

TRANSPORT FOR LONDON  
EXECUTIVE COMMITTEE

Subject: Brexit Risks and Opportunities

Date: 22 December 2016

Consulted: Ian Nunn, Vernon Everitt

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I Purpose

- I.1 This paper provides an update on preparation for Brexit.
- I.2 The Executive Committee is asked to NOTE progress to date and AGREE proposed next steps.

2 Background and current status

- 2.1 The precise outcomes and timing of Brexit remain difficult to define. Consequently, in September the Exco agreed a process that was based on understanding and defining our major risk, and opportunity, areas. This was so we can effectively represent our requirements and, whatever shape emerges, are prepared to respond.
- 2.2 The process was based on the principle that assessment should be carried out by appropriate subject matter experts (SMEs) embedded in the business but that, due to the uniquely cross-cutting nature of Brexit, a consistent approach should be taken to give visibility and cohesion to our preparations. The PMO agreed to provide support to this process.
- 2.3 It was agreed that a community of interest (see Annex A for contributors) should be established around a core of subject matter leads nominated by appropriate MDs, which would work according to a common project plan:

Activity	Deadline
Confirm approach and community of interest membership	28 September
Develop outline project plan, risk assessment template, dashboard structure etc	20 October
Initial community of interest briefing and confirm domains	27 October
Subject matter experts to risk assess each topic area	24 November
Develop a reporting dashboard for Exco	15 December

- 2.4 This initial process is now complete and this paper describes interim conclusions and recommended next steps.

