

**Date:** 20 July 2022

**Item:** Review of Progress on Value for Money

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**This paper will be considered in public**

**1 Summary**

1.1 This paper sets out an update on our progress to date in developing a comprehensive Value for Money (VfM) programme, designed to complement the extensive cost-saving efforts of the business to achieve financial sustainability by 2023/24. This update is focused on improvements in ‘effectiveness’ – one of the main areas of focus recommended by the Independent Investment Programme Advisory Group (IIPAG) in September 2021.

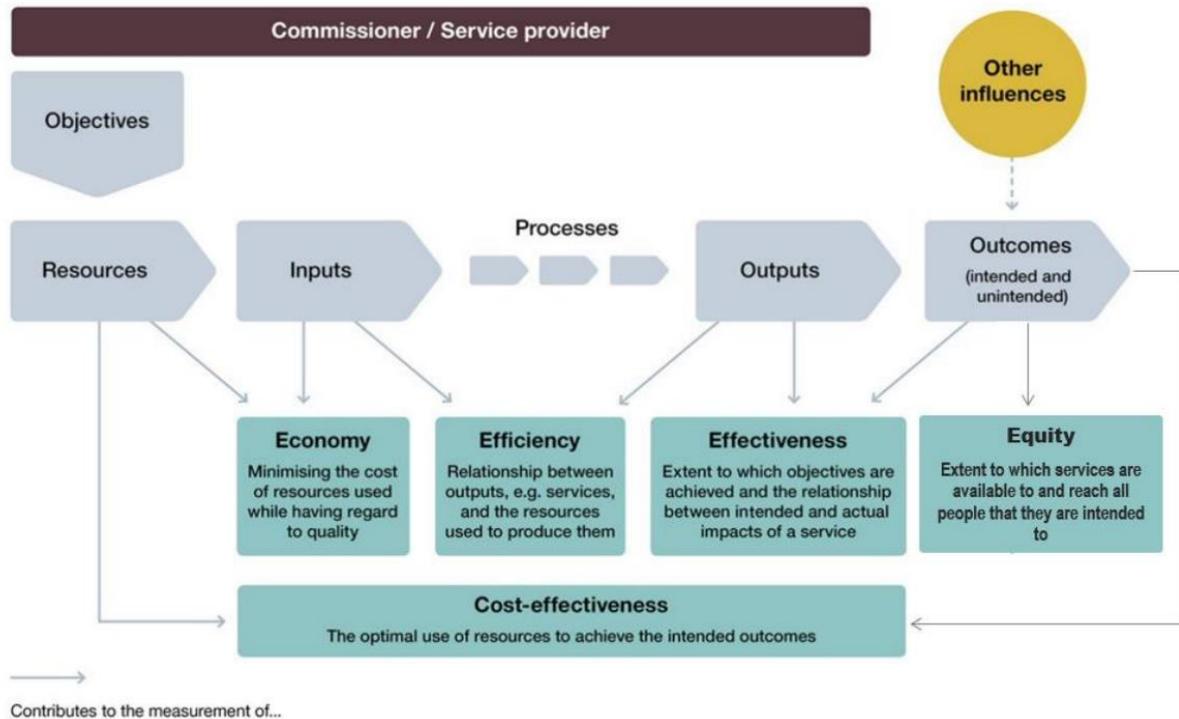
**2 Recommendations**

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

**3 Background**

3.1 TfL’s VfM framework was established in December 2020 based on principles set down by the National Audit Office (NAO) and consists of four elements (four E’s):

- (a) **Economy:** minimising the cost of resources used or required (inputs) – spending less;
- (b) **Efficiency:** the relationship between the output from goods or services and the resources to produce them – spending well;
- (c) **Effectiveness:** the relationship between the intended and actual results of public spending (outcomes) – spending wisely; and
- (d) **Equity:** the extent to which services are available to and reach all people that they are intended to – spending fairly. Some people may receive differing levels of service for reasons other than differences in their levels of need.



