  - (a) to self-assess current performance using indicators the audit agencies see as robust and relevant;
  - (b) to demonstrate commitment to improving the use of resources;
  - (c) to highlight areas for improvement; and
  - (d) to compare VfM with other similar organisations, learn from others and investigate different practices.
- 2.3 In addition, the Treasury Operational Efficiencies Programme – Back Office Operations and IT Final Report (May 2009) stated:

The five audit agencies' value for money indicators in HR, finance, ICT, procurement and estates management should be used by all public sector organisations. This should take effect by June 2009 for central departments, agencies and Non Departmental Public Bodies (NDPBs) and by December 2009 for the wider public sector. This will ensure that data is comparable and robust across all public sector organisations.
- 2.4 The Finance Directorate chose to participate in the VfM exercise as it afforded an opportunity to benchmark TfL's performance against a sizeable group of public sector organisations, at a time when TfL was actively seeking to market

test key elements of its activities. A key strength of the VfM exercise was that it provided a coherent set of 'functional' benchmarks (eg. HR and Finance) for five of the largest functional activities within the Finance Directorate and included some of those subject to market testing.

- 2.5 The VfM exercise is carried out annually, using financial year data sets, with data inputs being collated in September to December, for the preceding financial year, and the output reports and supporting analysis being provided the following January. The findings reported here are based on data sets for the financial year 2008-2009.

### **3 BENCHMARKING – SCOPE OF WORK**

- 3.1 The VfM exercise comprises a suite of indicators designed to capture both effectiveness and efficiencies within corporate services. They are split into two groups, classified as primary and secondary indicators.
- 3.2 The primary indicators should:
- (a) be critical to the reputation of the function;
  - (b) be recognised as a key feature of a modernised organisation;
  - (c) relate to processes or activities that account for at least one third of gross spend of that function; and
  - (d) have a major impact on the outcomes or performance of the organisation as a whole.
- 3.3 While the secondary indicators should:
- (a) match one of the criteria above, although not necessarily to the same degree; or
  - (b) help explain variations between organisations' results for the primary indicators.
- 3.4 For each functional activity, the indicators vary in number and topic, typically ranging between five and 13 in total, for each of the primary and secondary groups.
- 3.5 The primary indicators for each function all include a basic cost indicator, a commissioner (key stakeholders or procurers) and user satisfaction index and a management practices index. The purpose is to determine impact, in terms of how the output from each of the corporate services functions contributes to or influences corporate performance as a whole, and rate its perceived performance.
- 3.6 The management practices index is designed to enable organisations to assess whether their corporate services are well-run and modern in approach. The indicator comprises a list of ten management practices deemed to be indicative of innovative and forward looking practices. The results are summarised as an 'X out of 10' score, with the percentage of organisations exemplifying the specific management practice also being indicated for comparison.

- 3.7 These groups of indicators are supplemented by two separate, web-based surveys. The first survey is of commissioners (key stakeholders or procurers) of the services of the relevant functional activity and the second survey is of users (customers or consumers) of the service delivered. These are rated, based upon a range of satisfaction questions, on a one to five scale (five being the best and one the worst).

## **4 COMPARATOR ORGANISATIONS AND REPORTING**

### **Comparator Organisations**

- 4.1 Over 150 separate organisations from across the public sector participated in the 2008-2009 benchmarking. This was a significant increase on previous rounds and can best be attributed to the impact of the Treasury statement referred to in paragraph 2.3.
- 4.2 The cross-section of organisations comprised central government departments and sub-departments thereof, NDPBs, local authorities, police and fire authorities, a range of national health service bodies and a small number of other organisations.
- 4.3 The London Fire and Emergency Planning Authority (LFEPA) was the only other functional body from within the Greater London Authority Group (GLA) that participated in the benchmarking exercise. A small number of London boroughs also participated, but not in all functional areas.
- 4.4 Few participating organisations submitted data for all functional activities. The fact that TfL Finance Directorate did so, can be seen as positive in this regard, as it is indicative of a consistent and joined up approach.
- 4.5 One of the principal limitations of the VfM exercise was the paucity of comparable participating organisations. While it is always difficult to find appropriate comparators for an organisation the size and complexity of TfL, the number of large, operationally focussed organisations participating was relatively small.

