

Date: 14 June 2016

Item: Strategic Risk Management Update

This paper will be considered in public

1 Summary

- 1.1 The purpose of this paper is to update the Committee with progress of the work undertaken to improve the Strategic Risk Management process:
 - (i) a revised set of strategic risks; and
 - (ii) an outline roadmap for how we will deliver our Strategic Risk Management plan over the next two years to its target maturity state
- 1.2 A more detailed plan will be considered at the meeting of 11 October 2016.

2 Recommendations

2.1 The Committee is asked to:

- (a) note the list of updated strategic risks; and
- (b) note the outline roadmap detailing how we will deliver Strategic Risk Management over the next two years

3 Background

- 3.1 Over the past few months we have begun a review of the risk management process in TfL with particular focus on Strategic Risk Management.
- 3.2 In the March 2016 Audit and Assurance Committee meeting we emphasised the need to improve the overall risk management process and suggested changes to:
 - (i) the Strategic Risk Management approach; and
 - (ii) the design of reporting documentation.
- 3.3 After these were endorsed at the meeting, we agreed that next steps would involve working with Ernst & Young (EY) to achieve our target state of risk maturity and creating an updated set of strategic risks which represents our view of the most significant risks facing TfL.
- 3.4 Much of the input for the updated set of strategic risks was generated in an interactive Risk “workshop” session facilitated by EY, at the Executive Committee Away Day on 3 March 2016. These can be found in Section 4. While covering concepts such as risk appetite, risk language and risk methodology, the key purpose of the session was to engage the Executive Committee in determining TfL’s key strategic risks.

- 3.5 We consolidated output from this workshop and issued an updated set of strategic risks, which was reviewed at the Executive Committee Meeting on 19 May 2016. Following on from this workshop, we have worked with EY to construct an outline roadmap for how we will deliver the Strategic Risk Management plan over the next two years. This is described in Section 5 and Appendix 1.

4 Updated Strategic Risks

- 4.1 The updated draft list of fourteen strategic risks is provided below:

SR 1	TfL workforce and governance structures become unfit for purpose
SR 2	TfL does not change quickly enough
SR 3	TfL does not keep up with technology and/or market changes leading to loss of franchise
SR 4	Change to external requirements affecting TfL's long term outcomes
SR 5	TfL does not respond to increasing financial challenges
SR 6	TfL does not respond to externally driven, sudden loss of revenues
SR 7	TfL does not develop or manage secondary income streams effectively
SR 8	TfL is unable to cope with increased demand for its services
SR 9	TfL fails to prepare for or deal with a catastrophic event
SR 10	TfL suffers significant IT failure or attack
SR 11	TfL fails to deliver key investment programmes, or elements of key programmes
SR 12	TfL fails to maintain elements of asset base resulting in asset failure or operational decline
SR 13	TfL is held responsible for environmental deterioration
SR 14	TfL fails to meet operational or safety targets

5 Outline Roadmap

- 5.1 We are aiming for the “advanced” target risk management maturity level for TfL, based on our discussions at the Risk workshop at the Executive Committee Away Day. This is based on a five point risk maturity scale (Basic, Developing, Evolved, Advanced, Leading), with “risk maturity” summarising capability and sophistication of risk management activities, techniques and structures.
- 5.2 We would broadly define “advanced” as where:

- (i) there is clear, well defined and documented business ownership of risks, and risk management is aligned to business strategy and planning at Group and divisional levels;
 - (ii) risks are managed through consistent processes and there are systems supporting risk management decisions; and
 - (iii) risk management is aligned across key risk, control and compliance functions
- 5.3 A detailed description of what this entails over six categories of risk activity (Governance, Strategy, Behaviours and Culture, Process and Methodology, Co-ordinated Risk Assurance and Technology) is included in Appendix 1.
- 5.4 By way of comparison, it is worth noting that a "leading" risk management maturity level would correspond to that of a highly regulated industry (e.g. Financial Services or Oil and Gas). While the Executive Committee agreed that TfL should develop its risk management capabilities, it was considered that risk management activities and structures should be commensurate with the nature of TfL's business.
- 5.5 Appendix 1 also sets out an outline roadmap for the change programme that will achieve the target risk maturity level. The timeline is set out in summary form, and subsequently broken down into greater detail over the six areas of activity identified in the "advanced" target maturity level.

