

TRANSPORT FOR LONDON

EXECUTIVE COMMITTEE

**Subject:** Brexit Update

**Date:** 13 December 2017

**This proposal has already been considered by (include dates):**

- |  |  |
|--|--|
| <input type="checkbox"/> Surface Transport Board / BMR / Portfolio Board | <input type="checkbox"/> MTS Delivery Group                  |
| <input type="checkbox"/> LU Executive Committee / Board                  | <input type="checkbox"/> Legal                               |
| <input type="checkbox"/> Customer & External Relations Group             | <i>Professional Service Leadership Teams (please state):</i> |
| <input type="checkbox"/> Technology & Data Group                         | <input checked="" type="checkbox"/> HR Leadership Team       |
| <input type="checkbox"/> Property Steering Group                         | <input checked="" type="checkbox"/> Finance Leadership Team  |

**Manifesto commitment(s)**

*Not applicable*

**Draft Mayor's Transport Strategy (MTS)**

*Not applicable*

**1 Purpose**

- 1.1 The Executive Committee is asked to NOTE this update on Brexit

**2 Background and current status**

- 2.1 This paper forms the latest quarterly update to the Executive Committee on our preparations for Brexit.
- 2.2 As Executive Committee members will be aware from extensive media reporting, Brexit negotiations continue but tangible progress is limited. Our approach continues to be one of risk identification and management. An updated risk management plan is included at Appendix I. It continues to be the case that people and finance represent the clusters of most acute risk. Additionally, as discussed at 2.9 below, the potential impact of unfavourable future trade relationships with European businesses will be reviewed in more detail by Commercial Procurement over the coming months.



2.3 Finance risks are being managed using BAU processes. The potential wider economic impact of Brexit is acknowledged and reflected in the 2017 Business Plan by using the lower estimate assumptions of GLA’s economic modelling to predict fares income. Revised inflation, interest and exchange rates forecasts are also reflected to the extent possible. Our potential inability to raise European Investment Bank (EIB) funding in future nor to borrow elsewhere at equivalent competitive rates remains a concern. [REDACTED]

2.4 People risks result from the impact on individuals’ morale and confidence of the uncertainty around rights and status after Brexit is complete and, at a more aggregate level, the potential impact on ability to recruit and retain. While there have been positive statements from Government<sup>1</sup> the emotional impact of the uncertainty around Brexit, whatever the eventual outcome, was very clearly articulated by members of the European Staff Network Group at their inaugural meeting.

2.5 Although we are required to verify an individual’s right to work in the UK at the point of recruitment, we have never needed to collect data on non-UK EU citizens, nor to maintain data where their status may change as a result of becoming a UK citizen, marrying a UK citizen etc. Consequently, since the Brexit referendum result, we have relied on the broad industry-sector estimate that c. 10 per cent of transport employees are non-UK EU citizens. At the request of Executive Committee following the last quarterly update, a new question (‘Of which country are you a citizen?’) was included in Viewpoint to attempt to improve our understanding. Of the 29,018 full time equivalent employees at TfL at the end of Q2 (2017/18), 16,248 responded to the Viewpoint survey, with 14,919 answering this particular question. The responses received to this question are:

<b>Of which country are you a citizen?</b>	<b>number of responses</b>	<b>% of responses</b>
United Kingdom Citizen	13212	89%
Citizen of an EU country	925	6%
Citizen of a country outside of the EU	542	4%
Prefer not to say	240	2%
<b>Total</b>	<b>14919</b>	

<sup>1</sup> While not legally binding, see for example Theresa May’s open letter to EU nationals resident in the UK on 19/10/2017: ‘I couldn’t be clearer: EU citizens living lawfully in the UK today will be able to stay’.



- 2.6 Although this is a sample, the size of the sample (c.50 per cent of employees) is large. The figure of 6 per cent is lower than estimated but only captures those who might be directly affected by some potential Brexit outcomes (e.g. it would not identify employees that may be UK citizens but, for example, may have partners or dependents who are EU citizens and could lose residency rights) and does not capture a picture of our supply chain or contracted operators.
- 2.7 As noted in the previous Brexit update a new European Staff Network Group has been formed to gather views and ideas from employees with an interest in Brexit. As a result of engagement with that group a Source page is being developed to provide a hub that signposts to useful information such as Home Office advice on residency, reiterates our support for all our employees and encourages continued dialogue via, for example a new ESNG Yammer Group.
- 2.8 The ESNG is currently formulating its own detailed view on what further types of support its members would welcome from TfL. In the interim, HR colleagues have informally canvassed a number of other organisations on the support they are offering to employees who may be affected by Brexit. The majority of those canvassed are taking a similar approach to us – in view of the significant uncertainty to date around Brexit outcomes – which is to focus on offering reassurance and signposting official Government information. [REDACTED]  
[REDACTED]
- 2.9 Of rising concern is the potential impact of failure to resolve future trading relationships by the time the UK exits the EU. There are two primary risk areas here:
- (a) The imposition of tariffs at WTO levels may reduce willingness and competitiveness of European suppliers to supply the UK market. If this is the case it could affect existing supply chains as well as potentially reducing diversity in the marketplace.
  - (b) The creation of non-tariff barriers, such as customs inspections, that could slow the flow of goods from the EU to the UK. This could affect the availability of time-sensitive goods such as spares, which could potentially impact operations if sufficient spares are not held in stock.
- 2.10 Working in conjunction with key business areas, Commercial Procurement will consider the impact of a range of outcomes on major contracts, in particular:
- (a) Pricing
  - (b) Contract clauses – which, if any, are triggered by the imposition of tariffs and non-tariff barriers
  - (c) Security and speed of supply



