

**Date:** 18 March 2025

**Item:** Enterprise Risk Update – Inability to React to External Market Forces (Places-L0-06)

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**This paper will be considered in public**

## **1 Summary**

- 1.1 This paper provides the Committee with an update on Places for London's management of its Level 0 Enterprise Risk Place-L0-06 – 'Inability to React to External Market Forces'. This risk relates to the failure to adapt swiftly and effectively to changes in external factors, involving economic shifts, political and regulatory changes, competition and evolving market demands.
- 1.2 Places for London has a significant number of controls in place which will limit the exposure of the business to market and external factors, and we have made progress over the last 18 months in strengthening and broadening them. The overall control effectiveness rating has therefore changed from Requires Improvement to Adequately Controlled.
- 1.3 A paper is included on Part 2 of the agenda which contains supplementary information that is exempt from publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the financial or business affairs of TfL. Any discussion of that exempt information must take place after the press and public have been excluded from the 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 Current Status**

- 3.1 Since the last update to the Committee in June 2023, the risk description has been updated to make clearer that it relates to the measures, initiatives and management actions taken within Places for London in response to actual or anticipated changes in the external environment. It now reads 'Failure to adapt swiftly and effectively to changes in external factors, including economic shifts, political and regulatory changes, competition, and evolving market demands'.
- 3.2 Failure to take appropriate action could affect Places for London's ability to deliver on its strategic goals and maintain operational stability. These include the delivery of homes, investment in and the generation of revenue from its existing estate, and the realisation of transport benefits for the wider TfL business. In addition, if this risk is not controlled effectively, Places for London's day-to-day financial stability and operational performance could be compromised.

- 3.3 As the Places for London business has matured, significant progress has been made in the past 18 months on controls, and as such most are now in place and effective. This is reflected in a change to the overall control effectiveness rating from Requires Improvement to Adequately Controlled. A significant number of improvement actions are either underway or planned and will strengthen the control framework even further in the coming months. All identified controls and actions for this risk are set out in the appendix to the paper on Part 2 of the agenda.
- 3.4 Currently, the overall risk exposure is assessed as High with a target of Medium.

## 4 Risk Causes and Consequences

- 4.1 The previous version of this risk identified a range of external factors which could have contributed to the outcomes it described. These included increases in inflation, rising interest rates, property market confidence, regulatory changes, and supply chain issues.
- 4.2 While these remain relevant, the shift in emphasis of the risk description described above led the combined team of senior managers from Places for London and representatives of TfL's Enterprise Risk team to review them at the end of 2024. That review led to the potential causes being re-cast around Places for London's ability to respond to the external factors previously identified. In summary, these could be:
- (a) **Perspectives and forward thinking in Places for London** – more focus on delivery and profitability in the short term, with proportionately less time spent horizon scanning and anticipating future external threats, in part due to lack of dedicated resources;
  - (b) **Alignment and communication** – differences in views within the business on the nature of forces and threats and their potential impact, as well as limited sharing of insights across the organisation which could enable threats to be identified;
  - (c) **Governance, frameworks, and planning** – identification and monitoring of threats is not built into the Places for London management system, making it more difficult to pick them up in a timely manner; and
  - (d) **Management information** – limited information makes it more difficult for the Places for London business to monitor and react to external threats.

## 5 Controls and Mitigation

- 5.1 As with the previous version of this risk, we have identified a series of controls focused predominantly on management action within Places for London. Delivery of the action plan set out in June 2023 has meant that a significant number are now in place and effective, which underpins the positive movement of our assessment of this risk. The controls in place are summarised below:
- (a) **Strategy, business planning and governance** – the Places for London Investment Strategy sets clear parameters for the growth and evolution of the portfolio and is supported day-to-day by a triage process which takes market

forces into account when determining land use. In addition, Places for London has an annual business planning process which includes robust planning for capital spend and project prioritisation and is tested against a series of corporate discipline risk metrics. Risk reporting is now part of regular updates to Places for London's shareholder in internal meetings.

- (b) **Stress testing, liquidity and market scanning** – the Places for London business plan is robustly assessed against a series of downside scenarios. A Places for London liquidity policy is reviewed annually by the Finance Committee as part of the wider TfL Treasury Management Policy and is applied shorter term with periodic cashflow reporting and consideration of the liquidity position in decision-making on investment and planning. Market scanning is now done on a routine basis and key trends and movements are reported within Places for London each period.
- (c) **Customer and supply chain management** – a range of policies, processes and controls that assess Places for London's tenants' ability to withstand financial pressure are in place and being documented. These are augmented and reinforced by adherence to procurement processes which take account of prospective partners' financial stability. The approach to ongoing key supplier and partner monitoring also continues to improve. The work in this area is guided by management of the Places for London Enterprise Risk 07 – Efficient and high performing supply chains and effective procurement, included elsewhere on the agenda for this meeting.

- 5.2 Work is ongoing to establish and strengthen a small number of controls. These include the finalisation of a pan-Places for London risk management plan which enacts the extant risk management policy and procedure already in place. In addition, we will be developing a financing strategy and mechanisms which will further protect Places for London against movements in the market and broader external forces.

## 6 Action Plan

- 6.1 Over the coming months, we will complete several actions which will strengthen our management of this risk. We will also ensure the controls and mitigations are effective in design and operation. These actions will include:
- (a) **Market scanning** – put in place a process for systematic market and macro-economic risk monitoring and reporting;
  - (b) **Liquidity** – further embed liquidity considerations in investment decision-making, so our allocation of money is consistently informed by it;
  - (c) **Supply chain** – develop systems and processes which enable us to glean greater knowledge and insight about the businesses of our suppliers and partners and so better understand Places for London's exposure to external factors. This will be done as part of our overall management of the supply chain and procurement risk being presented to the Committee elsewhere on the agenda;

- (d) **Resources and resilience** – ensuring that we have the people and skills available to be able to properly assess and if necessary, act to mitigate the effect of movements in the external environment;
- (e) **Environmental and social considerations** – continue embedding our Sustainability Strategy to strengthen how environmental and social factors are considered in decision-making to support resilience in our portfolio; and
- (f) **Digital** – develop a clear vision for the Places for London business which enables us to better use data and information to improve our resilience to external factors.

**List of appendices to this report:**

None

A paper containing exempt supplementary information is included on Part 2 of the agenda.

**List of Background Papers:**

None

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