

**TRANSPORT FOR LONDON**

**AUDIT COMMITTEE**

**SUBJECT: USE OF RESOURCES 2009**

**DATE: 29 SEPTEMBER 2009**

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**1 PURPOSE AND DECISION REQUIRED**

1.1 The purpose of this paper is to inform the Committee of the work of KPMG in respect of TfL's Use of Resources, on behalf of the Audit Commission.

**2 BACKGROUND**

2.1 TfL, alongside all Local Authority entities in England and Wales is subject to annual scrutiny by the Audit Commission. In the case of TfL, this assessment comprises 2 parts; Use of Resources work and the Managing Performance Themes exercise. The former is an audit by KPMG while the latter is carried out by the Commission itself and is substantially based on interviews with key TfL staff. Both are scored, and the results subject to a national moderation exercise by the Audit Commission to ensure consistency of assessment of all participating bodies.

2.2 This year, the Audit Commission introduced a new more challenging framework for the Use of Resources work to assess better how well organisations are delivering value for money and providing better outcomes for the public. It focuses on the importance of having sound and strategic financial management to ensure that resources are available to support priorities and improve services.

2.3 The questions on which the judgements are based are broad and strategic in their nature and reflect the impact of financial arrangements as well as the adequacy of those arrangements. The assessment has 3 themes, characterised as Key Lines Of Enquiry (KLOE) covering:

- KLOE 1: Managing finances – focusing on sound and strategic financial management;
- KLOE 2: Governing the business – focusing on strategic commissioning and good governance;
- KLOE 3: Managing resources – focusing on the effective management of natural resources and assets.

- 2.4 The attached report highlights the findings in respect of the Use of Resources work. The main points that support the awarded scores are set out but because the Audit Commission will only conclude the assessment and review process in late November, an assessment of what TfL should have done to obtain scores of 4 where it failed to do so will only become available then.

### **3 OUTCOMES**

- 3.1 As a consequence of this year's Use of Resources process being more demanding, many fewer scores of 4 have been awarded compared to last year. It appears that, generally speaking, where a score of 4 was awarded last year, a similar level of performance now receives a score of 3.
- 3.2 TfL has achieved 3 scores of '4' (in the three areas of Financial planning, Understanding costs and achieving efficiencies and Commissioning and procurement) and 6 scores of '3', the breakdown being as follows:

KLOE 1, Managing finances: 4

- Financial planning: 4
- Understanding costs and achieving efficiencies: 4
- Financial reporting: 3

KLOE 2, Governing the business: 3

- Commissioning and procurement: 4
- Data Quality and Use of Information: 3
- Good Governance: 3
- Risk Management and internal control: 3

KLOE 3, Managing resources: 3:

- Use of Natural Resources: 3
- Strategic Asset Management: 3

### **4 CONCLUSION**

- 4.1 Although comparator results are not yet publicly available, it is likely that these results will put TfL amongst the most highly performing authorities.

## **5 RECOMMENDATION**

- 5.1 The Audit Committee is asked to NOTE the report. The overall assessment scores for the Use of Resources and the scores for the Managing Performance Themes exercises will both be confirmed by the Audit Commission by 19 October 2009.

## **6 CONTACT**

- 6.1 Contact: Stephen Critchley, Chief Finance Officer  
Email: [StephenCritchley@tfl.gov.uk](mailto:StephenCritchley@tfl.gov.uk)  
Phone: 020 7126 4871



INFRASTRUCTURE,  
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## **Use of Resources 2009**

Transport for London  
September 2009 - DRAFT

AUDIT

The contacts at KPMG in connection with this report are:

**June Awty**  
Partner  
KPMG LLP (UK)

Tel: 0207 311 1769  
Fax: 0207 311 4121  
[june.awty@kpmg.co.uk](mailto:june.awty@kpmg.co.uk)

**Ross Tudor**  
Senior Manager  
KPMG LLP (UK)

Tel: 020 7311 1542  
Fax: 023 7311 4121  
[ross.tudor@kpmg.co.uk](mailto:ross.tudor@kpmg.co.uk)

**Marion Follis**  
Manager  
KPMG LLP (UK)

Tel: 020 7311 6535  
Fax: 023 7311 4121  
[marion.follis@kpmg.co.uk](mailto:marion.follis@kpmg.co.uk)

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External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

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## Executive summary

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### Scope of this report

This report sets out our findings in relation to the Use of Resources work carried out in 2009.