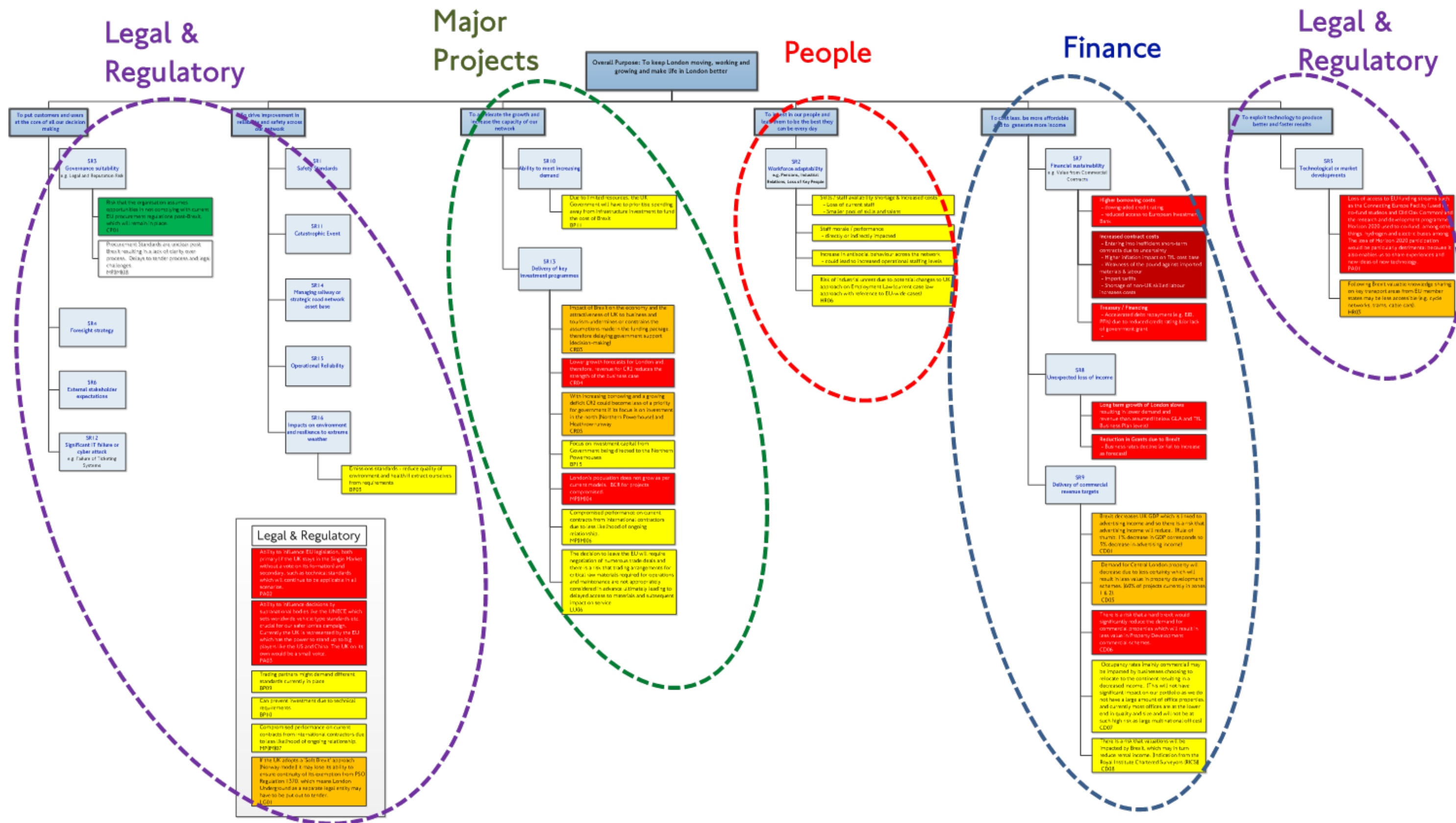
### **Method**

- 2.5 Using a common framework SMEs have identified and provided an estimated quantification of risk. Note that at this stage this has not comprised a formal Quantitative Risk Assessment but has used a notional impact/likelihood matrix based on risk management guidance adopted for Brexit (Brexit Scoring Scheme) to differentiate between the scoring of risks of lower financial impact (see Appendix D. Risk Scoring (Brexit)). This approach reflects the large number of potential Brexit scenarios, without at this point speculating on any specific outcome, such as a 'hard' or 'soft' Brexit, and has been taken in order to keep effort proportional. In any case, our analysis has been that the risk to us does not result from particular political versions of Brexit but on the consequences of uncertainty, rising costs, potential economic slowdown and changed relationships with EU institutions and regulatory processes.
- 2.6 Risks identified by SMEs have been combined where duplicative, clustered thematically and aligned to the sixteen strategic risks which were recently identified and presented to the Audit and Assurance Committee in October 2016. Where specific and clustered risks align to strategic risks these have been scored using the initial Brexit Scoring Scheme. However, for the area where risk has been considered the most significant (Finance) the strategic risks (SR7 and SR8) have been reviewed and coloured in accordance with the latest TfL Strategic Risk Criteria and Scoring Scheme, based on the assumed likelihoods and impacts of the risks beneath (see Appendix C. Risk Scoring (Strategic)).

### **Interim Findings**

- 2.7 The 'rolled up' risk clusters are shown in Fig I below (a more disaggregated presentation of these risks is provided at Annex B). As indicated in Fig I, the following four approximate themes were agreed by the SMEs:
- (a) Finance
  - (b) People
  - (c) Major projects
  - (d) Legal and Regulatory

Figure 1



<sup>1</sup> Note: Brexit risk scoring range used for these risks (see Appendix D. Risk Scoring (Brexit))

2.8 Of these the most significant and immediate risks relate to Finance and People. These are primarily risks to us as a business operation, rather than specifically as a transport operator, and are therefore expected to be broadly aligned with other London businesses and with City Hall (see Key Stakeholders, below).

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2.10 

2.11 Major project risks may be specific to projects but are considered a subset of the Finance and People clusters as they are driven largely by the same underlying issues – rising costs, risk to revenue forecasts and access to appropriately skilled staff at affordable prices, either directly or through our supply chain.

2.12 Legal and Regulatory risks are less clearly clustered as, although they are in a definable category they span a much broader range of topics, e.g. from card payment regulations, to data protection, to procurement standards to railway interoperability standards to as yet unwritten standards for connected and autonomous vehicles and requirements for competitive tendering of certain public services. These risks are expected to emerge over a longer time period, particularly as Government has made clear its intention to incorporate all extant European law into UK legislation in the first instance as part of the Great Repeal Bill. If this occurs it will be the process of selective repeal and the evolution of secondary legislation that is of most relevance to us. This will occur over a period of years and the extent to which it affects us will depend on wider strategic developments such as whether, and how, the UK remains part of the European single market.

