

Principal risks and risk management

The identification, assessment, pursuit and management of opportunities and the associated risks is an integral and inseparable part of management skills and processes. These are a core element of activity throughout the Group and, as such, are especially important for stakeholders.

As referred to in the Directors' report, under the heading "Risk management" on page 13, a Group-wide opportunity and risk management system underpins and assists in the delivery of this principle. The system is founded upon a process that drives perceived opportunities and risks progressively, against formal impact and likelihood rating criteria, up through the management chain for review and challenge.

In addition to a discrete review of each individual opportunity and risk, various exercises are carried out at Group level, three times a year, to identify key issues facing the Group as a whole, the changing risk profile facing the Group and emerging issues that may affect the Group, as well as to assess if

the aggregation effect of lower-level risks is material. Such reviews identify the extent to which further initiatives are required, for example, to develop specific additional risk management capability and mitigation measures. The output from these reviews is contained in reports to the Board and Audit Committee

Furthermore, senior management at operating company and Group level review regularly the opportunity and risk management system and its application with a view to identifying potential improvements to the system and/or its application. The output from these reviews is captured in development plans, which are reviewed at Group level. Progress against the plans is reported upon three times a year to Group senior management and the Board and Audit Committee. Occasionally, independent third parties are engaged to assist the Group with the identification and implementation of potential improvements.

Risk management process



Principal risks and risk management

The following table shows the key business risks, which are then addressed below.

Risk group	Type of risk
• External	<ul style="list-style-type: none"> • Government policy and funding • Customer
• Strategic	<ul style="list-style-type: none"> • Bidding • Joint venture • Acquisition • Investment
• Organisation and management	<ul style="list-style-type: none"> • People • Pension • Information technology
• Delivery and operational	<ul style="list-style-type: none"> • Asset and service delivery and management • Supply chain • Financial • Health and safety • Environmental

External risks

The Group addresses continually the impact of the external business environment, updating as appropriate its strategy and medium-term planning both at Group and operating company level. Areas of focus include the following:

Government policy and funding risk

A significant proportion of the Group's revenue flows from contracts founded upon government policy and/or public funding, both in the UK and overseas. The Group seeks to mitigate the exposure to an adverse change in national policy or funding by broadening incrementally the portfolio of dependency and by diversifying on a measured and controlled basis into other areas of activity, as referred to in the Chief Executive's review from page 8 of the Annual review and summary financial statement.

Customer risk

The increasing demand from customers for innovation and the provision of professional services, whether as a discrete contract or as a component in a contract, has been sustained. The Group has in place its own specialist operating company with such skills, which along with selected operating companies is developing further such capabilities.

Strategic risks

Additionally, in the pursuit of business opportunities the Group is particularly aware of the potential for importing risk, whether by way of winning new contracts, forming joint ventures, acquiring businesses or investment. Rigorous processes are therefore in place for managing such exposure within a specified opportunity and risk management framework that applies to all operating companies and Group functions, as follows:

Bidding risk

The Group's operating companies bid selectively for a large number of contracts each year and a more limited number of concession opportunities. Tenders and investment appraisals are developed in accordance with thorough processes for estimating and risk identification and assessment, with particular attention to new or unique characteristics. They are subject to formal review and approval by tender review and investment committees established at Board, sector or operating company level depending upon the value and nature of the contract.

Joint venture risk

Joint ventures are formed for contracts where to do so will strengthen the quality of the bid and prospects of delivering a contract successfully. Procedures are in place to ensure that joint venture partners bring skills, experience and resources that complement and add to those provided from within the Group.

Acquisition risk

Potential acquisitions are identified by the operating companies and subject to review with Group management to address, inter alia, the strategic fit and the capacity of the Group to manage the projected level of growth. Group management project manages the due diligence, with the operating company drawing on its own resources and those from other parts of the Group in order to ensure that the most appropriate personnel with relevant experience and knowledge conduct the detailed due diligence. Where necessary, specialist external resources are engaged. Post-acquisition integration is closely managed, drawing on the detailed due diligence material and integration tracker system for each functional activity, with reviews conducted formally at prescribed periods following the acquisition. As the Group grows it recognises that acquisitions may bring new approaches to opportunity and risk management from which the Group can learn and these are factored into reviews of potential improvements referred to under the introduction above.

Investment risk

The Group's basic approach is the pursuit of investment opportunities on a limited recourse finance basis in those business sectors where it has appropriate experience. It uses this platform as a basis for moving incrementally into new sectors with appropriate partners. The degree of leverage associated with such investments reinforces the need for the application of a rigorous risk management process drawing on standard operating procedures. Such activity is conducted by a discrete group of personnel with extensive experience in the relevant fields of activity. The consequent delivery risk arising on investment activities is managed and mitigated by the careful selection of delivery and service partners.

Organisation and management risk

Similarly, a premium is placed by the Group on the review, development and maintenance of the operating fabric and culture that is fundamental to managing risks. Attention is being paid to the following:

People risk

The retention and recruitment of staff for an organisation that is continually growing significantly, either organically or by acquisition, is a challenge faced by the Group and the industries in which it operates.

The Group utilises a range of recruitment processes relevant to specific labour markets. The recruitment of graduates is centrally managed and co-ordinated as is their induction and training.

Remuneration and incentive policies and programmes are designed to be market competitive and, while locally determined, are centrally co-ordinated.

Pension risk

The Financial review from page 4, together with Note 26 to the accounts, addresses the Group's pension risks.

Information technology risk

The Group is conscious of the reliance placed on IT systems as a platform for efficient delivery of day-to-day operational activities and for knowledge gathering and sharing. Following an internal review, supported by an independent third party review team, the Group has positioned itself to respond more rapidly to increasing demands in this area by augmenting its central IT team to work with operating companies and Group functions to develop and deliver further improvements in line with the Group's IT and disaster recovery strategies.

Delivery and operational risks

In delivering contracts and business improvement initiatives, rigorous processes are in place for managing the potential risk exposure:

Asset and service delivery and management risk

The Group is engaged on a wide range of contracts eg asset creation, long-term maintenance, facilities management and/or service contracts, with the successful discharge of all contracts being controlled and managed through the Group's operating structure. The Group's procedures embrace regular and frequent reviews with an agenda centred on health, safety and environmental performance, issues affecting delivery and the impact on costs to completion and forecast revenue. This approach is underpinned by a continuing focus on assurance as to the effectiveness of the relevant controls.

Supply chain risk

An increasing proportion of the Group's supply base is retained in long-term relationships based on the compatibility of their values and behaviour with the requirements of the Group as well as product quality and price.

Financial risk

The Financial review from page 4, together with Note 21 to the accounts, addresses the Group's financial and treasury risks.

Health, safety and environmental risks

The Group has sustained the attention it gives to HS&E, along with a continuing objective of improving its performance, as reported on in more detail in the Corporate Responsibility statement from page 44 of the Annual review and summary financial statement.