

Date: 14 March 2017

Item: Strategic Risk Management Update

This paper will be considered in public

1 Summary

- 1.1 The purpose of this paper is to provide an update on Strategic Risk Management to the Audit and Assurance Committee.

2 Recommendations

- 2.1 **The Committee is asked to note the status of the TfL Strategic Risks, in particular, whether the risk trend has improved, remained stable or deteriorated since October 2016.**

3 Background

- 3.1 Over the past year, we have worked with the Executive Committee members to identify and assess the most significant risks facing TfL. We presented these Strategic Risks at a workshop with the Audit and Assurance Committee on 11 October 2016, and feedback was positive.
- 3.2 The one Strategic Risk which the Audit and Assurance Committee (AAC) requested we take a further look at is the environmental risk, as they were keen to ensure that this area receives the focus it deserves. The AAC asked that we split this risk into two components: TfL's impact on the environment and the external environmental impact on TfL. The AAC also felt this risk linked better to the Strategic Priority "To put customers and users at the core of all our decision making" (it had previously been linked primarily to safety). These changes are reflected in the accompanying appendix.
- 3.3 We have continued to work with members of the Executive Committee on the Strategic Risks. In Appendix 1, we present a summary of the Strategic Risks, the Inherent, Residual and Target Risk Assessments and a Risk Trend (shown by arrow direction). The risk trend is a qualitative analysis which indicates how the risk climate is evolving – i.e. whether it is improving, stable or deteriorating. This does not necessarily indicate a change in risk assessments, and can reflect a change in the control environment or current context.

4 Next Steps

- 4.1 As part of our Risk Management roadmap, we are currently working on two projects with Ernst & Young (EY). These are:
- (i) Risk As is Analysis; and

(ii) Risk Appetite

- 4.2 Due to recent efforts, we have greater awareness of the most significant risks facing TfL but would like to enhance our understanding of how risk management is undertaken in other areas of the organisation. The objectives of Risk As is Analysis are to produce a “photograph” or snapshot of risk management in TfL, and benchmark TfL’s risk management against industry peers, providing recommendations and comparisons with best practice.
- 4.3 Our work on Risk Appetite aims to explore how much risk we are willing to take to meet our strategic goals and how this should guide decision making. We are discussing, and obtaining collective approval for this information at an Executive Committee meeting on 22 March 2017, prior to a Risk Appetite session with the TfL Board on 4 April 2017.

List of appendices to this report:

Appendix 1: Strategic Risk Reporting Summary

List of Background Papers:

None

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14TH MARCH 2017

Strategic Risk Reporting Summary (Appendix 1)

Audit and Assurance Committee



Executive Summary

October 2016 to March 2017

- Since October 2016, there have been some changes to our assessment of the Strategic Risks which are highlighted below:

NEW SPLIT

- Following feedback from the Audit and Assurance Committee (AAC) in October 16, we have split the environmental risk into two components: **SR16 - TfL's impact on the Environment**, and **SR17 - the External Environmental impact on TfL**. We have also linked these risks with the Strategic Priority "To put customers and users at the core of all our decision making" (it had previously been linked primarily to safety).
- We have added 'Risk trend' to the tables. This is intended to be an ExCo judgement of the way the risk climate is developing – i.e. whether it is improving, stable or deteriorating. This does not necessarily indicate a change in the risk assessment, but it helps make the analysis less static, reflecting changes in the control environment or current context.

UNDER REVIEW

- The risk trend of **SR1 – Safety Standards** is under review following the tragic tram derailment in Croydon which resulted in seven people losing their lives and 51 sustaining injuries requiring hospital treatment. The RAIB (Rail Accident Investigation Branch) issued an interim report which summarised their initial finding that the tram was travelling considerably in excess of the speed limit when it derailed. In advance of the outcome of external investigations we are proactively considering a number of infrastructure mitigations where we think it useful to provide additional cues to drivers on speed limits, these include : (a) chevron signs to be installed at four sites with significant bends across the tram network, (b) additional lineside digital signage to be installed to provide additional speed warnings to drivers at the same key locations across the network, (c) options to transfer technology used on buses, such as iBus, to monitor speeds and locations of trams are under evaluation, (d) an in-cab, driver alert system is under consideration, and (e) an upgrade to the CCTV system.



