

Date: 3 July 2024

**Item: Enterprise Risk Update – Financial Sustainability
(Places-L0-03)**

This paper will be considered in public

1 Summary

- 1.1 This paper provides an overview of Places for London Limited's Level 0 Enterprise Risk 'Financial Sustainability' (Places-L0-3).
- 1.2 The risk is defined as the 'ability to maintain a healthy and viable financial position over the short, medium and long term. It considers Places for London's capacity to generate and manage financial resources in a way that allows it to meet its present financial needs while also ensuring its ability to meet future obligations and pursue growth objectives.'
- 1.3 A paper is included on Part 2 of the agenda which contains exempt supplementary information. The information is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the business affairs of TfL. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

2 Recommendation

- 2.1 **The Committee is asked to note the paper and the exempt supplementary information on Part 2 of the agenda.**

3 Background

- 3.1 This Enterprise Risk relates to the potential impacts arising from a failure to maintain a financially sustainable position. These could include reduced ability to fund operational and capital needs, inability to meet debt obligations, decrease service levels to tenants, failure to achieve strategic housing targets and potential insolvency. A failure to maintain a financially sustainable position could also negatively impact, public, stakeholder, shareholder and investor perception of Places for London's financial management capability leading to higher borrowing costs and difficulty securing funding.
- 3.2 If this risk were to materialise, it could result in significant financial distress, impacting the organisation's ability to fund ongoing operations, meet capital investment needs and fulfil strategic objectives. This could lead to reduced income, inability to maintain assets, failure to achieve strategic housing targets and potential insolvency. Furthermore, it may result in loss of stakeholder confidence, increased borrowing costs and legal or regulatory repercussions.

- 3.3 Currently, this risk is assessed as Medium. While some controls for this risk are already in place, further controls are under development. As such, the Overall Control Effectiveness Rating of this risk is assessed as Adequately Controlled. The Target Assessment for this risk is Low.
- 3.4 We have identified several key controls and actions to mitigation this risk with action owners and outline timescales assigned. These actions include ensuring we have robust financial planning, monitoring and reporting in place. We are also seeking to make more extensive use of external data and horizon scanning, and to undertake regular scenario planning. Together, these measures will enable us to better manage financial resources, gain better insights and make more informed financial decisions.
- 3.5 While some new actions are being proposed here, others are already underway with all due to be completed in the next nine months. Progress against these actions will be reviewed and reported to the Committee in a year's time. Places for London will continue to monitor and review progress in the interim period.
- 3.6 In designing and assessing controls for this risk, we have recognised that as we invest in our assets and pursue strategic initiatives, the financial demands increase. We have also considered lessons and approaches from other organisations to monitor financial sustainability.
- 3.7 The Places for London leadership team undertook a risk workshop that focused on the hypothetical situation of what might happen if effective financial controls and assurances were not in place. This identified potential causes including: lack of robust financial planning; inadequate financial monitoring and reporting; insufficient revenue generation; high operational costs; ineffective decision making; and poor financial governance.
- 3.8 We have undertaken an assessment of our financial management practices that indicate our practices are effective for some areas and partially effective for others. Measures are being taken to enhance this further, with particular focus on financial forecasting, cost management, and resource allocation. Our business planning process also measures and ensures we have sufficient resources allocated to address financial management and sustainability matters.
- 3.9 We follow TfL's financial planning and performance cycle, which includes periodic financial reporting.
- 3.10 Given Places for London has multiple third-party interfaces – including with stakeholders, tenants, suppliers, lenders and joint venture partners – we are enhancing our control measures to monitor and report on financial performance, including acting on insights before financial distress occurs.

4 Controls and Mitigations

- 4.1 Places for London has identified 19 controls to manage this risk, consisting of 15 preventative controls and four corrective controls detailed in the related paper on Part 2 of the agenda. We have developed a list of actions, also included in the related paper on Part 2 of the agenda, that will ensure that the controls are

effective in both design and operation. All actions have been assigned an owner and all will be completed within the next nine months.

- 4.2 The following controls and high priority actions are considered to be the key mitigations which will move the assessment of the risk from Medium to Low.
- (a) Investment Strategy, Policy and Controls – documenting our investment policy and controls, which will assure that our investment decision-making processes are aligned to our strategy and risk appetite;
 - (b) Places Business Plan – a robust plan, outlining strategic and financial goals over a 10-year period. The Business Plan serves as a roadmap for Places, aligning its activities and objectives, ensuring that sufficient resources are allocated to achieve these goals while ensuring this is planned in a financially sustainable way. Furthermore, as a formal part of the Business Plan process, we will stress the plan against downside scenarios, providing a view of the plan’s financial resilience;
 - (c) Commitment Forecasts – developing committed expenditure forecasting from ongoing and planned projects, including joint ventures. This will ensure that Places can monitor and meet its committed financial obligations without compromising its liquidity or financial stability;
 - (d) Post Completion Reports – implementing post-completion reporting of key investment decisions, ensuring the lessons learnt and understanding of any financial risk exposures will benefit future investment decisions; and
 - (e) Creation of a financial-distress plan – developing and assessing the mitigations open to Places for London should a financial distress scenario arise.

List of appendices to this report:

Exempt supplementary information on Part 2 of the agenda.

List of Background Papers:

None

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