### Direct Impacts

2.13 It was noted in the September paper to Exco that some Brexit impacts were not risks but were identifiable consequences of the Referendum result. These also relate to our two highest risk areas of People and Finance (including Major Projects).

- 2.14 Most specifically, the uncertainty that remains over the status of non-UK EU nationals that may be in our workforce might have an impact on staff morale. We do not hold specific information on how many of our people fall into that category but, if we are in line with the industry average, it would be c10-12% of workforce. It is impossible to quantify the results of this effect but we should be ready to issue appropriate communications to provide reassurance at key points in the Brexit process.
- 2.15 A second immediate effect is the relative fall in the value of sterling against other major currencies. Prior to the Brexit vote the EUR/GBP was around 0.7650 and initially after the vote it was 0.8340, a 9% increase in Sterling terms. It later reached a high of 0.9415 in early October which is a 23% increase from pre-Brexit. More recently it has fallen to 0.8400.
- 2.16 While it has not been possible systematically to assess the financial impact of the depreciation of Sterling on TfL, some examples of specific projects that have been affected are given below. In the next phase of this work, discussed below, it is suggested that consideration should be given to how best to quantify and manage this risk and how to provide contingency corporately or at project level.

(a) [REDACTED]

(b) [REDACTED]

(c) [REDACTED]

(d) [REDACTED]

## Key Stakeholders

2.17 Key stakeholders of direct relevance to us around this topic are:

2.18 **City Hall** – The Mayor has made some public statements regarding Brexit, both with regard to his expectation that London will continue to prosper economically; his desire for London’s key industries to continue to have access to the single market; and his determination that London will remain an open and inclusive city that will not tolerate division or hate crime. City Hall has not as yet publicly set out a more detailed agenda for Brexit, although they have secured a monthly meeting between the Mayor and David Davies. We have met with City Hall and outlined our initial areas of concern around Finance, People, Major Projects, and Legal and Regulatory at a high level. City Hall is minded to engage and consult with specific sectors in order to fully understand their issues and concerns around Brexit. We have signalled our willingness to feed into this process and to provide supportive evidence as required, which City hall have welcomed. City Hall have also provided some guidance on economic scenario modelling, which Finance colleagues are reviewing.

2.19 **DfT** are charged by the Department for Exiting The EU (Dexeu) with providing them with an overview of transport sector concerns. We had an initial meeting with them on 8 December, along with City Hall colleagues, to outline areas of key risk for us. DfT have not at this point been able to provide further clarification around Dexeu’s process but have suggested that we meet with HM Treasury, alongside City Hall colleagues, to discuss ways of mitigating some of our borrowing risks.

2.20 [REDACTED]

## Recommendations

2.21 Exco is asked to AGREE recommended next steps:

- (a) We should continue to rely as much as possible on existing processes but in recognition of the unique challenges of Brexit should maintain this cross-cutting risk register on a quarterly basis, with the next update in Mid March, prior to the Government's stated end of March deadline for triggering Article 50. The next iteration should include quantified assessment against potential Brexit scenarios.
- (b) We should continue with the strategy of leaving detailed consideration in the hands of SMEs embedded in the business but integrate assessments and ensure ongoing alignment and escalation of high-level risks through the Group risk process.
- (c) We should establish two specific expert working groups around the risk clusters of Finance and People. It is proposed these would act as sub-groups to the Community of Interest but be owned at Executive Committee level by the Chief Finance Officer and HR Director respectively, with the following outputs anticipated:
  - (i) Finance
    - (a) Quantified risk assessments for financial risks
    - (b) A risk management plan split into controls (current mitigations) and actions (future mitigations)
    - (c) Guidance for Major Project sponsors / deliverers for those responsible for major scheme business case development on assessing the financial risk from Brexit scenarios.
    - (d) Recommendations for assuring key suppliers.
  - (ii) People
    - (a) A risk management plan split into controls (current mitigations) and actions (future mitigations)
    - (b) A communications plan in preparation for Article 50 trigger.

