

Date: 13 July 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 Committee.

2 Recommendations

2.1 **The Committee is asked to note:**

(a) the inclusion of two new TfL Strategic Risks (Delivery of Modernisation for London Underground and Decreasing ridership in buses) and

(b) the status of the TfL Strategic Risks, in particular, whether the risk trend has improved, remained stable or deteriorated since March 2017.

3 Background

3.1 At a February 2017 Executive Committee meeting, we provided a Strategic Risk Reporting update and focussed on developing the supporting documentation. We discussed the importance of making the Strategic Risk forms live and useful documents to support decision making. We also revisited the definitions of controls and actions and highlighted that controls should be activities which reduce our risk from Inherent to Residual Risk assessments, and actions should reduce our risk from Residual to Target risk assessments.

3.2 We agreed that Executive Committee risk owners will, where possible, and where time permits attend future Audit and Assurance Committee meetings to discuss where their risk areas have changed.

3.3 Over the past few months, we have continued to work with members of the Executive Committee on their Strategic risks and have made good progress. We have seven Strategic risks where ownership is shared between London Underground (LU) and Surface, and held a meeting with the Managing Directors of London Underground and Surface Transport, and risk managers, to specifically discuss controls and actions for these risks.

3.4 In this meeting, it was raised that two additional strategic risks should be highlighted on the TfL Strategic Risk Register (Delivery of modernisation for LU and decreasing ridership in buses). It was felt that rather than being incorporated within existing strategic risks, these should be stand alone strategic risks to ensure that they receive adequate focus and attention. These changes are reflected in Appendix 1.

- 3.5 In Appendix 1, we present a summary of the Strategic Risks, the Inherent Residual and Target Assessments, and a Risk Trend (shown by arrow direction). The risk trend is intended to be an Executive Committee 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 risk assessments, but helps make the analysis less static, reflecting changes in the control environment or current context.

4 Next Steps

- 4.1 We have done considerable work on Risk Appetite, which has aimed to explore how much risk TfL is willing to take to meet our strategic goals and how this should guide decision making. We have worked closely on this with the Executive Committee, and presented outputs at an Executive Committee meeting prior to discussing at a Risk Appetite Session with Members of the TfL Board on 4 April 2017. This session was chaired by the Chair of the Audit and Assurance Committee and facilitated by a risk specialist from EY. We had a very interactive and insightful discussion covering the approach we have taken, and looked at a variety of themes against which we set risk appetite levels. Our next steps include consolidating the outputs from the Risk Appetite Session with the Board, refining the Risk Appetite themes and levels and playing this back to Board and Executive Committee for their agreement.
- 4.2 We will also bring Risk Appetite to life, and start considering Key Risk Indicators, which will track delivery of Risk Appetite themes across the whole of TfL. We plan to report Key Risk Indicators on a regular basis, in a clear and understandable format.
- 4.3 Our longer term objective for Risk Management is to ensure that TfL achieve an "advanced" risk maturity target state which is comparable with external organisations. We will start identifying the next layer of Strategic, Operational, Project and Programme risks throughout the Delivery Businesses and Professional Services and develop a clear understanding of how they fit together with the TfL Strategic Risks.

List of appendices to this report:

Appendix 1: Strategic Risk Reporting Summary

List of Background Papers:

None

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13TH JULY 2017

Strategic Risk Reporting Summary (Appendix 1)

Audit and Assurance Committee



Executive Summary

March 2017 to June 2017

- Since March 2017, there have been some changes to the Strategic Risks which are highlighted below:

NEW RISKS

- Following discussions with the Executive Committee, we have included two new Strategic Risks **SR18 – Delivery of Modernisation for LU** and **SR19 Decreasing ridership in buses**. It was discussed that rather than these being incorporated within existing strategic risks, they should be highlighted as stand alone TfL Strategic Risks.

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 have proactively been progressing a number of infrastructure mitigations where we think it useful to provide additional cues to drivers on speed limits. We have now implemented (a) chevron signs to be installed at four sites with significant bends across the tram network and (b) additional lineside digital signage to be installed to provide additional speed warnings to drivers at the same key locations across the network, and are currently progressing (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.



- 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.

