

Date: 18 March 2025

Item: Enterprise Risk Update – Efficient and High Performing Supply Chains and Effective Procurement (Partnerships) (Places-L0-07)

This paper will be considered in public

1 Summary

- 1.1 This paper provides the Committee with an update on Places for London's Level 0 Enterprise Risk Places-L0-07 – 'Efficient and high performing supply chains and effective procurement (Partnerships)'. It outlines the scope of Places-L0-07, current assessment, preventative controls, mitigation activities and improvement plans to reduce Places for London's risk across the supply chain activities that it manages.
- 1.2 The overall control effectiveness rating is Requires Improvement and actions are either underway or planned to strengthen the control framework.
- 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 Background

- 3.1 Places for London established its own Procurement and Commercial (P&C) function in 2022 to manage specialist, property related activities. These include the procurement of partnerships and joint ventures to support the delivery of its homes' targets, the development of commercial opportunities on surplus land and its existing Asset Management portfolio. Currently, Places for London relies on the central TfL function for the provision of professional services which do not require specialist skills. Places-L0-07 primarily focuses on the risks inherent with the above activities. Places for London's P&C activity is subject to the same policy and controls as laid down by the TfL Procurement Governance team that reports into the TfL Chief Finance Officer.
- 3.2 Failure to sufficiently identify and appropriately manage risks arising internally from how Places for London procures and contracts its supply chain and partnerships, and externally from market factors could cause adverse impacts on

safety, increase costs, cause delays to project delivery and prevent the delivery of Places for London's homes and financial targets.

- 3.3 The global supply chain landscape has become increasingly volatile and unstable in recent years, presenting significant challenges for businesses worldwide. The coronavirus pandemic served as a stark reminder of the fragility of interconnected supply networks. Although recent inflation is easing, geo-political conflict and threats of trade wars and the threats of tariffs could result in the re-emergence of volatility in the prices for raw materials, energy, and labour.
- 3.4 A core delivery strategy for Places for London is to use partnerships and joint ventures to access core skills that it does not have in house. Much of Places for London's capital delivery is therefore provided by joint venture partners. This could potentially lead to less visibility of supply chain issues if not adequately managed. Therefore, having the right controls and assurance in place around our joint ventures is essential to ensure they are effectively managed and deliver Places for London's objectives.
- 3.5 The overall control effectiveness rating is Requires Improvement. This reflects the current maturity level of Places for London's P&C function. Improvement actions are either underway or planned to strengthen the control framework, including the recruitment of permanent resource and the creation of clear Places for London wide policy, process and assurance in this area. In all other respects, Places for London follows the same policy and controls laid down by the TfL Procurement Governance team. All identified controls and actions for this risk are set out in the appendix to the paper on Part 2 of the agenda.
- 3.6 Currently, the overall risk exposure is assessed as High with a target of Low.

4 Risk Causes and Consequences

Compliance risk

- 4.1 Compliance risk is a potential lack of adherence to the various Procurement Regulations, wider legislation, TfL governance and Greater London Authority Group policies.
- 4.2 The impacts of this risk can be significant and far-reaching including:
 - (a) financial penalties, compensation claims, procurement challenges, contracting delays, negative political/public perception and increased costs of operation; and
 - (b) failure to demonstrate best value for public funds and reputational damage leading to reduced public trust and support for future projects.

Supply Chain Disruption Risk

- 4.3 Supply chain disruption risk involves the disruption in the flow of goods, works or services due to financial, political and geopolitical, climate change, logistics, capacity, and communications factors.

- 4.4 These disruptions impact both Places for London day-to-day operations and the delivery of its investment programme, including:
- (a) reduced availability and increased lead time for key materials, commodities, finished products and skilled labour;
 - (b) high inflation, cash flow disruption and commodity price fluctuations, leading to supplier insolvencies, contractual disputes and increased costs; and
 - (c) climate change impacts local and global manufacturing and logistic disruptions, increased sourcing costs, reduced access to raw materials and fuel price fluctuations due to widespread wildfires or floods.

Poor Supplier or Partner Management

- 4.5 Poor supplier or partner management stems from potential sub-optimal contract management practices, inadequate resourcing, over-reliance on a few suppliers or inadequate procurement practices including poor contract documentation and tender scoring. Poor partner management would also include a lack of visibility of partner led supply chains and their associated risks.
- 4.6 The risks include not being able to maximise the scale of the housing opportunities Places for London has as well as failing to use partners properly to identify new or better opportunities for our land use, thereby resulting in either lower housing delivery, poor financial performance and an under-delivery of new transport benefits.
- 4.7 The impacts of this risk on Places for London's operations and reputation include:
- (a) failure to deliver its homes targets;
 - (b) missed opportunities to create additional financial value or transport benefits for TfL; and
 - (c) an inability to diversify Places for London's income streams.