2.22 Major Project risks should, in the first instance, be managed through ensuring appropriate participation in the Finance and People working groups. If sufficient evidence emerges that a specific Major Projects group would add value then one can be set up in due course.

2.23 Legal and Regulatory risks should remain devolved to the requisite SMEs but should be monitored via the quarterly risk register update.

2.24 We should pursue discussions with City Hall, DfT and HM Treasury to ensure our risks and issues are understood.

- 2.25 Sufficient PMO resource should be allocated to support the core process, with other parts of the business providing inputs as part of their BAU.
- 2.26 We should report on progress to Exco in mid-March.

### 3 Contact

#### 3.1 Contact: Stuart Reid

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## 4 Appendices

### A. Contributors to the risk assessment

CCT: Stuart Reid & Peter Preston

Commercial Development: Carrie Musson

Commercial Finance: Stephen Dadswell

Crossrail 2: Simon Adams

Employee Communications: Helen Theofanous

Finance: Philippa Farrell & Rohan Tambyraja

City Hall: Ian Catlow

Group Risk: Andrea Cutinha

HR: Kim Travers

Legal: Justine Curry & Mark McConochie

Major Projects (LU): Ibar Murphy

Major Projects (Surface): Martin Woodruff

Planning: Rhiannon Hill

Planning (Rail Development): Alan Smart

PMO Support: Justin Kennedy & Natalie Blagrove

Procurement: Peter Campbell & Steve Jackson

Public Affairs & Stakeholder Engagement: Dave McNeil & Steve Newsome

R&U Finance/Group Risk: Anthony Dunne

Treasury: Emanuela Cernoia-Russo

### B. Risk Areas

Finance risks (strategic risk scoring scheme applied)

Finance risks (strategic risk scoring scheme applied)

Finance risks (Brexit risk scoring scheme applied)

People risks (Brexit risk scoring scheme applied)

Major Projects risks (Brexit risk scoring scheme applied)

Legal & Regulatory risks (Brexit risk scoring scheme applied)