### Summary of findings

#### *Use of Resources*

TfL is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and regularly reviewing their adequacy and effectiveness.

We are required to conclude whether TfL has adequate arrangements in place to ensure effective use of its resources. This assessment draws on the findings from the new use of resources assessment framework introduced by the Audit Commission.

The new use of resources framework assesses local authorities against three themes: managing finances, governing the business and managing resources. TfL has been assessed as performing strongly for managing finances (score of level 4) and performing well for governing the business and managing resources (scores of 3).

The overall assessment score will be notified to TfL by the Audit Commission by 19 October 2009.

Based on this, we concluded that TfL has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

This report summarises the scores for each of the Key Lines of Enquiry ('KLOE') and the impact of arrangements in place within TfL on performance, as evidenced by quantifiable outcomes and achievements. Under the previous assessment regime, the Audit Commission specified detailed criteria which needed to be demonstrated for each score level on each KLOE. In the current year, the Commission provided some guidance on the evidence which might support level 2 and level 3 performance, but not detailed criteria.

The Commission reported in July, following a local area challenge process carried out after submission of indicative scores, that the profile of overall scores for councils was lower in comparison with the final scores for the last year of the previous UoR assessment. The Commission noted that this was consistent with their expectations, as the new assessment is more demanding, with the KLOE more broadly based than previously and with the focus on outcomes.

We have not, at this stage, included recommendations as to action which could be taken by TfL to improve performance in areas judged to be level 3 performance to achieve level 4. Once the Audit Commission concludes the assessment and review process (by 26 November), we will have access to evidence which supports scores at level 4 for other authorities through the Commission's Knowledge Network. We will review this evidence, assess in the context of TfL's activities and performance, and prepare recommendations for TfL to consider in respect of those areas assessed as level 3.

### Acknowledgements

We would like to take this opportunity to thank officers for their continuing help and co-operation throughout our audit work.

## Use of resources (subject to review process)

**We must satisfy ourselves that you have proper arrangements in place to secure economy, efficiency and effectiveness in your use of resources.**

**The new framework assesses TfL against three themes: managing finances, governing the business and managing resources.**

**Based on this assessment, we concluded that TfL has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.**

### Introduction

In our *Annual Audit and Inspection Plan 2008/09* we outlined the work streams which we complete to assess the adequacy of your arrangements which ensure that your resources are deployed effectively. Our conclusion is based on these work streams and our cumulative audit knowledge, as detailed below.

### The new use of resources assessment

The Audit Commission introduced a new assessment framework this year. This assesses how well organisations are delivering value for money and providing better sustainable outcomes for local people. This new assessment forms part of the Comprehensive Area Assessment (CAA) framework. It defines use of resources in a broader way than previously, embracing the use of natural, physical and human resources. It also places a new emphasis on commissioning services for local people. This is wider than the previous assessment which focused on systems and processes. As a consequence it is not possible to make direct comparisons with the previous year's assessment.

The assessment is based on three Key Lines of Enquiry (KLOEs) themes which cover:

- **Managing finances** - focusing on sound and strategic financial management;
- **Governing the business** - focusing on strategic commissioning and good governance; and
- **Managing resources** - focusing on the effective management of natural resources, assets and people.

The scoring of the themes ranges from one (performing inadequately) to four (performing exceptionally).

### Findings

The table below shows our Use of Resources assessment across the three themes.

KLOE	Theme Score
1 – Managing finances	4
2 – Governing the business	3
3 – Managing resources	3

The scores have been quality checked by KPMG's national quality control processes, through a local area based challenge process and nationally by the Audit Commission to ensure consistency in scoring across all authorities.