**Figure 1: TfL VfM Framework (based on NAO Toolkit)**

3.2 In October 2020, IIPAG conducted a review of our organisational approach to VfM and in September 2021 IIPAG produced a report which provided an external view on our progress to date. An update from TfL was subsequently provided to the Committee in October 2021.

## 4 'Economy' – spending less

4.1 Since the coronavirus pandemic has decimated fare revenue, 'Economy' has been of utmost significance in ensuring we can deliver a balanced budget for 2022/23. In the Financial Sustainability Plan, which TfL produced as a requirement of the funding agreement signed on 31 October 2020, TfL committed to delivering recurring operating cost savings totalling up to £730m between 2019/20 and 2024/25. The cost reduction programme continues across all areas of TfL as it supports the development of a modern, efficient, high-performing organisation. 2022/23 will be the seventh year of the cost reduction programme and will mean TfL has made recurring savings (before inflation and other cost pressures) of around £1,148m by the end of March 2022. This includes a forecast increase in recurring savings of £60.8m in 2021/22.

4.2 To enable TfL to reach a financially sustainable future in light of depressed revenue and uncertainty regarding Government funding, TfL has also substantially reduced the level of capital expenditure proposed for 2022/23, compared to the 2021/22 budget, as we move to a 'managed decline' scenario consequent to funding negotiations with the government. For the years 2023/24 and 2024/25, TfL anticipates being able to balance the budget through the new revenue sources provided by the Mayor, as required by the

Government, but requires significant reductions in capital investment and service levels which will impact the outcomes that TfL can deliver. TfL will continue to develop its financial plans, informed by continued funding discussions with the Government.

- 4.3 Operational savings are being achieved through several programmes. For example, we are consulting on proposals for extensive changes to the central London bus network between 1 June and 7 August 2022. Our plan to achieve the savings required by the Government includes a four per cent reduction in bus kilometres. Bus demand has declined on some routes into central London since 2014. We focused our review on these routes where demand has fallen and where roads are covered by other high-frequency services or are close to alternative stops. The proposed changes being consulted on are designed to meet the savings required by Government, whilst causing as little disruption to passengers as possible and ensuring buses continue to serve areas that need them the most. TfL assesses value for money when considering service changes. Where there are reductions, we calculate the disbenefit to cost saving ratio (rather than benefit to cost ratio).
- 4.4 Other operational savings are being realised through our Procurement and Commercial transformation programme which will also bring wider supply chain savings across the organisation once completed. Further savings aim to be achieved with the roll out of TfL's new Enterprise Resource Planning tool which will make our processes easier, simpler, and better from beginning to end, as well as standardising our processes.
- 4.5 Delivering a cost effective and efficient capital investment programme has been a continued priority for the organisation. This focus predates the coronavirus pandemic when the removal of TfL's operating grant required us to deliver more for less. The collapse in fare revenue over the past two years following the onset of the pandemic has only exacerbated this requirement.

## 5 'Efficiency' – spending well

- 5.1 Since the update provided to the Committee in October 2021, the financial impact of reduced fare revenue, and the absence of long-term funding certainty have continued to mean most of our activity has centred on affordability rather than long term value for money. Organisational effort has focused on the Capital Efficiency Plan (developed in June 2021, as committed to in the Financial Sustainability Plan, January 2021) and the immediate necessity of reducing spend as far as practicable. Progress on this was charted in our update to the Committee in May 2022. This report recognised the challenge of delivering true value for money in an environment of funding uncertainty. This manifests itself in two main ways:
  - (a) **Long term planning:** It is recognised that certainty in planning and funding creates an environment conducive to efficient investment. The DfT's 2013 paper 'Action on Roads' stated, "Certainty will enable savings of up to 20 per cent on maintenance and improvement work", while 2018 research by the Railways Industry Association stated that 'boom & bust' work profiles cause a 30 per cent increase in the cost of infrastructure.

