



**Date: 7 December 2012**

**Item 11: Risk Management Update**

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**This paper will be considered in public**

**1 Summary**

- 1.1 The purpose of this report is to inform the Committee of the Strategic Risk Register (SRR) and the mitigation around minimising the impact of potential risks.

**2 Recommendation**

- 2.1 **The Committee is asked to note this paper.**

**3 Background**

- 3.1 The Chief Financial Officer is required to provide an annual report outlining TfL's strategic risk.
- 3.2 The Strategic Risk Register identifies TfL's key strategic risks and mitigations to minimise the potential impact to the business.

**4 Recent Developments**

- 4.1 At the start of this year, TfL began a programme of change to establish both common principles and a comprehensive reporting framework for the strategic risk management process. Once complete, this initiative will deliver a single, consistent methodology which will enable more effective identification, management and reporting of all strategic and significant risks across the business.
- 4.2 Strategic risk is reported in each of the Business Areas within TfL using the same assessment criteria of four impact categories: cost, time, customer service and reputation. These risks are evaluated and reported 'qualitatively'. This paper presents the SRR and quantifies risks.
- 4.3 The SRR has been developed in conjunction with Senior Business Area Risk Managers and Group Business Planning & Performance by analysing the strategic risks within each of the business areas across TfL. The risks have been through a risk assessment and scored using the Corporate Risk Scoring scheme.
- 4.4 The SRR will be presented quarterly to the Finance Leadership Team and the operational boards for review in line with the quarterly forecast process.

## **5 Risk Register**

- 5.1 At the end of quarter 2, the risks on the register were assessed. The 'Current' score is based on an assessment of the current risk, including mitigations in progress. The 'Target' reflects the maximum possible impact that can be achieved if all the mitigations identified are completed.
- 5.2 The revised pan-TfL Strategic Risk Register is included in the related paper on part 2 of the agenda.

## **6 Risk Management Oversight**

- 6.1 The Assurance Delivery Group, chaired by General Counsel, continues to oversee risk arrangements within TfL on behalf of the Leadership Team.
- 6.2 Corporate risk professionals are embedded in all business areas to support delivery of risk management initiatives.

### **List of appendices of this report:**

None.

### **List of Background papers:**

None.

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Value for Money					
1. Maintaining a long term strategic, balanced Plan within the constraints of available resources.					Owner: Steve Allen
	Current	Mitigating Actions	Status	Target	Trend
<p>TfL undertakes a Business Plan each year, prioritising spend to ensure a long term strategic balanced plan. There is a risk in later years that available resources may not cover all required activities. This may be due to:</p> <ul style="list-style-type: none"> <li>• revenue reductions</li> <li>• secondary revenue shortfall</li> <li>• market conditions that limit the financial viability of property development opportunities over station assets (Crossrail)</li> <li>• material shortfall in delivering the savings and efficiencies programme</li> <li>• disruption to financial markets impacting TfL's ability to borrow</li> <li>• Counterparty insolvency.</li> </ul>	<b>M</b>	Use the quarterly forecast and review process to ensure the business plan remains balanced over the long term and take corrective action if necessary.	Ongoing	<b>M</b>	
		Periodic budget monitoring to review progress against secondary revenue target to act as an early warning indicator. Quarterly reviews held in line with the normal accounting cycle to monitor progress against targets.	Ongoing		
		Maintain minimum cash balance via daily checks on TfL's cash position by the Treasury team in the event market conditions prevent borrowing.	Ongoing		
		Annual review of the expected outturn of property proceeds is undertaken at the end of each year.	Ongoing		
		Effective scrutiny and challenge to savings delivery through greater analysis and challenge via existing BAU periodic reviews and reporting processes.	Ongoing		
		Monitor market conditions through daily checks (Bloomberg) and review of periodic reports issued by Banks on the current conditions to act as an early warning indicator.	Ongoing		
		Increase the prospective development proceeds for sites by exploring additional commercial opportunities where applicable. Ensure TfL has some flexibility with regards to sites offered on the market, thereby optimising the Over Station Development returns in the future.	Fallback		