### C. Risk Scoring (Strategic)

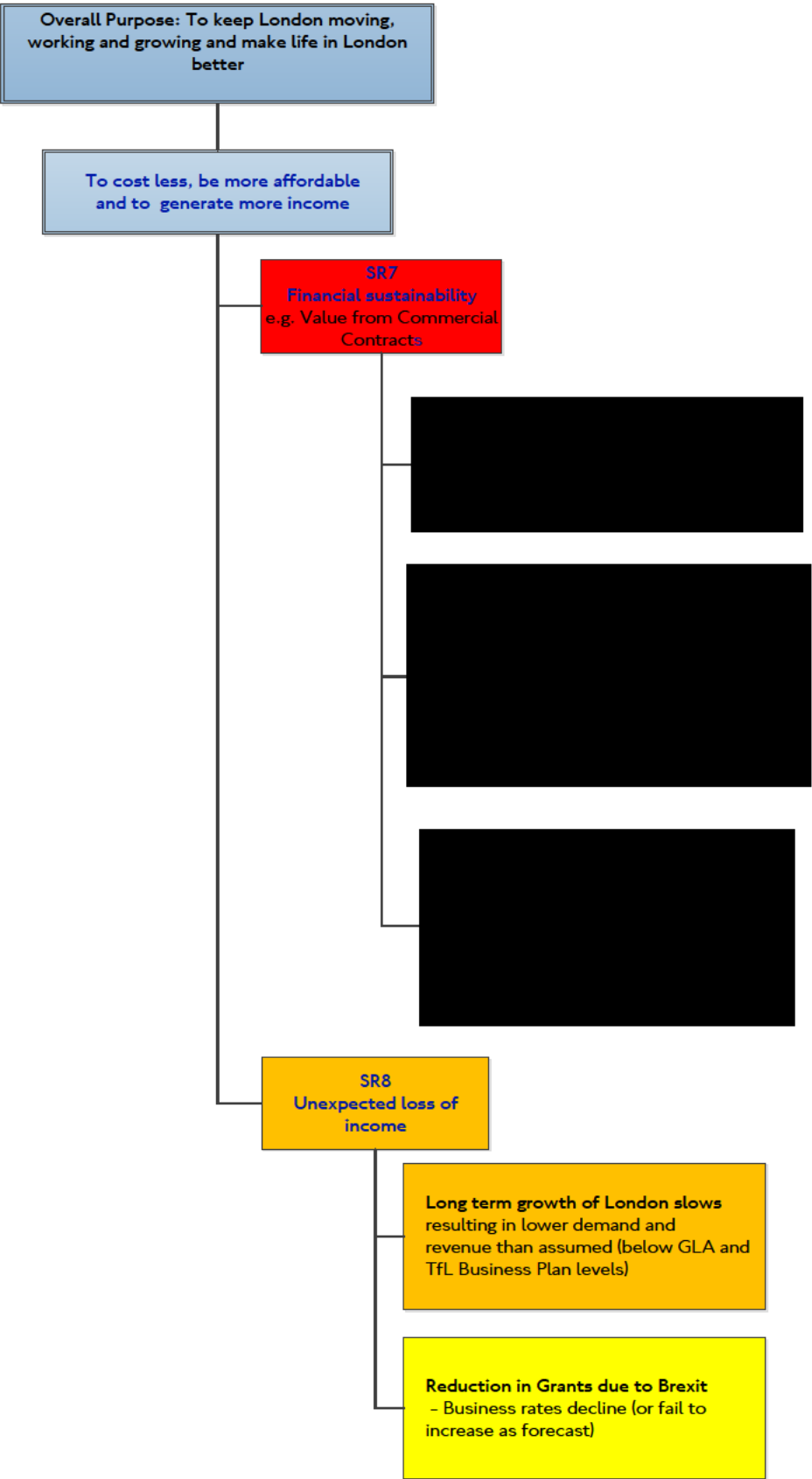
TfL strategic risk scoring scheme

### D. Risk Scoring (Brexit)

Brexit risk scoring scheme



Finance risks (strategic risk scoring scheme applied)<sup>2</sup>



<sup>2</sup> **Note:** TfL Strategic Risk Criteria and Scoring Scheme used for these risks (Appendix C)

Finance risks (strategic risk scoring scheme applied)<sup>3</sup>[illegible]

<sup>3</sup> **Note:** TFL Strategic Risk Criteria and Scoring Scheme used for these risks (Appendix C)

### Finance risks (Brexit risk scoring scheme applied)

SR	Risks	Likelihood	Impact	Score	Mitigations
Overall Purpose: To keep London moving, working and growing and make life in London better					
To cost less, be more affordable and to generate more income					
SR9	Delivery of commercial revenue targets				

People risks (Brexit risk scoring scheme applied)

Risks		Likelihood	Impact	Score	Mitigations
Overall Purpose: To keep London moving, working and growing and make life in London better					
To invest in our people and lead them to be the best they can be every day					
SR2	Workforce adaptability e.g. Pensions, Industrial Relations, Loss of Key People				
Skills / staff availability shortage & increased costs - Loss of current staff - Shrinkage of skilled-labour pool - Shortage of low-cost labour - Admin. &/or recruitment costs to replace leavers - UK and London (& TfL) less attractive place to work		L	M		- Marketing to ensure TfL is competitive in attracting skills from a diminishing pool - TfL-brand to continue to be marketed as 'inclusive' and supportive of the Mayor's 'open' for business message - Effective negotiations with the third parties
Staff morale / performance - directly or indirectly impacted (colleagues, job security, political environment, future of economy, etc.)		L	M		- Relevant and timely communications to employees to be deployed
Increase in antisocial behaviour across the network - could lead to increased operational staffing levels (BTP staffing levels also) and costs associated		M	L		- Review of HSE incidents on network for evidence of
Risk of industrial unrest due to potential changes to UK approach on Employment Law (current case law approach with reference to EU-wide cases)		L	M		- Appropriate lobbying for sensible UK approach to changes to the legal approach, and work closely with the TUs on how the approach is adopted.