### **Reporting**

- 4.6 Three separate reports formed the key outputs of the benchmarking exercise:
- (a) an un-named, all comparator report, providing a percentile score, compared with upper quartile (UQ) and lower quartile (LQ) and median benchmarks;
  - (b) an un-named, >£100m per annum turnover organisations only report with the above benchmarks; and
  - (c) a named comparator report, for a sub-set of eight to 18 other organisations, chosen by the participating organisation from those organisations prepared to disclose their specific performance; again with the same benchmarks.
- 4.7 The second and third reports were found to be the most useful, the second as it comprised the most representative group of comparators for TfL, the third because it affords further opportunity for bilateral benchmarking with those organisations that evidenced higher levels of performance against specific indicators.

- 4.8 One limitation of the reports was the ability to ensure like for like comparisons were being made. The broad sweep of the benchmarking exercise meant that some of the definitions for specific parameters were not always as tightly constructed as those found within narrower, more tightly focussed benchmarking exercises. The level of challenge applied to the data inputs from the participating organisations could also have been greater, as there was a perception that some of the outlier data was either factually incorrect, or at best inaccurately derived. Also, a small number of the parameters chosen were not representative of industry standard benchmarks.

## **5 BENCHMARKING FINDINGS (OVERALL AND BY ACTIVITY)/ACTIONS AND BENEFITS ARISING**

- 5.1 For consistency, the findings below are summarised based on the >£100m per annum turnover organisations only report, or the named comparator report where a specific comparator organisation is referenced. Further details, for those indicators where TfL does well (above UQ/LQ performance) or could improve (below median performance) are set out in the attached appendix 1.

### **Overall Findings**

- 5.2 The management practice index scores for all five activity areas within the Finance Directorate were upper quartile, or better, among the comparator group. No activity area scored less than eight out of 10, with Group Property and Facilities scoring a maximum 10 out of 10. This indicates good, well-run, modern services that are being provided both innovatively and in a forward looking manner.
- 5.3 The results from commissioner surveys with key stakeholders or procurers were slightly below median, with the exception of Group Property and Facilities which was slightly above. Scores ranged from 2.8 and 3.6, compared with a median range of 3.2 to 3.6. The lowest score was within Your IM at 2.8, compared with a median of 3.7.
- 5.4 Similarly, user survey results were below median in all cases, but generally only marginally. Scores ranged between 2.9 and 3.8, compared with a median range of 3.5 to 3.9. Again, Your IM was the only score below three, at 2.9 compared with a median of 4.0.
- 5.5 Both of the above surveys indicate a real, or perceived, gap between performance (as indicated by the management practice index) and that experienced or expected by key stakeholders and customer and consumers of the services. This is similar in outcome to other customer satisfaction surveys conducted internally within TfL for services provided by the Corporate Mode.
- 5.6 In terms of Primary Indicators, all activity areas had at least three indicators that were better than the upper quartile among their comparator group. Procurement had the highest total (primary and secondary) number of indicators above upper quartile, with seven.

### **Finance**

- 5.7 Highlights within the Finance Directorate are the efficiency of transactional processing as a percentage cost of the finance function (at four per cent

compared with an UQ of 22 per cent) and the cost of accounts payable per invoice processed (at £2.68 compared with an UQ of £4.71).

- 5.8 Payroll administration per employee, reported within the Finance section, but transacted in HR Services, was also almost half the UQ comparator, at £28.61 compared with £53.39.
- 5.9 The one management practice indicator considered to be absent, 'the responsibilities of budget holders are clearly understood and embedded in performance appraisal', is being addressed (in part) by the current Budget Holder Community initiative.
- 5.10 Invoicing accuracy (credit notes issued), costs and timeliness were areas that performed below median and offer opportunities for improvement and specific action is being taken in this regard.
- 5.11 Further clarification on period end reporting closure measure may result in a more favourable result than that reported, while the timeliness of publishing of the TfL accounts was among the very best of those audited by the Audit Commission, but the opportunity for further, future improvement is currently constrained by external factors beyond TfL's control.

