

TRANSPORT FOR LONDON

EXECUTIVE COMMITTEE

Subject: Brexit Update

Date: 19 April 2017

Consulted: Ian Nunn, Tricia Wright, Vernon Everitt

1 Purpose

- 1.1 This paper is for NOTING. It provides a further update to the paper in December 2016 that set out the risks and opportunities resulting from the Brexit vote.
- 1.2 The Executive Committee is asked to NOTE the proposed approach.

2 Background and current status

- 2.1 Following the Brexit Referendum result in June 2016, a cross-cutting piece of work was commissioned to ensure that we were prepared for the consequences of Brexit.
- 2.2 Given the uncertainties surrounding Brexit, the nature of the agreement with the EU27 and the future shape of trading relationships, it was agreed that a risk-assessment approach should be taken.
- 2.3 The strategy has been to strike a balance between drawing on the knowledge and contributions of subject matter experts embedded across the business while providing an overarching framework sufficient to ensure a coherent and comprehensive approach that enables internal and external assurance.
- 2.4 The initial risk assessment was completed in December 2016 and reported to the Executive Committee. It identified four primary risk clusters: People, Finance, Major Projects, and Law and Regulation. It also identified some areas in which we currently lack key information (eg the proportion of our people that could lose their right to work in the UK under different Brexit scenarios or our total exposure to exchange rate fluctuations). Of the primary risk clusters People and Finance were identified as the most immediate and acute. Crucially the assessment confirmed that the key risk items (eg shortage of skills, exchange rate fluctuations) are not unique to Brexit and are already subject to action. The effect of Brexit is to potentially increase the probability and severity of these risks.



- 2.5 The approach recommended to Executive Committee in December 2016 was to develop initial management plans for People and Financial risks with sponsorship from Tricia Wright and Ian Nunn respectively.
- 2.6 These have now been developed and are attached at Appendix I. They have been routed via the HR and Finance Leadership teams. The principle remains that the technical aspects of this work should remain embedded with the subject matter experts in the appropriate business areas and, wherever possible, be delivered through existing processes and activity. Carefully balanced against this, however, will be the continuing need to provide an overview to give assurance and to promote continuity and consistency.
- 2.7 The risk assessments and action plans have been developed with support from TfL PMO and are necessarily short-range in focus. As Article 50 negotiations proceed over the coming months we will be able to make longer-range assessments as to which risks are crystallising and require further action. Accordingly, it is recommended that we sustain this approach of maintaining an overarching risk assessment while facilitating coordinated action across relevant teams.

3 Contact

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4 Appendix

- 4.1 Brexit risk management actions and outline timing.



RISK MANAGEMENT PLANS FOR EXITING EU (BREXIT) FINANCE AND PEOPLE (KEY RISKS)

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]	Ian Nunn Simon Kilonback	[Redacted]	[Redacted]
RMP-002	Treasury	[Redacted]	Short Term	[Redacted]	[Redacted]	Ian Nunn	[Redacted]	[Redacted]
RMP-003	Treasury	[Redacted]	Short Term	[Redacted]	[Redacted]	Ian Nunn David Wiley	[Redacted]	[Redacted]

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RMP-004	Treasury	[REDACTED]	Short Term	[REDACTED]	[REDACTED]	Ian Nunn	[REDACTED]	
RMP-005	Treasury	[REDACTED]	Short Term	[REDACTED]	[REDACTED]	Graeme Craig Lester Hampson		
RMP-006	HR	Skills/staff availability shortage & increased costs -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 (&TfL) less attractive place to work	Medium Term	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	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.	Charlotte Johns	Explore opportunities for lobbying for a fast track visa process for recognised scarce skills resources	Ongoing (subject to review following article 50)
RMP-007	HR	Shortage of skilled labour , due to potential restrictions on non-UK workers and UK skilled workers seeking opportunities overseas increases cost to the project	Medium Term	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	1. Marketing to ensure TfL is competitive in attracting skills from a diminishing pool	Charlotte Johns	Explore opportunities for lobbying for a fast track visa process for recognised scarce skills resources	Ongoing (subject to review following article 50)
RMP-008	HR	Increased immigration restrictions result in scarce skills becoming harder and/or more expensive to hire	Medium Term	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	1. Marketing to ensure TfL is competitive in attracting skills from a diminishing pool 2. A competitive reward package is offered	Charlotte Johns Peter Robinson		Ongoing (subject to review following article 50)