## Appendix B. Risk Areas

### Major Projects risks (Brexit risk scoring scheme applied)

SR	Risks	Likelihood	Impact	Score	Mitigations
Overall Purpose: To keep London moving, working and growing and make life in London better					
To accelerate the growth and increase the capacity of our network					
SR10 Ability to meet increasing demand					
	Due to limited resources, the UK Government will have to prioritise spending away from infrastructure investment to fund the cost of Brexit	M	L		Lobby government who will be looking to stimulate the UK economy during and post Brexit and the triggering of article 50.
SR13 Delivery of key investment programmes					
	Lower growth forecasts for London and, therefore, revenue for CR2 reduces the strength of the business case	M	VH		Monitor growth and revisit business case to confirm the integrity of business case at relevant intervals
	With increasing borrowing and a growing deficit CR2 could become less of a priority for government if its focus is on investment in the north (Northern Powerhouse) and Heathrow runway	L	VH		Lobby government to stress the importance of London is driving the UK economy
	Focus on investment capital from Government being directed to the Northern Powerhouses	M	L		Low currently could become high. Lobby government to stress the importance of London in driving the UK economy
	London's population does not grow as per current models. BCR for projects compromised.	M	VH		Scenario plan the impact of population scenarios on major business cases.
	Compromised performance on current contracts from international contractors due to less likelihood of ongoing relationship.	L	M		Performance monitoring
	The decision to leave the EU will require negotiation of numerous trade deals and there is a risk that trading arrangements for critical raw materials required for operations and maintenance are not appropriately considered in advance ultimately leading to delayed access to materials and subsequent impact on service	M	L		Detailed understanding of critical raw materials likely to be impacted by revised trading arrangements

## Appendix B. Risk Areas

### Legal & Regulatory risks (Brexit risk scoring scheme applied)

SR	Risks	Likelihood	Impact	Score	Mitigations
Overall Purpose: To keep London moving, working and growing and make life in London better					
To put customers and users at the core of all our decision making					
SR3	Governance suitability e.g. Legal and Reputation Risk				
	Risk that the organisation assumes opportunities in not complying with current EU procurement regulations post-Brexit, which will remain in place.	VL	VL		Training and messaging to the relevant parts of the org
To drive improvement in reliability and safety across our network					
SR16	Impacts on environment and resilience to extreme weather				
	Emissions standards - reduce quality of environment and health if extract ourselves from requirements	L	L		Continue to support the Mayor's agenda and lobby for emission standards
To exploit technology to produce better and faster results					
SR5	Technological or market developments				
	Loss of access to EU funding streams such as the Connecting Europe Facility (used for co-fund studios and Old Oak Common) and the research and development programme Horizon 2020 used to co-fund, among other things, hydrogen and electric buses among. The loss of Horizon 2020 participation would be particularly detrimental because it also enables us to share experiences and new ideas of new technology.	H	H		Third party countries can participate in Horizon 2020 but finding willing partners will be difficult. Maintain strong links with our European stakeholder associations who help coordinate bids.
	Following Brexit valuable knowledge sharing on key transport areas from EU member states may be less accessible (e.g. cycle networks, trams, cable cars).	M	M		Lobby with stakeholder bodies for continued collaboration
Legal & Regulatory (not aligned to single Strategic Risk)					
	Ability to influence EU legislation, both primary (if the UK stays in the Single Market without a vote on its formation) and secondary, such as technical standards which will continue to be applicable in all scenarios.	H	M		Maintain strong links with our European stakeholder associations and influence their policy positions to support our aims.
	Ability to influence decisions by supranational bodies like the UNECE which sets worldwide vehicle type standards etc, crucial for our safer lorries campaign. Currently the UK is represented by the EU which has the power to stand up to big players like the US and China. The UK on its own would be a small voice.	H	M		Maintain strong links with European stakeholder associations to ensure our agenda is reflected in the EU's negotiating position as far as possible. Not forgetting the DfT although it will have an insignificant role.
	Trading partners might demand different standards currently in place	L	L		
	Can prevent investment due to technical requirements	L	L		
	Uncertainty over technical standards can lead to delay an inconsistent application. In hard / soft Brexit scenarios TFL will lose the ability to influence the setting of applicable standards.	L	M		Scenario plan impact of major standards sensitivities.
	If the UK adopts a 'Soft Brexit' approach (Norway model) it may lose its ability to ensure continuity of its exemption from PSO Regulation 1370, which means London Underground as a separate legal entity may have to be put out to tender.	L	H		Lobby at the right level to ensure this is considered as part of any Brexit deal (e.g. exemption remains)