### **Group Property and Facilities**

- 5.12 Highlights within Group Property and Facilities (GP&F) were the costs of Occupational, Operational and Management of Head Office property. The costs of the estate management function and building operations were both approximately half of the comparator group median. This reflects the success of the accommodation strategy and efficient management of the estate. These positive trends are expected to continue as the implementation and roll-out of the accommodation strategy progresses. The above results are particularly positive given many of the comparator organisations are based outside London and do not attract the same premium.
- 5.13 A score of 10 out of 10 for the management practice index and the highest commissioner (key stakeholders or procurers) and user scores compared with their respective medians is indicative of both GP&F positive practices and general recognition of them by their key stakeholders and building occupants in the wider TfL.
- 5.14 The varied mix of TfL's current accommodation is reflected in the results for some of the lower performing indices. Again, the roll-out of the accommodation strategy should see future improvements.
- 5.15 A number of parameters, such as the rateable value component of occupancy costs and the use of gross compared with net internal area, detracted from the quality of some of the indicators and this has been fed back to the benchmarking administrating organisation.

### **Human Resources**

- 5.16 Highlights within HR are that, as a percentage of organisational running costs and also per employee, HR costs were well below the equivalent UQ benchmarks (0.7 per cent compared with 2.2 per cent and £1,842 compared with £2,810).

- 5.17 Recruitment costs per hire and retention of starters after 12 months are better than the upper quartile and equal to it respectively, while leavers as a percentage of total average staff is half the UQ figure (5.1 per cent compared with 12.9 per cent). This exemplifies the cost effective attraction of new employees and their successful retention, with generally low rates of churn among longer serving employees as well as new starters.
- 5.18 The percentage of BAME employees in the workforce was the highest of all the organisations in the comparison group exemplifying TfL's successful diversity policies in this area.
- 5.19 Areas for improvement are staff absence (running at 9.3 per cent compared with an UQ of 5.1 per cent), and recruitment time to offer which is twice the UQ (65 days compared with 33).
- 5.20 Satisfaction scores among key stakeholders or procurers were low, reflecting similar trends to the internal HR Effectiveness survey. It is expected that recent changes to the TfL HR model and revised ways of working will deliver a better service and close this real or perceived gap.

## **Procurement**

- 5.21 Highlights within Procurement were modern practices (a score of nine out of 10 on the management practice index), strong procurement governance and controls delivered in a cost effective manner, especially via e-procurement. Initiatives are in hand to extend the latter success into the e-sourcing arena.
- 5.22 Average invoice value and spend per accredited supplier were a magnitude (10 times) greater than the equivalent UQs, reflecting the strategic frameworks, pan-GLA procurement contracts and the scale of TfL's operational activities.
- 5.23 Both commissioner (key stakeholders or procurers) and user satisfaction survey results were relatively low compared with the equivalent comparator medians (3.2 compared with 3.6 and 3.1 compared with 3.5, respectively). The absence of an equivalent internal satisfaction survey may be reflected in these scores and customers' unfamiliarity with feedback being sought in this manner; further investigation is needed.
- 5.24 The cost of procurement as a percentage of organisational running costs was higher than the equivalent median. Further work is planned to understand the veracity of the data and whether a true like for like comparison is being drawn.
- 5.25 Likewise, the value of spend with small and medium enterprises remains highly variable on a year by year basis. The use of CompeteFor and flow down clauses with Tier 1 supplier contracts will seek to unlock further improvements in these areas.

## **Your IM**

- 5.26 Highlights within Your IM were the acquisition costs per workstation (£486), the number of end users per workstation (0.98) and the self-assessed IT competence of end users, which were all above the equivalent UQs.
- 5.27 The project delivery and governance index also returned an above UQ result (8.0/10 compared with 7.8/10) indicating good, effective management of project and programme delivery of technology.