6 Next Steps

- 6.1 A Strategic Risk workshop, facilitation supported by EY, will be held with the Audit and Assurance Committee in October 2016, to discuss the updated list of strategic risks, as well as detailed reports for each of these risks.
- 6.2 Assuming the Audit and Assurance Committee agree with this information, our two year plan will involve working with the Business Areas to ensure that TfL achieve an "advanced" risk maturity target state which is comparable with external organisations. The longer term objective is to reach a clear understanding of Strategic, Operational, Project and Programme Risk throughout the business and how they fit together.

List of appendices to this report:

Appendix 1: Outline Roadmap

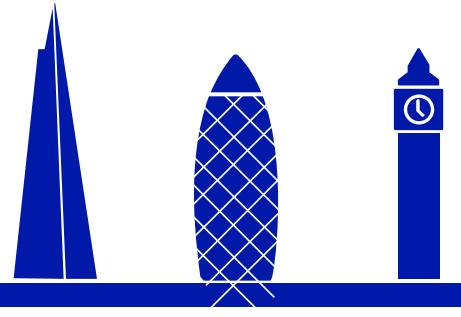
List of Background Papers:

None

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Appendix I - Outline Roadmap

- The two year timescale has been selected as reasonable target based on a requirement for a moderate level of additional resources and support. We anticipate that the completion in this period will require support for the existing group risk function both in terms of expert assistance for individual elements and more junior support for the delivery of activities across the breadth of TfL's divisions and corporate functions
- A faster delivery timeline would require further resource and support
- A more detailed roadmap will be completed for the October Audit and Assurance Committee and this will include a detailed resource requirements based on this timeline but some support will be required immediately in order to meet the first milestone



EVERY JOURNEY MATTERS

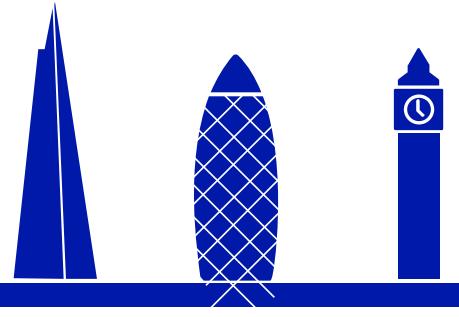
Milestone dates



- Progress reports will be delivered at Audit and Assurance Committee (AAC) meetings.
- A progress report will be provided at each AAC meeting and alternate meetings will represent the milestone dates to assess progress toward reaching the target risk management capability
- Reporting formats will be agreed at the first milestone date i.e. October 2016

Milestone dates:

- October 2016
- March 2017
- October 2017
- June 2018
- October 2018



TfL Target Risk Maturity Level

Governance	<ul style="list-style-type: none"> - Organisational structure for risk management defines roles / responsibilities, accountabilities of bodies (e.g. risk committees with clear terms of reference) and risk responsible individuals - Consistent reporting structure in place at Group and Business Areas, including Dashboard style Reporting, escalation processes and metrics e.g Key Risk Indicators
Strategy	<ul style="list-style-type: none"> - Risk strategy, goals and objectives are clearly defined (including assessment of current and target level of risk maturity) - Clear links between objectives, strategy and understanding of risk - Risk Management skills and capabilities are aligned to vision and strategic goals of organisation - Well understood risk appetite cascaded through the organisation - Risk policy and framework documented and understood throughout TfL
Behaviours & Culture	<ul style="list-style-type: none"> - Clear tone at the top cascaded through the organisation - Employees at all levels are aware of the importance of risk management relevant to their role - Risk related training formally exists for Group and all Business Areas
Process & Methodology	<ul style="list-style-type: none"> - Clear relationship between Strategic, Operational, Project and Programme risk - Formal and consistent risk assessment approach to identify and evaluate emerging risks - Risks are continuously assessed and monitored, and in line with Risk Appetite
Co-ordinated Risk Assurance	<ul style="list-style-type: none"> - Clear and documented mandates for the scope of risk coverage for each risk function - Integrated planning and coordination of governance, risk and compliance functions - Risk Assessments drives Internal Audit prioritisation, and Internal Audit to undertake independent operational reviews
Technology	<ul style="list-style-type: none"> - Risk functions use technology (ARM system) as far as possible, to support the effective and efficient identification, analysis and monitoring of Strategic, Operational, Project and Programme risk

Summary Roadmap