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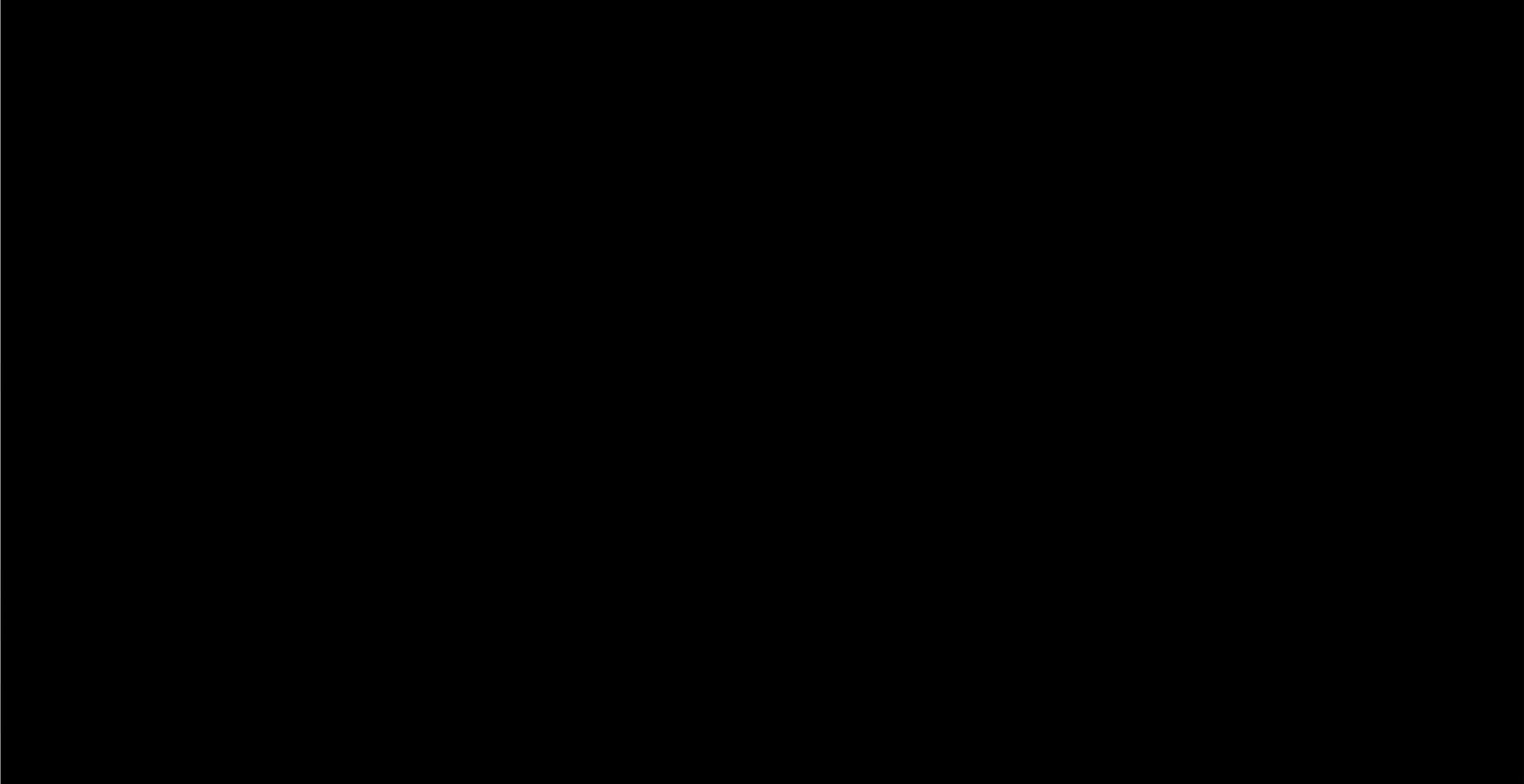
Risk Mngt Plan Ref. No.	Work-Stream	Event / Effect	Time to Impact	Existing Controls	Mitigation Actions Internal	Mitigation Owners Internal	Requirements from Government (Actions)	Date Mitigations to be completed by
RMP-009	HR	Due to actual or speculation around potential outcomes employee morale is impacted (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.	Short Term	Communication channels to enable communication to all staff and key suppliers	<ol style="list-style-type: none"> 1. Communication is important to give a consistent message to all staff 2. WB to work with Comms team on wording for a note and appropriate comm's channel(s) for when the announcement is made. 	Vicky Hall		Post article 50 and ongoing as required
RMP-010	HR / CD	Property Construction Costs 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.	Medium Term	Cost plans adjusted to shows a 3% raise in costs for 2017-18 budget submission	<ol style="list-style-type: none"> 1. Continue to monitoring costs to continue to ensure previous adjustment of 2017-18 budget is feasible 2. Investigating options to partner with the Tunnelling and Underground Construction Academy (TUCA) as a feeder to address shortage of construction labour supply 	Property Development Director Lester Hampson	<ol style="list-style-type: none"> 1. Appropriate lobbying for sensible UK approach to agreeing EU Nationals freedom of movement 2. GLA / Government to incentivise construction courses 	
RMP-011	CD	Advertising Income 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)	Medium Term		<ol style="list-style-type: none"> 1. Work with Exterion to monitor this, however TfL Contracts currently include contracted income on the majority of income 	Head of Commercial Media Chris Reader		
RMP-012	CD	Cost of Materials 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)	Medium Term	2-3% additional contingency included in appraisals and cost plans for 2017-18 budget submission	<ol style="list-style-type: none"> 1. Working with Developers who have existing supply chains in a competitive market 	Property Development Director Lester Hampson	Lobby for a tariff neutral position on construction materials	
RMP-013	CD	Demand and Value of Property 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 & 2). Possible demand reduction for commercial properties will result in less value in property development commercial schemes	Medium Term	Amended Investment Strategy to prioritise outer london projects.	<ol style="list-style-type: none"> 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 2. Monitor movement of market and maintain feasibility pipeline to enable quick response when market improves. 	Property Development Director Lester Hampson		
RMP-014	CP	Exchange Rates & Tariffs 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.	Short Term		<ol style="list-style-type: none"> 1. Hedge FX where possible 2. Leverage - run similar procurements together for better value (Category Management) 3. Increase competition - engage in more competitive practices, reduce single sourcing 	Head of Procurement		