- 5.28 The costs of providing support per end user and per workstation were both close to the median, at approximately £1,100.
- 5.29 Remote access (17.8 per cent compared with an UQ of 88.2 per cent) and systems unavailability (0.71 per cent compared with an UQ of 0.56 per cent) were less favourable results, although the latter indicator is currently running at 0.36 per cent, well above the UQ benchmark.
- 5.30 The number of participating organisations of > £100m turnover per annum was relatively low within the ICT activity area, so the robustness and quality of the comparators is less than the other activity areas.
- 5.31 The One London solution will continue to improve many of the above indicators as it reaches all of TfL and parts of the wider GLA family.

### **Actions and Benefits Arising**

- 5.32 A number of common actions have arisen within the Finance Directorate as a result of participating in the Value for Money (VfM) benchmarking exercise:
- (a) the type and manner of collection of key performance data, particularly those required by the VfM, have been reviewed to improve the transparency, levels of assurance, overall accuracy and like for like comparison;
  - (b) specific indicators have challenged our performance compared with other comparator organisations, leading the Finance Directorate to reflect and consider where and how it could improve;
  - (c) the opportunity for bilateral benchmarking, which is now taking place: Birmingham City Council (HR) and LFEPA (Procurement) being current examples;
  - (d) the outputs have reaffirmed the validity of the scope and focus of many of our own key improvement initiatives, including selected Operating Cost Reduction and Continuous Savings Exercise projects, as they clearly address areas where we would aspire to achieve upper quartile performance;
  - (e) the opportunity to share best practice with other organisations, and to improve the robustness of the data capture and scrutiny by the administrators of the benchmarking exercise, the latter was highlighted as lacking in some areas, as a result of our participation;
  - (f) to augment the quality of Finance inputs to other reporting requirements, such as TfL's annual assessment by the Audit Commission;
  - (g) the VfM indicators augment and complement an extensive range of pre-existing benchmarking activity carried out within the Finance Directorate. The list below indicates some, but not all, of the initiatives being undertaken which, unlike the VfM exercise, span both the private and public sector:
    - (i) Pan Government Shared Services Group and Northwest Shared Services Forum – Finance and HR Shared Services;
    - (ii) Gartner benchmarks – Your IM and Procurement;

- (iii) Chartered Institute of Purchasing and Supply CIPS Certification Standard – Procurement;
  - (iv) Office of Government Service – GP&F and Procurement;
  - (v) PwC Saratoga – HR Services;
  - (vi) Investment Property Data Bank – GP&F;
  - (vii) Pan-GLA Shared Services initiative – all activity areas; and
  - (viii) Numerous bilateral exercises – all activity areas.
- 5.33 By participating in a range of initiatives, the results and trends derived can be compared, allowing data discrepancies to be excluded and/or rectified, and a consolidated picture of the overall performance of any given activity formed.
- 5.34 The modest cost (£5,000 per annum), albeit the time and effort of collating and analysing the data is much greater, has added value by increasing the information available to TfL compared with peer public sector organisations.
- 5.35 The key opportunity remains the benefits that should arise through on-going participation and the ability to conduct year-on-year analyses, thus tracking and trending TfL's improvements. Run-rate tracking of many parameters already evidences significant improvements in the last financial year.
- 5.36 It is, therefore, the intention for all five activity areas within the Finance Directorate to participate in the forthcoming exercise, for the 2009/10 financial year.

## **6 CRIME AND DISORDER/RISK MANAGEMENT/SUSTAINABILITY/EQUALITY AND INCLUSION IMPLICATIONS**

### **Crime and Disorder**

- 6.1 The VfM indicators have no benchmarks directly relating to Crime and Disorder; the HR indicators for disciplinary action and reportable injuries are not sub-divided in a manner that affords any meaningful insight on the topic.

### **Risk Management**

- 6.2 A number of VfM indicators relate indirectly to commercial risk management within TfL (eg. financial and procurement effectiveness indicators), however, none were identified as being poor performing to a degree that warrants specific mention as a material risk.