### **3 Contact**

3.1 Contact: Stuart Reid

Number: [REDACTED]

Email: [REDACTED]@tfl.gov.uk

### **4 Appendix**

Appendix I - risk management plan



KEY BREXIT RELATED RISK MANAGEMENT PLANS - FINANCIAL AND PEOPLE

Risk Mngt Plan Ref. No.	Work-Stream	Event / Effect	Time to Impact	Existing Controls	Mitigation Actions Internal	Mitigation Owners Internal	Requirements from Government (Actions)	Date Mitigations to be completed by
RMP-001	Treasury	[REDACTED]	Short Term	[REDACTED]	[REDACTED]	Simon Kilonback	[REDACTED]	[REDACTED]
RMP-002	Treasury	[REDACTED]	Short Term	[REDACTED]	[REDACTED]	Simon Kilonback	[REDACTED]	[REDACTED]

RMP-003	Treasury	<p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p>	Short Term	<p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p>	<p>[REDACTED]</p> <p>[REDACTED]</p>	Simon Kilonback David Wylie		
RMP-004	Treasury	<p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p>	Short	<p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p>	<p>[REDACTED]</p> <p>[REDACTED]</p>	Simon Kilonback	<p>[REDACTED]</p> <p>[REDACTED]</p>	

RMP-005	CD	<p><b>Reduction in income as a result of weakening of property market</b></p> <p>Reduction in TfL income may be driven by numerous factors (e.g. reduction in employment and economic growth, passenger levels, fare levels, grant payments, commercial activities). The focus in this section is on drivers which may have an impact in the short term.</p>	Short Term		<p>1. Decline in revenues from rentals, advertising, property developments and other income. Mitigation measures to be discussed with Commercial Development team</p>	Graeme Craig Lester Hampson		
RMP-006	HR	<p><b>Skills/staff availability shortage &amp; increased costs</b></p> <p>-Loss of current staff -Shrinkage of skilled-labour pool -Shortage of low-cost labour -Admin and/or recruitment costs to replace leavers -UK and London (&amp;TfL) less attractive place to work</p>	Medium Term	<p>Recruitment work on pipeline of candidates and other options to ensure we have a robust candidate pool and employer brand in order to attract and retain candidates</p>	<p>1. Review and update recruitment process (for attracting competitive skills to TfL) and align with Mayoral messaging 2. Review and define how negotiations are undertaken with third parties re: workforce 3. Explore and recommend how schemes (Apprentice, Graduates, Smart Sourcing can potentially address future skills gaps for 2018. 4. Assess the impact of any new immigration restrictions that are to be complied with.</p>	Charlotte Johns	<p>Explore opportunities for lobbying for a fast track visa process for recognised scarce skills resources</p>	<p>Post article 50 and ongoing</p>
RMP-007	HR	<p><b>Shortage of skilled labour</b>, due to potential restrictions on non-UK workers and UK skilled workers seeking opportunities overseas increases cost to the project</p>	Medium Term	<p>Recruitment work on pipeline of candidates and other options to ensure we have a robust candidate pool and employer brand in order to attract and retain candidates</p>	<p>1. Marketing to ensure TfL is competitive in attracting skills from a diminishing pool</p>	Charlotte Johns	<p>Explore opportunities for lobbying for a fast track visa process for recognised scarce skills resources</p>	<p>Post article 50 and ongoing</p>
RMP-008	HR	<p><b>Increased immigration restrictions</b> result in scare skills becoming harder and/or more expensive to hire</p>	Medium Term	<p>Recruitment work on pipeline of candidates and other options to ensure we have a robust candidate pool and employer brand in order to attract and retain candidates</p>	<p>1. Marketing to ensure TfL is competitive in attracting skills from a diminishing pool 2. A competitive reward package is offered</p>	Charlotte Johns Peter Robinson		<p>Post article 50 and ongoing</p>
RMP-009	HR	<p><b>Due to actual or speculation around potential outcomes employee morale is impacted</b> (potentially impacted individuals and colleagues) affecting the performance of TfL staff and third party staff across the organisation. There could be a significant impact on cleaners and caterers for example.</p>	Medium Term	<p>Communication channels to enable communication to all staff and key suppliers</p>	<p>1. Communication is important to give a consistent message to all staff 2. WB to work with Comms team on wording and appropriate comm's channel(s) when key Government announcements are made that have a direct impact on TfL employees.</p>	Vicky Hall		<p>Post article 50 and ongoing as required</p>