Delivery					
<b>2. Ability to re-prioritise short term deliverables in response to external factors.</b>					<b>Owner:</b> Steve Allen
<p>TfL is required to respond to external factors from various bodies. This may mean that TfL has to reprioritise its short term operational challenges and requirements effectively. This risk is focused on the immediate two year time frame and the impact is that TfL needs to be able to successfully deliver an integrated, cost effective transport solution, maintain service delivery pledges and successfully deliver Mayoral priorities.</p>	<b>Current</b>	<b>Mitigating Actions</b>	<b>Status</b>	<b>Target</b>	<b>Trend</b>
	<b>M</b>	TfL undertakes demand forecasting, service planning and reliability, a business planning and budgeting process and an investment approval process.	Ongoing	<b>M</b>	
		Leverage capability in Commercial Finance team to provide professional advice on projects, commercial agreements, areas of new business development and to analyse/structure TfL's involvement in mayoral priorities.	Ongoing		
Align projects and activities capital investment portfolio with Mayoral Transport Strategy (MTS) and TfL corporate strategic objectives via the transport outcomes and the wider benefits they enable.		In progress			

Value for Money					
3. Pension Fund					Owner: Tricia Riley
	Current	Mitigating Actions	Status	Target	Trend
TfL recognises the importance of providing good pension benefits to members. There is a risk of a potential future TfL Pension Fund deficit. This may be due to adverse or unmatched movements, a collapse in investment markets and/or the non achievement of expected performance as a result of inappropriate actuarial assumptions (inaccurate member data or inaccurate asset information used by the Actuary for valuation).	M	Ensure that TfL has a well diversified investment strategy across all portfolios to minimise risk.	Ongoing	L	
		Agreement and review of a prudent funding target with TfL Pension Fund Trustees to ensure that adequate contributions maintain the sustainability of the fund.	Ongoing		
		Regular monitoring of the funding position and communication with the Trustees/Actuary regarding employer contributions.	Ongoing		

Delivery					
4. Delivery of capital investment portfolio and contract management					Owner: Mike Brown/ Leon Daniels
TfL needs to ensure efficient and effective project and contract management to enable it to meet its milestones. This will ensure that projects are delivered on time, within budget and are fit for purpose.	Current	Mitigating Actions	Status	Target	Trend
	M	Corporate Gateway Reviews and Approvals process to inform cost effective delivery of capital investment portfolio	Ongoing	L	
		Directorate led reviews of capital projects and programmes	Ongoing		
		Consultation with IIPAG on benchmarking to; demonstrate organisational competence in delivering the capital investment programme, demonstrate an efficient and cost effective approach to whole life asset management following PAS 55 accreditation.	Ongoing		
		Delivery of programme management capability programme - a strategy to develop maturity across TfL.	In progress		
Develop single, consistent framework across TfL to support delivery of capital investment portfolio - project controls effectiveness, process clarification and project management systems.		In progress			

Our Customers and Users					
<b>5. Disruption to quality of service</b>					Owner: Mike Brown/ Leon Daniels
<p>TfL aims to deliver the best quality service to its customers. There is a risk of disruption to quality of service due to:</p> <ul style="list-style-type: none"> <li>• implementing complex, major asset renewal and replacement programmes that are interrelated on an operational rail, bus operations, roads network</li> <li>• frequent closures of lines or major stations</li> <li>• changes to operational procedures and resource requirements after completion of asset upgrades.</li> </ul> <p>These create the potential to disrupt customer service due to, possible asset/ systems failure on implementation and further knock-on effects.</p>	<b>Current</b>	<b>Mitigating Actions</b>	<b>Status</b>	<b>Target</b>	<b>Trend</b>
	<b>M</b>	The Transformation Plan is a key work stream that will ensure the implementation of the operational upgrade. This includes governance arrangements, programme monitoring, reliability forecasting, staff training and improved incident response	In progress	<b>M</b>	
		Delivery of the Access Improvement plan to review and improve the processes, structure and organisations involved in the planning and management of access. This includes creation of a single, accountable access delivery organisation for London Underground.	In progress		
		Additional investment in Reliability programme to target the worst performing areas across TfL.	In progress		
		Design and implement network resilience models, plans and workshops to help embed changes to procedure.	In progress		
Mitigate effects through diversion of resources to support travelling public. Redistribute Network Operations resources on targeted areas of the Bus and Roads network to minimise the worst effects of disruption		Fallback			

Our Customers and Users							
<b>6. Terrorism</b>					Owner: Mike Brown/ Leon Daniels		
TfL provides a mass public transport system for London. There is a risk of domestic or international terrorism which may cause casualties, disrupt operational service, damage assets and possibly create fear in the travelling public.	<b>Current</b>	<b>Mitigating Actions</b>			<b>Status</b>	<b>Target</b>	<b>Trend</b>
	<b>M</b>	Major incident prevention and response planning, pre-employment screening and critical infrastructure resilience.			Ongoing	<b>L</b>	
		Awareness training, CCTV, physical security measures, and internal resilience groups.			Ongoing		
		Terrorism Insurance Cover to assist with cost of repairs to damaged TfL assets.			Ongoing		
Intelligence and liaison with police and security service.			Ongoing				