### **Sustainability**

- 6.3 The performance indicators within GP&F included measures for electricity and water consumption. The former was slightly above median (reflecting the operational aspects of TfL), while the latter was an upper quartile performance.

### **Equalities and Inclusion**

- 6.4 The percentage of black and ethnic minority employees (BAME) in the workforce was the highest among all > £100m turnover per annum comparators, exemplifying the true diversity of the TfL workforce.

- 6.5 The percentage of the workforce aged over 50 was just below the median (24 per cent compared with 26 per cent).
- 6.6 The percentage of employees considering themselves to have a disability is midway between the lower quartile and the median (3.0 per cent compared with 2.1 per cent and 4.5 per cent, respectively). This result is lower than the actual percentage, as many staff with known disabilities choose not to declare this information on their HR record.
- 6.7 The percentage of women in leadership positions is below median (25 per cent compared with 35 per cent), but the accuracy of this output, in terms of how a leadership position is defined, is being reviewed (in advance of the next benchmarking exercise).
- 6.8 The percentage of buildings which are used by the public in which all public areas are suitable for, and accessible to, disabled people is reported as 100 per cent by TfL and all but one comparator organisation. The definition and data for this indicator is of questionable validity due to the small number of responses (seven) available.

## **7 HEALTH AND SAFETY**

- 7.1 The only health and safety parameter in the suite of indicators is within HR, that for reportable injuries per 1,000 employees (RIDDORs). The result for TfL was the highest across all comparators, > £100m turnover per annum, at 90 compared with a lower quartile of 4.6. This parameter is indicative of the hazards associated with operating the capital's transport infrastructure and services, and therefore is somewhat unique compared to comparator organisations.

## **8 RECOMMENDATION**

- 8.1 The Finance and Policy Committee is asked to NOTE the report.

## **9 CONTACT**

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FINANCE Indicators			
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<b>What we do well</b>			
Indicators	TfL	CIPFA median	CIPFA UQ/LQ
Transactional processing costs as a % of finance function costs	4.0%	28.0%	22.0%
Costs of accounts payable per invoice processed	£2.68	£10.05	£4.71
Payroll administration costs per employee paid	£28.61	£78.23	£53.39
Management Practice	TfL	CIPFA median	CIPFA UQ/LQ
Number of Management Practice Indicators in place	8	6	7

<b>Where we could improve</b>			
Indicators	TfL	CIPFA median	CIPFA UQ/LQ
Cost of customer Invoicing function per invoice processed	£20.80	£18.16	£8.47
Credit notes as a % total of customer invoices raised	7.1%	5.4%	2.1%
% payments made by electronic means	90.7%	97.4%	98.7%
% invoices paid within 30 days or agreed terms	91.9%	95.0%	98.6%
Days from Period close to routine financial reports available	18	8	5
Commissioner and User Surveys	TfL	CIPFA median	CIPFA UQ/LQ
Commissioner Satisfaction	3.2%	3.4%	3.8%
User Satisfaction	3.0%	3.5%	3.7%

GROUP PROPERTY AND FACILITIES Indicators*			
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<b>What we do well</b>			
Indicators (£s/m2/GIA)	TfL	CIPFA median	CIPFA UQ/LQ
Head Office Property Costs - Occupational, Operational, Management	£344.00	£423.00	£313.00
Costs of Estates Management Function	£15.17	£15.17	£5.96
Property Occupancy/Ownership costs (Rent/Rates)	£243.00	£253.00	£184.00
Building Operations Costs (ie. Utilities & Maintenance etc.)	£86.00	£171.00	£106.00
Head Office energy consumption (annual Kwh per m2)	277	277	236
Management Practice	TfL	CIPFA median	CIPFA UQ/LQ
Number of Management Practice Indicators in place	10	9	10