RMP-010	HR / CD	<p><b>Property Construction Costs</b></p> <p>There is a risk that if immigration is limited, particularly for skilled workers, the UK will have higher construction costs if labour demand is higher than supply. This may also delay the construction of houses which will impact the mayoral priority of increasing the supply of houses in London.</p>	Medium Term	Cost plans adjusted to shows a 3% raise in costs for 2017-18 budget submission	<p>1. Continue to monitoring costs to continue to ensure previous adjustment of 2017-18 budget is feasible</p> <p>2. Investigating options to partner with the Tunnelling and Underground Construction Academy (TUCA) as a feeder to address shortage of construction labour supply</p>	<p><b>Property Development Director</b></p> <p>Lester Hampson</p>	<p>1. Appropriate lobbying for sensible UK approach to agreeing EU Nationals freedom of movement</p> <p>2. GLA / Government to incentivise construction courses</p>	
RMP-011	CD	<p><b>Advertising Income</b></p> <p>There is a risk that brexit will decrease UK GDP. GDP is linked to advertising income and so there is a risk that advertising income will reduce. (Rule of thumb: 1% decrease in GDP corresponds to 5% decrease in advertising income)</p>	Medium Term		<p>1. Work with Exterior to monitor this, however TfL Contracts currently include contracted income on the majority of income</p>	<p><b>Head of Commercial Media</b></p> <p>Chris Reader</p>		
RMP-012	CD	<p><b>Cost of Materials</b></p> <p>There is a risk that a hard brexit would stop the free movement of goods within the EU. This would lead to an increase in cost and shortage of construction materials through additional duties or restrictions. It is estimated that 63% of building materials are currently imported from the EU (eg. cladding, lifts, glass -Saint Gobain, timber)</p>	Medium Term	2-3% additional contingency included in appraisals and cost plans for 2017-18 budget submission	<p>1. Working with Developers who have existing supply chains in a competitive market</p>	<p><b>Property Development Director</b></p> <p>Lester Hampson</p>	Lobby for a tariff neutral position on construction materials	
RMP-013	CD	<p><b>Demand and Value of Property</b></p> <p>There is a risk that demand for Central london property will decrease due to less certainty which will result in less value in property development schemes. (60% of projects currently in zones 1 &amp; 2).</p> <p>Possible demand reduction for commercial properties will result in less value in property development commercial schemes</p>	Medium Term	Amended Investment Strategy to prioritise outer london projects.	<p>1. Investment Strategy now to focus on Zone 3+ to keep portfolio steady in the short-term. Paper to shortly advance to Commercial Development (CD) Investment Committee and then on to CD Advisory Board for endorsement</p> <p>2. Monitor movement of market and maintain feasibility pipeline to enable quick response when market improves.</p>	<p><b>Property Development Director</b></p> <p>Lester Hampson</p>		

RMP-014	CP	<b>Exchange Rates &amp; Tariffs</b> Adverse exchange rates and application of tariffs lead to an increase in the costs of goods manufactured and raw materials supplied from outside of the UK.	<b>Short Term</b>	Produced a forward registers of essential single sources	<ol style="list-style-type: none"> <li>1. Hedge FX where possible, issue guidance for Procurements (Commercial &amp; Treasury)</li> <li>2. Leverage - run similar procurements together for better value (Category Management)</li> <li>3. Increase competition - engage in more competitive practices, reduce single sourcing by challenging (where possible) all single source submissions</li> </ol>	David Wylie		
RMP-015	CP	<b>Reduction in Labour Supply</b> Ability of supply chain to be able to deliver requirements of Service Contracts reduced due to critical labour shortages, leading to contractual cost premiums and/or deterioration of services	<b>Medium Term</b>		<ol style="list-style-type: none"> <li>1. Increase competency of labour force through direct engagement of the supply chain</li> <li>2. Identify opportunities to build in house capability</li> <li>3. Develop wider supply chain opportunities</li> </ol>	David Wylie		
RMP-016	CP	<b>Increased Complexity of UK Trade</b> Willingness of global market to continue to do business with UK reduced, leading to smaller pool of potential suppliers and therefore reduced competition	<b>Medium Term</b>		<ol style="list-style-type: none"> <li>1. Encourage competition of the supply chain and develop wider supply chain opportunities</li> <li>2. Better assurance in relation to anti-competitive practices</li> </ol>	David Wylie	<ol style="list-style-type: none"> <li>1. Market facilitation - reductions in barriers to entry for new and emergent companies</li> <li>2. Explore proposition with HM Revenue &amp; Customs on whether possibility of claiming back payments made to EU Suppliers</li> </ol>	
RMP-017	CP	<b>Uncertain Regulatory Landscape</b> Uncertainty in regulatory scope causes ambiguity, leading to reduced procurement activity	<b>Medium Term</b>		<ol style="list-style-type: none"> <li>1. Encourage competition of the supply chain and seek development of wider supply chain opportunities</li> </ol>	David Wylie	<ol style="list-style-type: none"> <li>1. Clarity over Regulatory intent and understanding</li> <li>2. Ensure measures in the Great Repeal Bill include full consultation with stakeholders with any regulatory change.</li> </ol>	