Our Customers and Users							
<b>7. Major events</b>					Owner: Mike Brown/ Leon Daniels		
TfL provides the mass public transportation system for London. This includes providing services for irregular major events such as Royal and sporting occasions. When increased demand is required, and to ensure its good reputation, TfL must be able to successfully deliver enhanced transportation arrangements.	<b>Current</b>	<b>Mitigating Actions</b>			<b>Status</b>	<b>Target</b>	<b>Trend</b>
	<b>L</b>	Revision of timetables and possible service enhancements.			Ongoing	<b>VL</b>	
		Contingency Planning with event organisers, police and other emergency services.			In progress		
Close collaboration within TfL, with other transport providers and wider stakeholders.			In progress				



Our Customers & Users					
<b>8. Managing external stakeholder interests</b>					<b>Owner:</b> Vernon Everett
TfL has to adequately manage and respond to public criticisms from informed and knowledgeable leaders. These criticisms may influence stakeholders and could impact on the perception of the organisation which may influence the availability of funding and support.	<b>Current</b>	<b>Mitigating Actions</b>	<b>Status</b>	<b>Target</b>	<b>Trend</b>
	<b>M</b>	Continue to build relationships with key stakeholders and maintain a capable stakeholder communications team.	Ongoing	<b>M</b>	
		Manage Mayor's questions and produce periodic performance reports.	Ongoing		
		Consultation with IIPAG on benchmarking to; <ul style="list-style-type: none"> <li>demonstrate organisational competence in delivering the capital investment programme,</li> <li>demonstrate an efficient and cost effective approach to whole life asset management following PAS 55 accreditation</li> </ul>	Ongoing		

Our Customers and Users					
<b>9. Major Incident External</b>					<b>Owner:</b> Mike Strzelecki
TfL is dedicated to the safety of the travelling public. There may be a risk of a possible incident leading to wide spread service disruption, asset damage and injuries and/or fatalities. This could be due to a natural disaster or safety risk. The knock-on impact would be disruption and adverse impact on TfL's safety reputation.	<b>Current</b>	<b>Mitigating Actions</b>	<b>Status</b>	<b>Target</b>	<b>Trend</b>
	<b>M</b>	Development of, and adherence to, Company Management System and TfL Standards	Ongoing	<b>M</b>	
		Monitoring, audit and review of safety performance and safety management.	Ongoing		
		Communication with Environment Agency and Met Office for early warnings of significant weather effects/potential flooding.	Ongoing		
Training programme to up skill managers and enable up to date risk assessments of operational assets (ST specific)		In Progress			

Our Customers and Users							
<b>10. Major incident - Internal Systems</b>					<b>Owner:</b> Vernon Everitt		
There is a risk the fare collection system may fail temporarily and result in loss of revenue. This may also result in financial loss and damage to the integrity and confidence of the fare collection system.	<b>Current</b>	<b>Mitigating Actions</b>			<b>Status</b>	<b>Target</b>	<b>Trend</b>
	<b>L</b>	Develop and maintain Business Continuity plans to ensure speedy recovery and business resilience.			Ongoing	<b>L</b>	
		Ensure continuous monitoring and action via the Oyster Control Centre.			Ongoing		

Our People							
<b>11. Industrial Relations (IR)</b>					<b>Owner:</b> Mike Brown/Leon Daniels		
TfL works in collaboration with Trade Unions (TUs). This ensures that issues are dealt with before they result in potential strikes or other work disruption. These issues may include the introduction of new technology and its perceived threat to job security, reorganisations, perceived threats to employment and employment conditions, implementation of TfL common policies and safety concerns. This could lead to a possible reduction in TfL's service and impact on TfL's reputation.	<b>Current</b>	<b>Mitigating Actions</b>			<b>Status</b>	<b>Target</b>	<b>Trend</b>
	<b>H</b>	Maintain strong links with external organisations to monitor relevant industry trends and developments impacting IR and build effective working relationships with TUs			Ongoing	<b>M</b>	
		Embed LU Employee Relations Strategic Plan and adopt a tactical approach to dispute management taking into account the unique circumstances and our strategic principles			Ongoing		
Regular reports from Bus Operators on status of relationship with Trade Unions, ballots and pay negotiations.			Ongoing				