5 Controls and Mitigations

- 5.1 The following mitigation measures reduce our risk exposure across Places-L0-07. The strategic management of the risk is being supported via regular risk review.

Compliance Mitigations

- 5.2 Strengthening first line of defence assurance in procurement transactions and adopting a risk-based approach to P&C governance through the embedding of TfL best practice.
- 5.3 Delivering a regular series of training by Places for London's P&C team as well as members of the business receiving procurement services to ensure TfL policy and best practice is understood.
- 5.4 Delivering lessons learnt and post procurement reviews to share best practice.

- 5.5 Completing our readiness preparations for the implementation of the Procurement Act 2023 which came into force in February 2025.
- 5.6 Creating a procurement handbook to embed best practice policy, process and assurance across Places for London including the teams that directly benefit from its P&C services.

Supply Chain Disruption Mitigation

- 5.7 Monthly monitoring of the financial health of key and critical suppliers and partners.
- 5.8 Regularly analysing macroeconomic and global warming trends to anticipate potential disruptions such as the impact of tariffs on imports.
- 5.9 Engaging and collaborating with TfL's P&C team to leverage best practice sharing and training provision.
- 5.10 Attending the DfT Strategic Supplier Working Group and working collaboratively to share non-confidential information on supplier risk.
- 5.11 Working with our joint venture partners to map and analyse critical contractors and sub-contractors procured by them to understand vulnerabilities and exposure to joint venture deliverables.

More Supplier or Partner Management Mitigations

- 5.12 Recruit a team of skilled permanent staff to implement TfL best practice and a system of managing partnerships that adequately identifies risks within partnerships and prescribe best in class systems for managing them.
- 5.13 Continue to develop our partnership management risk and performance reporting in line with TfL best practice.
- 5.14 Develop contingency plans to help mitigate the effects of partner failure or non-performance.
- 5.15 Ensure joint venture audit recommendations are implemented and continue to ensure suitably qualified staff are appointed directors of joint ventures to ensure Places for London's interests and that of its sole shareholder are met.

6 Action Plan

- 6.1 Places for London's P&C function is in the early phases of its development. Work is already underway to document Places for London's policy and processes specific to managing partnerships and joint ventures and ensuring adequate signposting to TfL P&C policy and processes.
- 6.2 A comprehensive set of initiatives to strengthen our control effectiveness is under development and will be led by the newly appointed Head of Partnerships from April 2025. Work has already started on putting some of these initiatives in place and these include:

- (a) **Supplier risk monitoring:** a monthly review of Places for London's top 10 supplier risk is provided by the central P&C team while the Corporate Treasury team undertake detailed reviews of our strategic and joint venture partners semi-annually on the announcement of their annual and interim results. The information is used by our new supplier management team to develop risk mitigation strategies with the business;
- (b) **Asset Management pipeline management:** the Asset Management function in Places for London typically spends £30-40m per year on maintaining and enhancing its estate. With the development of portfolio plans, future Asset Management pipeline review meetings are now taking place to ensure clear visibility of future activities and that there are appropriate frameworks in place so that contracts are procured in a timely manner;
- (c) **Joint venture relationship management:** Places for London executive level engagement with its joint venture partnerships is undertaken through the active participation on all joint venture boards with appropriate representatives appointed on each board. Key risks are reported back to the Places for London Executive who plan and approve performance improvement strategies to present back to the respective boards of each joint venture; and
- (d) **Places for London's P&C recruitment:** to date, part of the lack of maturity of Places for London's controls and assurance framework is down to a lack of permanent resource and the turnover of temporary staff. The appointment of the new Head of Partnerships at Places for London was a key deliverable as it now enables the Places for London P&C team design to be finalised and for recruitment to progress. This will in turn enable the resource required to complete the policy, process and assurance design.

6.3 The main focus over the coming year will be to recruit adequately skilled permanent staff and embed strong supplier and joint venture management processes, in particular mapping the supply chain in our joint ventures. This is expected to deliver a step change in the management of Places for London's supply chain and partnership management risk.

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

Contact Officer: Digby Nicklin, Chief Finance Officer, Places for London
Email: digbynicklin@tfl.gov.uk