- The risk trend of **SR2 – Workforce Adaptability** has slightly increased for a number of reasons. Individuals who are engaged through Personal Service Companies (PSC's) will not be engaged in this way post 1 April 2017. This will result in some individuals leaving, but the extent of leavers is not yet known. The exit programme for Directors and Band 5's has taken place and the impact of these individuals leaving may not have fully impacted TfL. The Brexit impacts on this strategic risk may also have changed the context.

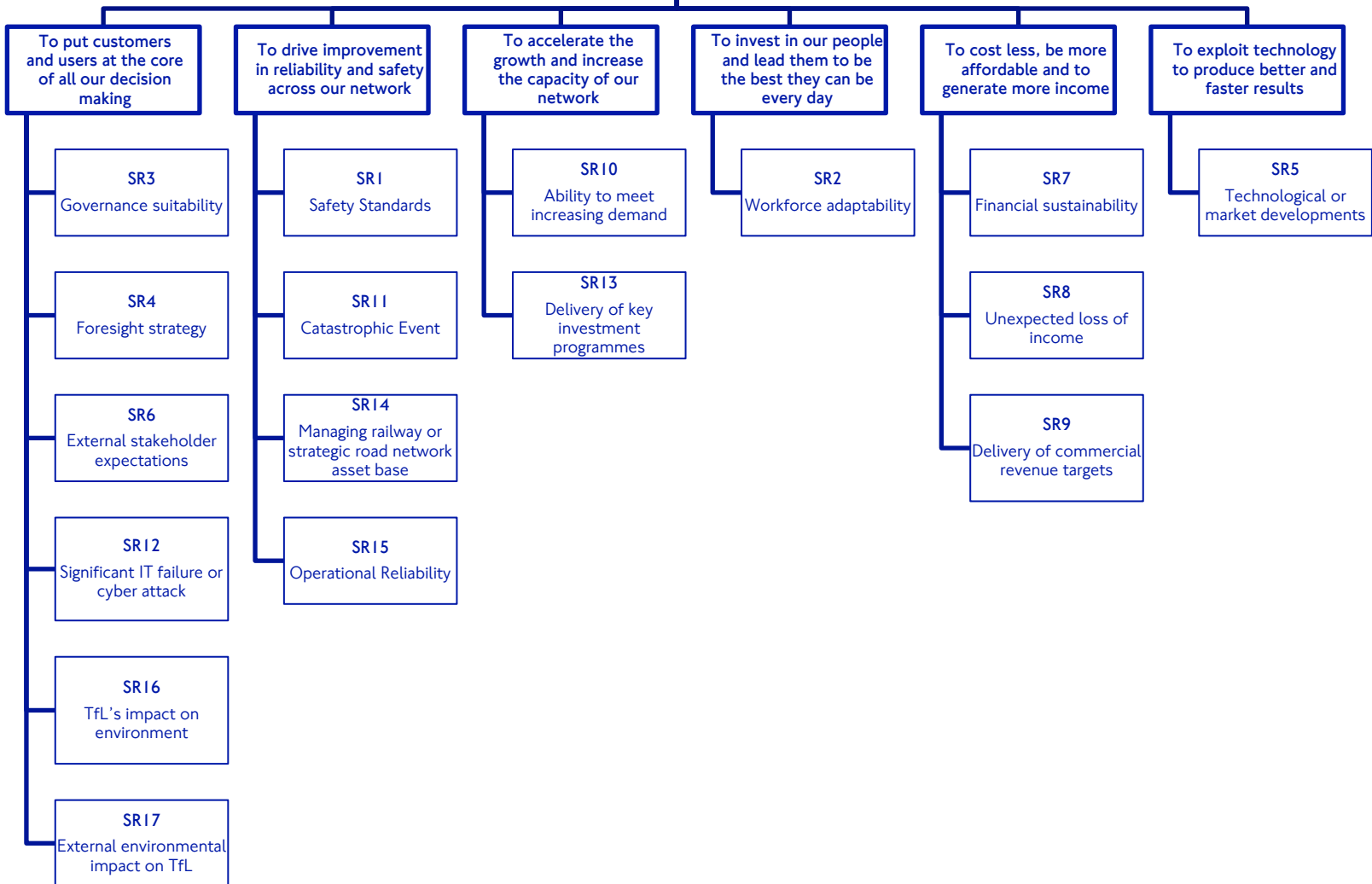


- We have concluded that the risk trend of **SR7 – Financial Sustainability** is also on a negative trend as the 2016 Business Plan is undoubtedly more ambitious than the 2014 Business Plan with greater downside risk. With limited growth expected in fares income over the next 2 years and concern over bus revenues, our financial stability in the short term is heavily dependant on the delivery of cost reductions under the Transformation programme.