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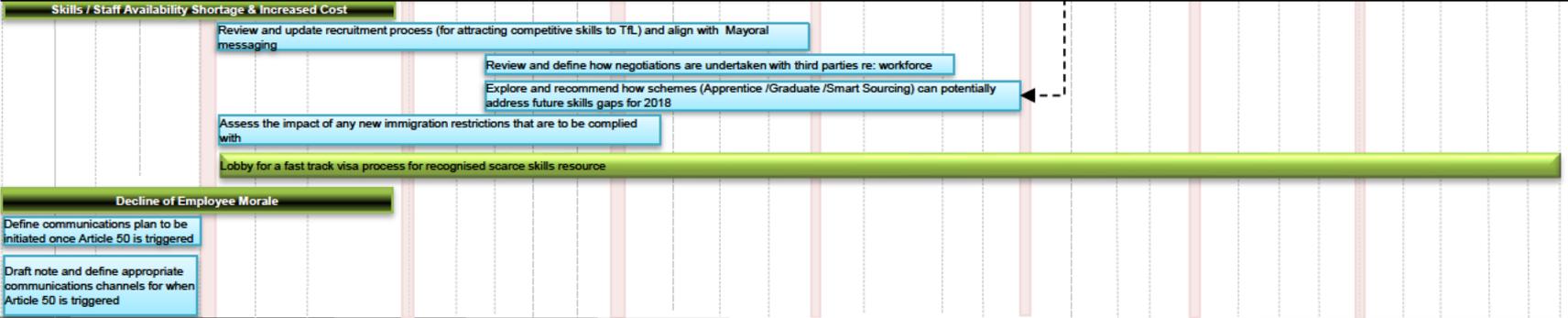
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RMP-015	CP	Reduction in Labour Supply Ability of supply chain to be able to deliver requirements of Service Contracts reduced due to critical labour shortages, leading to contractual cost premiums and/or deterioration of services	Medium Term		<ol style="list-style-type: none"> Increase competency of labour force through direct engagement of the supply chain Identify opportunities to build in house capability 	Head of Procurement		
RMP-016	CP	Increased Complexity of UK Trade Willingness of global market to continue to do business with UK reduced, leading to smaller pool of potential suppliers and therefore reduced competition	Medium Term		<ol style="list-style-type: none"> Encourage competition of the supply chain Better assurance in relation to anti-competitive practices 	Head of Procurement	<ol style="list-style-type: none"> Market facilitation - reductions in barriers to entry for new and emergent companies Explore proposition with HM Revenue & Customs on whether possibility of claiming back payments made to EU Suppliers 	
RMP-017	CP	Uncertain Regulatory Landscape Uncertainty in regulatory scope causes ambiguity, leading to reduced procurement activity	Medium Term		<ol style="list-style-type: none"> Encourage competition of the supply chain 		<ol style="list-style-type: none"> Clarity over Regulatory intent and understanding Ensure measures in the Great Repeal Bill include full consultation with stakeholders with any regulatory change. 	