### Use of resources (value for money) conclusion

We are required to give an annual conclusion on the adequacy of TfL's arrangements to ensure effective use of its resources.

For 2008/09, the KLOEs for the scored use of resources assessment directly map to the criteria for the VFM conclusion. The Audit Commission has specified which of the KLOEs will form the relevant criteria for the VFM conclusion and these are summarised in Appendix 2.

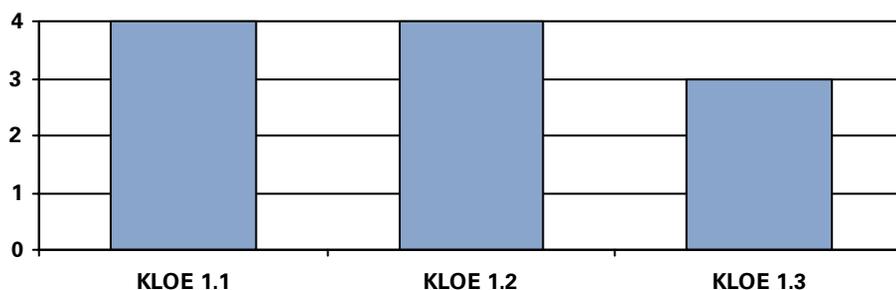
Based on our use of resources assessment and cumulative audit knowledge, we concluded that TfL has appropriate arrangements in place to ensure the effective use of its resources and issued an unqualified value for money opinion on 31 July 2009 alongside our opinion on the financial statements.

## Appendix 1: Use of resources key findings

This appendix summarises key messages from the use of resources assessment by theme.

### KLOE 1 – Managing finances: overall score 4

The scores by sub KLOE are summarised in the graph below:



TfL has scored at or above level 3 for all criteria and has met the requirements for an unqualified VFM conclusion.

#### KLOE 1.1 – Financial planning

- ✓ TfL has a business plan to 2017/18 to which the 2008/09 budget was fully linked. The plan is monitored by the Finance Committee to ensure that it is up to date and scenario planning is performed to consider emerging risks, such as potential decline in revenue from fares as a result of the economic downturn and take mitigating action
- ✓ The capital programme is linked to the long term financial plan and TfL’s main priorities. It supports service improvements, including development of Crossrail and transforming the underground, two of TfL’s key priorities
- ✓ TfL actively consults on its projects and on its Business Plan. For example, consultation has been taking place in recent years with local councils, organisations, residents and businesses on Crossrail
- ✓ The Finance Committee and the Board monitor performance against budget and TfL has historically exceeded its savings plans

#### KLOE 1.2 – Understanding costs and achieving efficiencies

- ✓ TfL’s Business Plan is dependent on achieving £2.4bn of efficiency savings under the Operating Cost Reduction Programme. TfL commissioned an independent review to comment on the achievability of the cost savings targets and recommendations were made to enhance successful delivery of the programme
- ✓ Analysis of whole life costs and benefits are factored into TfL’s Business Case Development Manual used to guide project appraisals. Business cases are robustly assessed through the Corporate Gateway Approval Process which is centred on ensuring the realisation of forecast benefits
- ✓ TfL also makes extensive use of benchmarking, for example, against other city metro systems