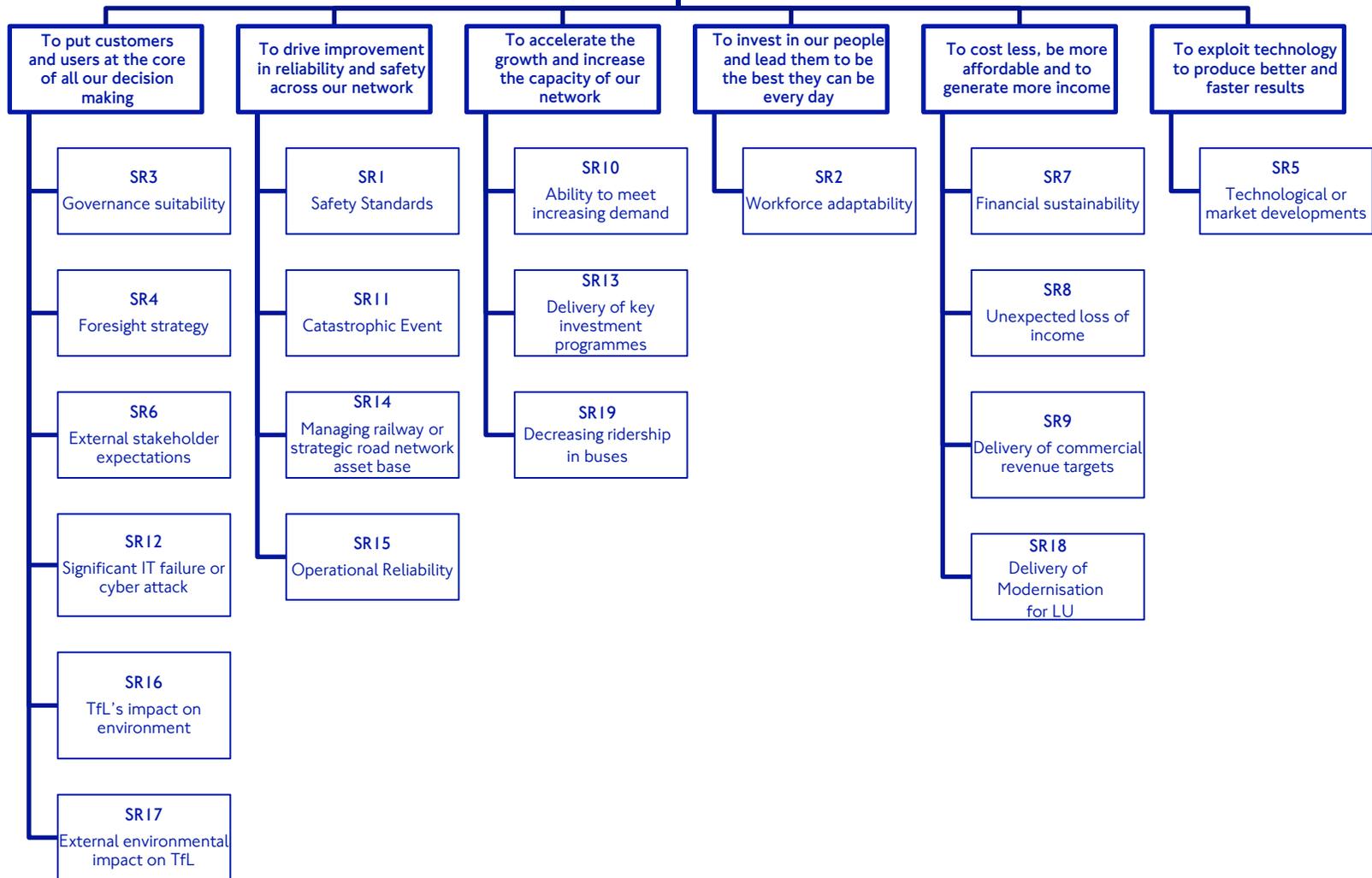


- The risk trend of **SR16 – TfL's impact on the environment** has improved for several reasons. We are currently consulting on a proposal to bring forward the introduction of the Ultra Low Emission Zone in central London to 2019. This will lead to a reduction in air quality pollutants and CO2. We are also developing a plan to extend the ULEZ London-wide for HGV's and to inner London for all vehicles.