March 2017				April 2017				May 2017				June 2017				July 2017				August 2017				September 2017				October 2017						
06	13	20	27	03	10	17	24	01	08	15	22	29	05	12	19	26	03	10	17	24	31	07	14	21	28	04	11	18	25	02	09	16	23	30

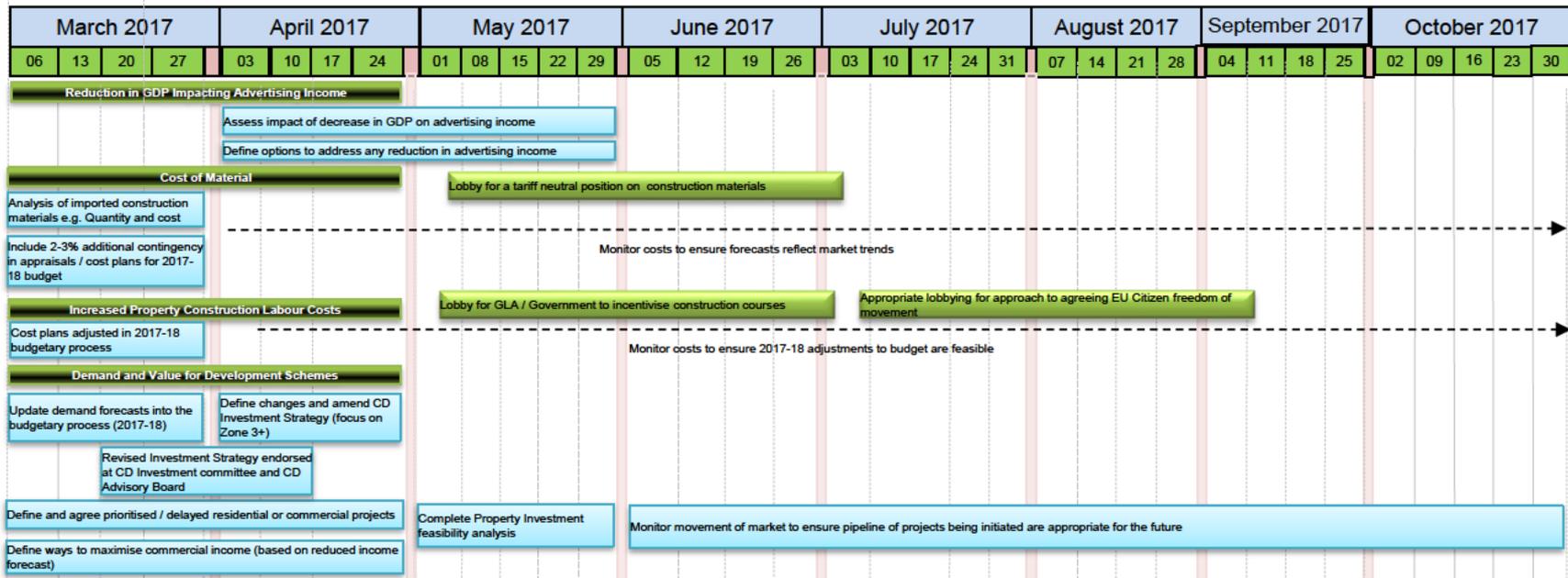
Finance



HR - People



Commercial Development



Procurement