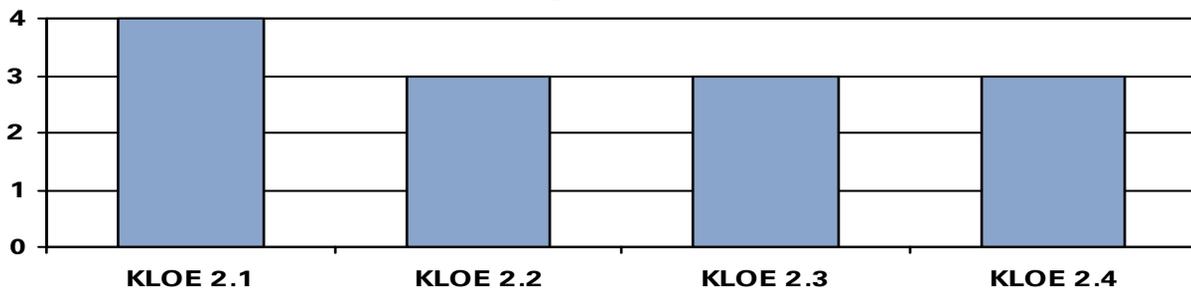
#### KLOE 1.3 – Financial reporting

- ✓ Monitoring through the year is done via Business Management Reviews (BMRs), the Barometer, and the Quarterly Finance reports presented to both the Finance Committee and the Board.
- ✓ The BMRs include variance analysis of actual performance against budget and are ‘traffic light’ coded. If necessary, specific action plans are produced for red rated risks. The BMRs also include performance against planned Cost Improvement Plans and efficiency gains
- ✓ The Finance Committee reports to each Board meeting and liaises with Advisory Panels. The standing items on regular Finance Committee agendas cover operational and financial results, the investment programme, operating cost reduction and treasury management
- ✓ A challenging timetable was set for the production of a large and complex consolidation exercise in the preparation of the annual group accounts, and this was achieved. Group accounts were approved by the Board on 28 June 2009
- ✓ Only minor amendments to disclosure and presentational issues in the draft accounts were identified. No material errors, omissions or misstatements were identified and there were no unadjusted differences to report to the Audit Committee

# Appendix 1: Use of resources key findings (continued)

## KLOE 2 – Governing the business: overall score 3

The scores by sub KLOE are summarised in the graph below:



TfL has scored at or above level 3 for all criteria and has met the requirements for an unqualified VFM conclusion.

### KLOE 2.1 – Commissioning and procurement

- ✓ TfL’s procurement policies, processes and procedures across five of its procurement departments have been accredited by the Chartered Institute of Purchasing Supply and have been identified as leaders in the fields of Supplier Relationship Management and Responsible Procurement
- ✓ TfL has made extensive use of IT to improve customer experience. For example, it plans to expand use of the Oyster to National Rail, has introduced the OnePulse initiative with Barclaycard and introduced the Countdown and iBus systems across the bus network to provide a step-change in the quality of travel information available to passengers
- ✓ TfL has also been developing a number of technologies with ‘innovation partners’ to ensure that a supply market exists to support initiatives. TfL is trialling technology for future supply of low carbon technologies for taxis. The trial seeks to demonstrate proof of concept and will help stimulate production of these vehicles and their technology

### KLOE 2.2 – Data quality and use of information

- ✓ A revised framework for data quality was implemented towards the end of the year, along with a revised strategy. The new approach is risk based and underpins the entire data quality process. KPIs have been selected which are business critical to the organisation
- ✓ The format and presentation of information to decision makers is kept under review, with, for example, the format of reports to the Finance Committee being tailored to members’ requirements
- ✓ The Information Security Policy and the Information Management Security Standard supports the safe collection and storage of data

### KLOE 2.3 – Good governance

- ✓ With the appointment of the new Mayor in May 2008, there was a change in the members of TfL’s Board; an extensive induction exercise for new Members was carried out
- ✓ A review of Committees and Panels was commissioned by the Board during 2008/09. This resulted in a number of changes, including a restriction of Panel membership to TfL Board members and a revision of the reporting structure of the Panels
- ✓ TfL has an appropriate ethical framework in place and this includes Codes of Conduct for Members and staff. A register of gifts, interests and hospitality is maintained for all members and senior staff, and this is published on TfL’s website. TfL also has effective procedures for complaints and whistle blowing and rigorous investigation procedures