Risks and Strategic Priorities

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



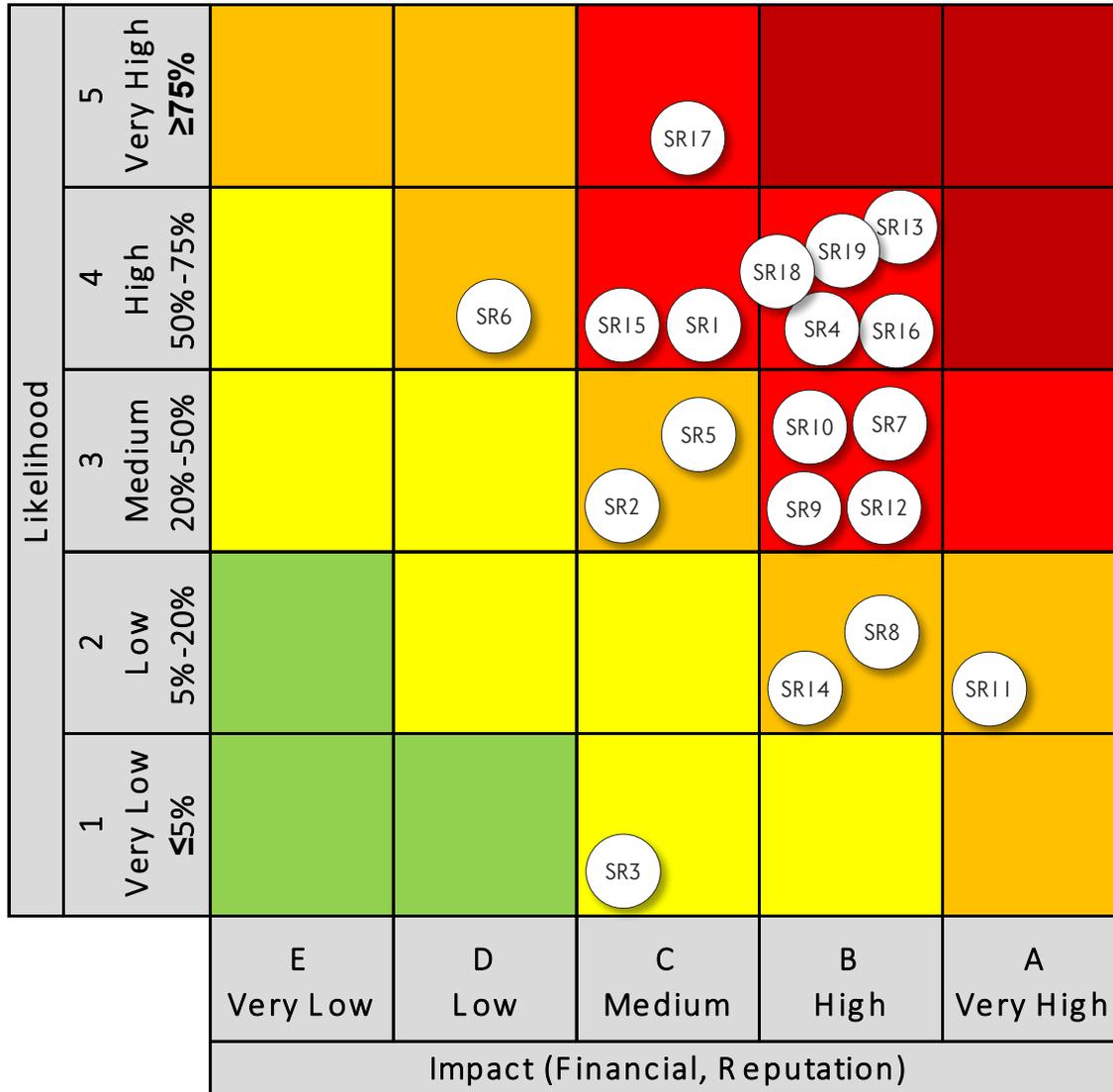
Risk scoring criteria

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



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
SR18	Modernisation for LU
SR19	Decreasing ridership in buses



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 (1/4)

- 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>	● 21	● 13	● 9	↔
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	● 12	● 7	↔



Risk Assessment Summary (2/4)

- 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	↔

REVIEW - IN PROGRESS



Risk Assessment Summary (3/4)

- 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 rail and 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	↓
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	↔



Risk Assessment Summary (4/4)

-  Negligible
-  Minor
-  Moderate
-  Significant
-  Severe

Ref	TfL Strategic Risk	Risk Owner	Inherent Rating	Residual Rating	Target Rating	Risk Trend
SR18	<p>Delivery of modernisation for LU</p> <p>Plans to modernise frontline services fail at point of implementation or that they do not deliver targeted business plan savings. This risk exists for individual programmes and for the holistic modernisation agenda. This is caused by: optimistic assumptions on time required to achieve change; multiple changes being introduced simultaneously; limited dedicated leadership focus on delivering change, hampered also by changes to key roles as part of TfL transformation; change enablers not in place (resilience, leadership appetite, communications); challenging TU relationships. The effect of this is we miss our business plan savings targets which may lead to cuts in the capital investment programme; changes in the service provision; loss of the leadership and political will for frontline modernisation; failure to achieve cultural benefits of modernisation and severe reputational damage for TfL.</p>	Mark Wild	 25	 21	 13	NEW RISK
SR19	<p>Decreasing ridership in buses</p> <p>Falling average bus speeds and more variable journey time on the bus network resulting in reducing patronage and falling fares income. Revenue anticipated in the TfL Business Plan is being put at risk by reducing bus patronage as average bus speeds reduce in London and journey time becomes more variable.</p>	Leon Daniels	 25	 21	 18	NEW RISK