The Government has acknowledged that the funding certainty afforded to other transport infrastructure operators such as Network Rail and National Highways can enable savings of some 10 to 15 per cent on maintenance and improvement work; and

- (b) **Impact of project / scope reductions:** If TfL has to reduce its forecast capital expenditure then it will limit how much efficiency can be delivered. In the simplest terms, the same percentage efficiency will deliver a lower financial saving if the capital programme is smaller. However, the impact is likely to be greater than that. Efficiencies will disproportionately target expenditure that is less committed or at an early stage of the lifecycle, as this is where the opportunity lies. However, these are also the areas of the capital programme that are more likely to be removed or de-scoped due an overall reduction in capital funding.

5.2 While the aforementioned Capital Efficiency Plan has naturally focussed on economy and efficiency, work on improving our effectiveness and an equitable approach has continued as far as possible. Understandably many initiatives to improve VfM will address more than one of the four 'E's', however the bulk of this paper will look at measures specifically designed to improve the relationship between the intended and the actual benefits of projects (effectiveness), and how we can achieve equitable outcomes (equity). Further detail of this is provided below.

## 6 'Effectiveness' – Spending wisely

6.1 Business cases are the key component in decision making. Ensuring our business cases accurately and comprehensively capture the advantages and disadvantages of investment, including quantifying the anticipated benefits, is central to improving effectiveness. Improvements over the past year have been made in various areas, including:

- (a) **Capability.** A business case learning hub has been set up to improve the clarity and navigation to all the resources available. Video recordings of training sessions are permanently available, so users can readily access either the entire course or individual sections to refresh their knowledge. More topic-focussed mini guides have been set up including Greenhouse Gases and Portfolio case making to ensure the latest guidance is being followed;
- (b) **Legibility.** A business case dashboard has been released to summarise key information and metrics, this is being incorporated into new business case templates and will be included in all authority papers. This will strengthen the link between decision making and the business case, giving senior leaders visibility in a valuable summarised form. New low value/complexity business case templates have already been released and the high value/complexity equivalents are at an advanced stage of preparation; and
- (c) **Maturing quantification.** Enhanced benchmarking, forecasting and valuation of key economic, environmental, and social impacts continues. This includes carbon emissions, new development dependent on

transport investment, and the health and well-being benefits of increased active travel. On the latter, a specific workstream has been established with the Department for Transport and other industry partners to develop the quantification of active travel impacts.

- 6.2 Pathway Stage Gates are the mechanism whereby projects/programmes are scrutinised at key decision points throughout the project lifecycle. Ensuring that the decisions taken at these Stage Gates are as robust as possible will enable us to have confidence in the right projects being progressed, with the right level of maturity in anticipated costs and benefits. Recent improvements to the process by which the Stage Gates operate have included:
- (a) Simplification. The previous Stage Gate certificate required up to 40 questions to be addressed at a review meeting, which was often time consuming and did not lead to a focussed discussion of the key issues. A new process has been developed to ensure as much work as possible is conducted in advance of the review meeting, so that a targeted discussion of the pertinent issues can occur, leading to more effective decision making;
  - (b) VfM checklist. To continue to embed the VfM culture, and ensure it is considered during key decisions, we have introduced a mandatory VfM checklist at Stage Gates. The VfM assessment prompts you to consider a series of questions, focusing on best practice areas, such as lessons learned, Modern Methods of Construction and optioneering which if followed should help demonstrate a value for money approach. These assessments have been used at project, programme, and portfolio level, including being completed post construction (at Stage Gate six) to look back on what has been achieved; and
  - (c) Gate quoracy. For robust decisions to be made at Stage Gates with input from all relevant areas of expertise and appropriate seniority, a consistent framework has been developed which outlines who should be quorate during a Stage Gate meeting, depending on the lifecycle stage and level of complexity. This enables a scalable approach to scrutiny from senior management and provides greater visibility of those most complex projects with challenging decision making.