Risks and Strategic Priorities

Overall Purpose: To keep London moving, working and growing and make life in London better



Risk scoring criteria

Likelihood	5 Very High ≥75%	11	16	20	23	25
	4 High 50%-75%	7	12	18	21	24
	3 Medium 20%-50%	4	8	13	19	22
	2 Low 5%-20%	2	5	9	14	17
	1 Very Low ≤5%	1	3	6	10	15
		E Very Low	D Low	C Medium	B High	A Very High
		Impact (Financial, Reputation)				

Key:	
	Negligible
	Minor
	Moderate
	Significant
	Severe



Residual Risk Matrix

Likelihood	5 Very High ≥75%			SR17		
	4 High 50% -75%			SR15 SR1	SR4 SR13 SR5 SR16	
	3 Medium 20% -50%			SR2	SR10 SR7 SR9 SR12	
	2 Low 5% -20%		SR6		SR14 SR8	SR11
	1 Very Low ≤5%			SR3		
		E Very Low	D Low	C Medium	B High	A Very High
Impact (Financial, Reputation)						

SR1	Safety Standards
SR2	Workforce adaptability
SR3	Governance Suitability
SR4	Foresight Strategy
SR5	Technological or Market Developments
SR6	External Stakeholder Expectations
SR7	Financial sustainability
SR8	Unexpected loss of income
SR9	Delivery of commercial revenue targets
SR10	Ability to meet increasing demand
SR11	Catastrophic Event
SR12	Significant technology failure or cyber attack
SR13	Delivery of key investment programmes
SR14	Managing railway or strategic road network asset base
SR15	Operational Reliability
SR16	TfL's impact on environment
SR17	External environmental impact on TfL



How to read the tables

Risk that remains after controls are taken into account (this is the same as net risk or risk after controls)

The risk trend is a qualitative analysis which indicates how the risk climate is evolving – i.e. whether it is improving, stable or deteriorating

Risk that an activity would pose if no controls or other mitigating factors were in place (this is the same as gross risk or risk before controls). Inherent Risk assumes adhering to specific regulatory or legal requirements

Ref	TfL Strategic Risk	Risk Owner	Inherent Rating	Residual Rating	Target Rating	Risk Trend
SR1	A Risk Owner is the person who has the knowledge, skills and experience to take responsibility for and execute the risk identification, review and assessment activities. This should include the monitoring of existing control activity and the authority to implement further mitigating actions	Mark Wild or Leon Daniels	Severe	Severe	Moderate	Improving (Green arrow down)
SR2	Workforce may not be able to adapt sufficiently or quickly enough to meet the changing demands on TfL and expect potential loss of capability, including planning, when key employees leave processes are implemented. Insufficient adaptability may lead to lack of benefits realisation, undermining of decisions or possible breakdown in relations with the Trade Unions; increasing the potential for strikes, associated with any changes to ways of working.		Severe	Moderate	Minor	Deteriorating (Red arrow up)
SR3	Governance suitability Governance structures may not be fit for purpose, and/or not provide adequate support to meet the changing demands on TfL and expectations of its stakeholders.	Howard Carter	Severe	Minor	Minor	Stable (Yellow double arrow)

Risk that an activity would pose with controls in place and after actions are implemented. (Target Risk also includes the concept of Risk Appetite)

Risk Trend is improving

Risk Trend is deteriorating

Risk Trend is stable

- Definitions of the ratings
- Negligible
 - Minor
 - Moderate
 - Significant
 - Severe



Risk Assessment Summary (1/3)