## TfL Strategic Risk Scoring Scheme

LIKELIHOOD – Once or more per year >75% (5)		
IMPACT – Very High (A)	Financial	(A) >£1 billion
	Reputation	<p>Risk results in significant ongoing negative media coverage &amp; major loss of confidence/ significant intrusion by regulators/ stakeholders leading to one of the following outcomes:</p> <ul style="list-style-type: none"> <li>• Fundamental changes to the TfL operating model/structures</li> <li>• High profile management changes (e.g. Managing Directors MDs)</li> <li>• Fundamental changes to safety procedures</li> </ul> <p>OR</p> <p>A service delivery or project incident which leads to multiple fatalities or multiple permanent disabling injuries to customers, staff or third parties</p> <p>OR</p> <p>Impact on multiple modes of transport as a result of more than one of the following:</p> <ul style="list-style-type: none"> <li>• Full/part line suspension of more than 1 line for more than 1 day</li> <li>• Negative impact on journey time reliability at peak periods affecting a high number of high flow corridors on the TfL Road Network (TLRN) and occurs more than once a week over the course of several weeks</li> <li>• Full/part line suspension on 1 line for more than a week</li> <li>• Severe over crowding of affected areas of the bus network, contributing to higher safety risks</li> <li>• Very high impact on non time elements of customers journeys e.g. ambience, staff customer service</li> </ul>

LIKELIHOOD – Once or more in 2 years >50-75% (4)		
IMPACT – High (B)	Financial	(B) £500 million – £1 billion
	Reputation	<p>Risk results in ongoing negative media coverage &amp; loss of confidence/significant intrusion by regulators/stakeholders leading to one of the following outcomes:</p> <ul style="list-style-type: none"> <li>• Sustained (i.e. one week+) diversion of MDs and senior managers' time, energy &amp; resources away from business as usual activities &amp; planned projects, to deal with feedback</li> <li>• Loss of support leading to removal of key funding</li> <li>• Loss of trust leading to fundamental changes to governance arrangement.</li> <li>• Series of strikes impacting operations (bus or tube network)</li> </ul> <p>OR</p> <p>A service delivery or project incident which leads to a single fatality or permanent disabling injury to customers, staff or third parties</p> <p>OR</p> <p>Impact on multiple modes of transport:</p> <ul style="list-style-type: none"> <li>• Negative impact on journey time reliability at peak periods affecting a number of high flow corridors on the TLRN and occurs more than once a week for a few weeks</li> <li>• Full, or part line suspension for more than 1 line for a whole day</li> <li>• Full or part line suspension on 1 line for several days</li> <li>• Severe over crowding of affected areas of the bus network, contributing to higher safety risks</li> <li>• High impact on non-time elements of customers journeys e.g. ambience, staff customer service</li> </ul>