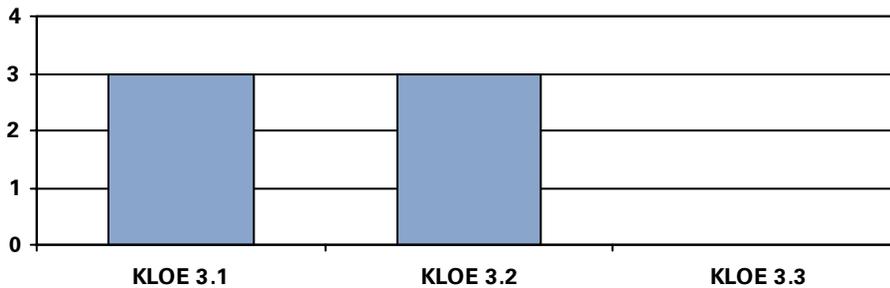
### KLOE 2.4 – Risk management and internal control

- ✓ Risk management arrangements have continued to be developed. TfL has now defined its overall risk appetite and this has led to, for example, a reduced level of risk being accepted around treasury investment decisions. It has worked effectively with partners to manage risks, for example, working with the ODA and other partners in respect of the 2012 Olympics
- ✓ TfL has an up to date counter fraud strategy which has been approved by the Board and there are many examples of joint working and sharing of intelligence. For example TfL participates fully in the NFI, and achieves a high rate of prosecution in cases of proven fraud
- ✓ TfL has worked to ensure a consistent control environment exists across the enlarged TfL group, and internal audit has appropriately focussed on new entities in recent months

## Appendix 1: Use of resources key findings (continued)

### KLOE 3 – Managing resources: overall score 3

The scores by sub KLOE are summarised in the graph below:



As TfL has scored at or above level 2 for all criteria, it has met the requirements for an unqualified VFM conclusion.

#### KLOE 3.1 – Use of natural resources

- ✓ TfL reports publicly on its progress with environmental impacts outlined in an annual Environmental Report
- ✓ Tackling climate change and enhancing the environment are part of TfL’s strategic goals. TfL is investing in programmes that deliver environmental sustainability across the transport network through cutting CO2 emissions, improving fuel and energy efficiency and better management of waste and water
- ✓ For example, there has been a 5% fall in car usership in London since TfL’s creation in 2000, aided by TfL promoting Congestion Charging, public transport use and walking and cycling. TfL also continues to pilot new technology for low emission buses, with particulate emissions from the bus fleet reduced by approximately 90% since the replacement of older buses and particulate filters being fitted to all vehicles. Hybrid buses are in the process of being introduced with approximately 60 trial vehicles in use as at March 2009 and 300 anticipated by 2012
- ✓ TfL ensures that its procurement processes deliver sustainability through accreditation and assessment from industry standards programmes .

#### KLOE 3.2 – Strategic asset management

- ✓ TfL has further strengthened its strategic approach to asset management with the adoption of PAS-55 Standard for Asset Management. It is designed to produce asset management strategies and plans, as well as condition assessments and to aid understanding of the risk of failing to invest in a timely manner
- ✓ The views of service users and communities inform reviews of the asset base, to create customer-focused levels of service for carriageways and footways.
- ✓ TfL commissioned a benchmark review of Group Property and Facilities to allow an objective assessment of performance and costs to be made
- ✓ TfL has a formal process for the review of schemes and works submitted by London boroughs, involving co-ordination of works by all promoters, including TfL and utility companies

#### KLOE 3.3 – Workforce planning

- Not applicable to TfL for 2008-09

## Appendix 2: Use of resources criteria and link to VFM conclusion

The Audit Commission has specified which of the use of resources KLOEs form the criteria for the VFM conclusion. These criteria are summarised below.

Use of resources KLOE	Relevance to TfL
<b>Managing finances</b>	
1.1 – Financial planning	✓
1.2 – Understanding costs and achieving efficiencies	✓
1.3 – Financial reporting	✓
<b>Governing the business</b>	
2.1 – Commissioning and procurement	✓
2.2 – Data quality and use of information	✓
2.3 – Good governance	✓
2.4 – Risk management and internal control	✓
<b>Managing resources</b>	
3.1 – Use of natural resources	✓
3.2 – Strategic asset management	✓
3.3 – Workforce planning	X