### **Are we achieving the right outcomes?**

- 6.3 The success of any project should be measured by whether the anticipated benefits have been realised and if any additional benefits have been realised. Historically, we have not systematically captured benefit data post-completion for all the investment programmes. Additionally, benefits can typically only be measured after several years of operation, once new capabilities and processes have fully bedded-in, so maintaining organisational focus for this long after completion can be difficult. Although some areas have achieved this, we recognise the need for a more robust process to consistently measure the impact of our investment choices. To this end, several activities are underway:

- (a) Introduction of a new Pathway Stage. Historically, projects are closed at Stage Gate 6 (project close), following full financial closure. However, there are several activities that remain to be completed focusing on benefits realisation, organisational lessons learnt and continuous improvement. Although there are some examples of these activities taking place it is often in an uncoordinated environment with little support and engagement from across the business. In response to this, a new Pathway Stage (Stage Seven) has been developed, which focuses on post-implementation and has been designed specifically to encourage activities to be undertaken whilst their value remains high. The new stage has been trialled on several projects and is ready to be implemented once organisational design changes have been embedded and responsibilities agreed;
- (b) Portfolio benefit plans. Assessment of the collective impacts our investments are expected to have is advancing. Preparation of portfolio and programme-wide business cases is more frequently encouraged, and a key objective for the sponsorship function this year is to reinvigorate our portfolio benefits management strategies. This is aiding understanding of what different investments offer, individually, and in combination; and
- (c) Specific benefit realisation activities. Over the past six months several significant projects have achieved key completion milestones. These include Crossrail, Northern Line Extension, and Bank Capacity Upgrade Project. Monitoring and evaluating their operation, and economic, environmental, and social effects is crucial to understanding whether they have delivered what we expected, and for learning lessons for future investment. Bespoke Benefit Management Strategies, and the monitoring and evaluation activities they detail are being acted upon. Updates on each, alongside other key projects and programmes will be brought to the Committee in due course.

6.4 While TfL strategic objectives are set out in the Mayor's Transport Strategy, it is often difficult to translate the strategic objectives through to individual project benefits, and particularly to prioritise between different investment choices to ensure we are delivering the most effective mix of projects to progress our targets and commitments. This missing link between strategic objectives, tactical priorities, and the contribution of different investment approaches to each is now supported by a 'Strategic Outcome Framework' (SOF).

6.5 The SOF is a method of scoring the order of magnitude contribution that different projects are expected to make against a range of 15 strategic objectives. Scores are assigned based on a high-level quantification of impact as much as possible. It also captures other information used to inform prioritisation, such as deliverability, contractual commitments, affordability, and value for money.

6.6 This framework was used for the first time to help inform the 22/23 budget setting process for enhancement projects and will be refined further ahead of business planning in summer 2022. Among the useful things that the SOF offers are an at-a-glance view of the benefits and disbenefits of different initiatives against a consistent set of outcomes using a common scale and a view on the value contribution of different types of investment make to different outcomes.

## 7 'Equity' – Spending fairly

7.1 One of the key differences between the NAO VfM framework and TfL's is that 'equity' has been given greater prominence and defined as the 4<sup>th</sup> pillar. This reflects the role that TfL can play in addressing disparity across London, and the focus we want to have on specific equity workstreams.

7.2 **Measurement.** While it is clear that programmes like Step-Free Access have clear and distinct accessibility benefits, it is less clear how the totality of our investment programmes is addressing some of the more macro-level inequalities across London. By developing more holistic measurement tools that better capture improvements to transport for diverse communities, we hope to be able to better inform future prioritisation exercises. In tandem, we are using data on diversity and inclusion to inform investment priorities, ensuring schemes are targeted at locations where they will have the greatest benefits on tackling inequalities. We are taking steps to identify data gaps and disaggregate data where possible to enable better analysis and more equitable decision-making.

7.3 **Inclusive design:** We have developed a new Inclusive Design Programme to make it more explicit how we will embed the process of inclusive design within the organisation so that we create a network which serves everyone. We aim to adopt and integrate an inclusive design approach to transport, which will help to create better environments for the greatest number of people.