<b>Where we could improve</b>			
Indicators	TfL	CIPFA median	CIPFA UQ/LQ
TfL Head Office space usage (GIA/m2 per workstation)	15.8	14.3	12.6
Commissioner and User Surveys	TfL	CIPFA median	CIPFA UQ/LQ
Commissioner Satisfaction	3.6%	3.6%	3.7%
User Satisfaction	3.8%	3.9%	4.0%

\*Data derived from comparator organisations based in the Greater London area

## HUMAN RESOURCES Indicators

### What we do well

Indicators	TfL	CIPFA median	CIPFA UQ/LQ
HR costs as % organisational running cost	0.7%	1.0%	2.2%
HR cost per employee	£1,842	£2,189	£2,810
Ratio of employees to HR staff	54	41	49
Cost of recruitment per employee	£3,034	£3,300	£5,618
Leavers as a % of average total staff	5.1%	9.8%	12.9%
% of starters still in post after 12 months service	92.0%	87.0%	92.0%
% of BAME employees in workforce	31.6%	9.8%	16.6%
Management Practice	TfL	CIPFA median	CIPFA UQ/LQ
Number of Management Practice Indicators in place	8	7	8

### Where we could improve

Indicators	TfL	CIPFA median	CIPFA UQ/LQ
Average working days per FTE lost through sickness absence	9.3%	7.1%	5.1%
Recruitment time to offer	65	39	33
RIDDORs per 1,000 employees	90	2	0
% staff receiving face to face appraisal	77.0%	100.0%	100.0%
% leadership positions occupied by women	25.0%	35.0%	40.0%
Commissioner and User Surveys	TfL	CIPFA median	CIPFA UQ/LQ
Commissioner Satisfaction	3.0%	3.6%	4.0%
User Satisfaction	3.7%	3.9%	4.0%

## PROCUREMENT Indicators

### What we do well

Indicators	TfL	CIPFA median	CIPFA UQ/LQ
Spend committed against pre-established contract arrangements	100.0%	78.3%	88.0%
Non-pay spend which is actively managed by procurement	78.4%	74.0%	85.0%
Cost of procurement as % of non-pay expenditure	0.5%	0.4%	0.3%
Average invoice value	£25,000	£4,711	£9,130
Average spend per accredited supplier	£740,028	£36,921	£132,423
Total 3rd party spend by top 20% of suppliers	94.0%	89.0%	95.0%
Total 3rd party spend managed through e-purchasing	100.0%	30.7%	68.6%
Management Practice	TfL	CIPFA median	CIPFA UQ/LQ
Number of Management Practice Indicators in place	9	6	8

### Where we could improve

Indicators	TfL	CIPFA median	CIPFA UQ/LQ
Cost of procurement as % of non-pay expenditure	0.5%	0.4%	0.3%
Cost of procurement as % of organisational running costs	0.31%	0.13%	0.06%
Value of spend with SMEs	6.7%	16.8%	32.8%
Commissioner and User Surveys	TfL	CIPFA median	CIPFA UQ/LQ
Commissioner Satisfaction	3.2%	3.4%	3.9%
User Satisfaction	3.1%	3.6%	3.8%

## YOUR IM Indicators

### What we do well

Indicators	TfL	CIPFA median	CIPFA UQ/LQ
Cost of providing support per end user	£1,139	£1,239	£490
Acquisition costs per workstation	£486	£790	£583
ICT Competence of end user	28.36	24.65	28.19
Project governance and delivery index	8.0	7.1	7.8
Management Practice	TfL	CIPFA median	CIPFA UQ/LQ
Number of Management Practice Indicators in place	8	6	8

### Where we could improve

Indicators	TfL	CIPFA median	CIPFA UQ/LQ
Cost of ICT as % of organisational running costs	4.0%	1.6%	0.6%
Remote access	17.8%	54.0%	88.2%
Unavailability of ICT to end users	0.71%	0.37%	0.19%
Commissioner and User Surveys	TfL	CIPFA median	CIPFA UQ/LQ
Commissioner Satisfaction	2.8%	3.7%	4.0%
User Satisfaction	2.9%	4.0%	4.1%