LIKELIHOOD - Between once in 2 to once in 5 years >20-50% (3)		
IMPACT - Medium (C)	Financial	(C) £100 million - £500 million
	Reputation	<p>Risk results in negative media coverage &amp; loss of confidence/increase intrusion by regulators/stakeholders leading to one of the following outcomes:</p> <ul style="list-style-type: none"> <li>• Short-term (less than one week) diversion of MDs and senior managers' time, energy and resources away from BAU activities, &amp; planned projects</li> <li>• Sustained (i.e. more than one week) diversion of middle managers' time, energy and resources away from BAU activities and planned projects, to deal with feedback</li> <li>• Limited industrial actions such as a one-off strike or local strikes impacting operations (i.e. trains cancelled and/or stations closed)</li> </ul> <p>OR</p> <p>A service delivery or project incident which leads to a major injury or life threatening injury to several customers, staff or third parties</p> <p>OR</p> <p>More than one of the following impacting on multiple modes of transport:</p> <ul style="list-style-type: none"> <li>• Full/part suspension or failed Depot access</li> <li>• Repeated severe delays (= severe delays occurring more than once over the course of the week)</li> <li>• Negative impact on journey time reliability occurring more than once a week at peak periods on the TLRN</li> <li>• Over crowding of some affected areas of the bus network, contributing to higher safety risks</li> <li>• Journey time exceeds the target for "Excess Wait Time" once a week for several weeks on a number of High Frequency routes</li> <li>• Impact of non-time elements of customers journeys e.g. ambience, staff customer service</li> </ul>

LIKELIHOOD - Less than once in 5 years >5-20% (2)		
IMPACT - LOW (D)	Financial	(D) £50 million - £100 million
	Reputation	<p>Risk results in short term negative media coverage or impact on relations with regulators/stakeholders leading to one of the following outcomes:</p> <ul style="list-style-type: none"> <li>• Significant negative feedback from customers via the Customer Service Centre or from stakeholders via media outlets (Twitter, blog etc.)</li> <li>• Short-term (less than one week) diversion of middle managers' time, energy &amp; resources away from BAU activities &amp; planned projects</li> <li>• Unions building a case for action</li> </ul> <p>OR</p> <p>A service delivery or project incident which leads to minor injury or minor health effects to customers, staff or third parties</p> <p>OR</p> <p>Low impact to services across multiple modes:</p> <ul style="list-style-type: none"> <li>• Major delay (once instance of severe delay) on a line or repeated minor delays occurring daily over the course of a week</li> <li>• No impact to overall journey time reliability, however localised impact to a number of high flow corridors on the TLRN</li> <li>• Major station closure or over crowding on localised routes affected by disruption</li> <li>• Journey time exceeds the target for "Excess Wait Time" once a week for several weeks on a small number of High Frequency routes</li> <li>• Impact on non-time elements of customers journeys e.g. ambience, customer service</li> </ul>

# Appendix C. Risk Scoring (Strategic)

LIKELIHOOD - Less than once in 20 years <=5% (I)		
IMPACT - VERY LOW (E)	Financial	(E) <£50 million
	Reputation	<p>Risk has negligible impact on regulators/ stakeholders but does impact customers &amp; employees leading to one of the following outcomes:</p> <ul style="list-style-type: none"> <li>Low level of negative feedback from customers via the Customer Service Centre or from stakeholders via media outlets -(Twitter, blogs)</li> </ul> <p>OR</p> <p>Injury requiring first aid for staff, customers or third parties</p> <p>OR</p> <p>Negligible impact across any mode of transport:</p> <ul style="list-style-type: none"> <li>No impact to overall journey time reliability however localised impact to a small number of high flow corridors on the TLRN</li> <li>Minor delay or closure of a major station</li> <li>Negligible impact on non-time elements of customers journeys e.g. ambience, staff customer service, information</li> </ul>

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)						



## Appendix D. Risk Scoring (Brexit)

### Brexit Risk Scoring Scheme

All numbers in £K

	Name of schema		Brexit Risk Scoring Scheme
Cost	VH	5	£50,000
(£K)	H	4	£10,000
	M	3	£5,000
	L	2	£1,000
	VL	1	£0
Time	VH	5	26
(Weeks)	H	4	13
	M	3	4
	L	2	1
	VL	1	0
Likelihood	VH	5	81
(%)	H	4	51
	M	3	26
	L	2	5
	VL	1	0

Likelihood	Very High	>81%	5	11	16	20	23	25
	High	51-81%	4	7	12	18	21	24
	Medium	26-50%	3	4	8	13	19	22
	Low	6-25%	2	2	5	9	14	17
	Very Low	0-5%	1	1	3	6	10	15
				1	2	3	4	5
				Very Low	Low	Medium	High	Very High
				Impact				