- Negligible
- Minor
- Moderate
- Significant
- Severe

Ref	TfL Strategic Risk	Risk Owner	Inherent Rating	Residual Rating	Target Rating	Risk Trend
SR1	<p>Safety Standards</p> <p>Safety system is inadequate and/or not complied with, resulting in loss of life or serious injury to customers and staff.</p>	<p>Mark Wild</p> <p>Leon Daniels</p>	● 21	● 18	● 13	UNDER REVIEW
SR2	<p>Workforce adaptability</p> <p>Workforce may not be able to adapt sufficiently or quickly enough to meet the changing demands on TfL and expectations of its stakeholders; exacerbated by a potential loss of capability, including scarce skills and inadequate succession planning, when key employees leave the organisation or new businesses processes are implemented. Insufficient adaptability may lead to lack of benefits realisation, undermining of decisions or possible breakdown in relations with the Trade Unions; increasing the potential for strikes, associated with any changes to ways of working.</p>	Tricia Wright	● 21	● 13	● 8	↑
SR3	<p>Governance suitability</p> <p>Governance structures may not be fit for purpose, and/or not provide adequate support to meet the changing demands on TfL and expectations of its stakeholders.</p>	Howard Carter	● 21	● 6	● 6	↔
SR4	<p>Foresight strategy</p> <p>Lack of strategic foresight or agility to identify significant change impacting TfL's ability to shape the future and adapt.</p>	Gareth Powell	● 25	● 21	● 13	↔
SR5	<p>Technological or market developments</p> <p>Technological or market changes may outpace TfL's ability to adapt, leading to inability to deliver the expectations of stakeholders.</p>	<p>Vernon Everitt</p> <p>Leon Daniels</p>	● 25	● 21	● 13	↔
SR6	<p>External stakeholder expectations</p> <p>External stakeholder requirements may affect the best value delivery of TfL's strategic goals.</p>	Vernon Everitt	● 18	● 5	● 3	↔



Risk Assessment Summary (2/3)

- Negligible
- Minor
- Moderate
- Significant
- Severe

Ref	TfL Strategic Risk	Risk Owner	Inherent Rating	Residual Rating	Target Rating	Risk Trend
SR7	Financial sustainability Challenging macro economic environment, risk of not maintaining minimum cash levels and other financial challenges may affect TfL's ability to deliver its services.	Ian Nunn	● 25	● 19	● 9	↑
SR8	Unexpected loss of income Externally driven events may cause an unexpected loss of income affecting TfL's ability to deliver its services.	Ian Nunn	● 19	● 14	● 9	↔
SR9	Delivery of commercial revenue targets Challenging economic conditions and/or material loss of revenue from investments mean that commercial income streams may not be able to deliver commercial revenue targets.	Graeme Craig	● 21	● 19	● 8	↔
SR10	Ability to meet increasing demand London's growing population may lead to TfL networks being unable to support and respond to demand at certain times of the day leading to reputational impacts.	Mark Wild Leon Daniels	● 25	● 19	● 13	↔
SR11	Catastrophic Event Accidental event or deliberate act occurs overwhelming the physical ability of TfL to respond due to resource availability, geographical location or lack of specific plan.	Mark Wild Leon Daniels	● 24	● 17	● 17	↔
SR12	Significant Technology failure or cyber attack A significant technology failure or physical or cyber attack may occur that overcomes TfL's preparations and results in a major loss of personal or other important data, interruption to key business systems and/or interference with operational activity.	Mark Wild, Leon Daniels (Signalling) Vernon Everitt (IT)	● 24	● 19	● 19	↔



Risk Assessment Summary (3/3)

- Negligible
- Minor
- Moderate
- Significant
- Severe

Ref	TfL Strategic Risk	Risk Owner	Inherent Rating	Residual Rating	Target Rating	Risk Trend
SR13	Delivery of key investment programmes	Mark Wild				
	Internal or external events that have the potential to impact projects may result in an inability to efficiently deliver the investment programme portfolio and achieve planned benefits.	Leon Daniels (to be replaced by Director of Projects)	25	21	13	↔
SR14	Managing railway or strategic road network asset base	Mark Wild				
	Non compliance with the Asset Management System or not including assets within the Asset Management System may result in a decline in assets with adverse operational performance effects or an inability to identify potential improvements.	Leon Daniels	21	14	10	↔
SR15	Operational Reliability	Mark Wild				
	Not meeting operational targets and/or delivering less reliable services for customers and other users.	Leon Daniels	25	18	12	↔
SR16	TfL's impact on environment					
	Impacts on the environment include CO2 and air pollutant emissions from road transport and biodiversity loss as a result of infrastructure development. These could result in reputational damage, legal/financial penalties, health impacts, reduced quality of life and a failure to meet statutory requirements.	Alex Williams	23	21	13	NEW SPLIT
SR17	External environmental impact on TfL					
	Resilience to extreme weather and climate change (e.g. flooding, extreme heat) could result in reduced customer experience and reputational damage, reduced quality of life, increases in operational and capital spend.	Alex Williams	23	20	20	NEW SPLIT