7.4 Our principles for creating an inclusive design are that design:

- (a) places people at the centre of our thinking to create environments that make everyone feel welcome, safe and comfortable;
- (b) produces environments everyone can use without separation, segregation or the need to navigate alternative routes; and
- (c) provides real choice and flexibility where a single solution is not possible.

7.5 When we get inclusive design right, we will have a transport network and workplaces that offer safe, dignified, and intuitive use by everyone. It will have places where everyone feels welcome, regardless of ability or personal circumstance. By designing places that feel welcoming and secure, we will also support the Mayor's commitment to social integration; offering opportunities for people to share spaces in a way that encourages interaction and reduces both levels and fear of crime. Inclusive design can deliver beautiful environments that are inspiring and enjoyable to use.

- 7.6 Improving the process, governance, consistency, and capability around Equality Impact Assessment (EQIA) process is a key element of our inclusive design approach. An internal review of the EQIA process has been commissioned and will start in September 2022. A programme of improvement will be developed and taken forward following the outcome of the audit. We have appointed a new Senior Assurance Manager to oversee, manage and improve the organisation wide EQIA process, including creating new guidance, training, governance, and processes.
- 7.7 **Inclusive policies, practices, and standards:** Wherever practicable we will use the learning from our monitoring and evaluation, as well as stakeholder engagement to ensure that we have inclusive policies, standards and guidance that help us to deliver inclusive outcomes more consistently.
- 7.8 Engagement enables public authorities, and people with an interest in their work, to pool their knowledge and experience of eliminating discrimination, advancing equality of opportunity, and fostering good relations.
- 7.9 Good equality information is the foundation of evidence-based decisions, and it will enable us to design and deliver effective and efficient policies. Engaging with stakeholders and employees will help us to base our policies on evidence, rather than on assumptions. Where we have gaps in our information base, engagement can help us to fill them. This may be particularly helpful for areas which are most sensitive where we are less likely to have quantitative information. As well as informing decisions, and identifying solutions, engaging stakeholders throughout the project lifecycle can help us to prioritise finite funding and resource. It can also help us monitor and understand how effective our work is, whether there are unexpected consequences from it, and how to make it more effective in the future.
- 7.10 This is particularly relevant for our stakeholder engagement work during project design phase and at public consultation points, ensuring we are engaging with the broadest possible cross-section of society. For example, on top of all the existing channels we use during public consultations, we have recently gone further to include British Sign Language videos to explain our consultations and are partnering with disability allies to promote consultations through their existing networks. We also now convert all key consultation materials into 'easy read' documents and provide an 'easy read' questionnaire as standard on our consultations. Previously we did this only on large pan-London consultations. This not only benefits the wider community, but this is especially beneficial to engaging adults with learning difficulties in the consultation process.

## 8 Looking Ahead: Next Steps

- 8.1 Over the summer of 2022, we will be implementing a new investment governance regime, as well as beginning to make organisational changes that better reflect the new Executive-level structure. This will provide the opportunity to continue to focus on ensuring VfM is a key component in decision making.

8.2 In recognition that VfM initiatives impact many areas of the business and coordinating a coherent programme of activity can be challenging, we have identified dedicated resource to develop and monitor the programme. This resource will be based in Investment Delivery Planning, within the benefits and outcome planning function. This will also directly address one of the four recommendations made by IIPAG in August 2021 ('Investment Delivery Planning should consider further strengthening its central pool of VfM expertise').

**List of appendices to this report:**

None.

**List of background papers:**

Financial Sustainability Plan, January 2021

Approach to VfM submitted to Audit and Assurance Committee, December 2020

IIPAG report 'Review of Progress on Value for Money' August 2021

Review of Progress on Value for Money submitted to the Programmes and Investment Committee, October 2021

Capital Efficiency Plan Update submitted to Programmes and Investment Committee, May 2022

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