Committed to managing risk effectively

The Group is exposed to a variety of risks that can adversely affect business and financial performance, or potentially damage our reputation. The Board recognises however that creating shareholder returns is the reward for accepting a level of risk. The effective management of risk is therefore critical in supporting the delivery of the Group's strategic objectives.

Risk management framework
The Group has a well-established governance structure with appropriate internal control and risk management systems. Our approach is centred on the accepted 'three lines of defence' model, with ultimate oversight from the Board:

Defence	Responsibility	Actions
Oversight	Board	• Sets strategic objectives • Determines overall risk culture and appetite • Establishes organisational structure with defined lines of responsibility, delegated authorities and clear operating processes • Ultimate oversight of internal control and risk management systems
Third line	Group Audit	• Provides reasonable assurance that systems of risk management, internal control and governance are effective
Second line	Group Executive Committee Group functions including Risk	• Support Divisions with 'first line' responsibilities • Coordinate and report on Group-level risks • Build risk capability and understanding
First line	Divisional Executive Committees Divisional management	• Identify, assess and report key risks • Regularly review and update divisional risk registers • Assign risk 'owners' • Implement risk mitigation plans

Many risk controls are embedded and evidenced in the Group's day-to-day management activities, including:

- detailed KPI tracking in monthly divisional Executive reports
- well-established bid evaluation controls
- robust due diligence on acquisitions

Prioritising and reporting risks
Each division regularly reviews and updates a detailed 'risk register', in which risks are identified and assessed in terms of both the probability of the risk occurring, and its potential impact. Risk is assessed on a 'gross' and 'net' basis, taking into account known and proposed mitigating actions.

Group-level risks are assessed as:
- macro risks which affect the majority of, or all, divisions: or
- individual divisional risks where the materiality of the risk is considered of Group significance

In 2016, a 'risk radar' was developed to supplement the Group risk register, and the radar and register are reported to the Group Executive, Audit Committee and Board, twice per annum. The radar categorises risks as strategic, financial, operational or hazard.

The risk radar now also specifically includes consideration of 'emerging' and developing risks. In 2016, examples of such risks included the potential impact of Brexit, the ongoing development of cyber risk understanding, and evolving customer expectations in a digital environment.

Summary risk radar

Risks are shown on a 'net' basis after mitigations. The closer to the centre of the radar the greater the perceived risk.

Principal risks and uncertainties

Looking forward, the Group will focus on the following key areas of risk:

Potential impact	Management/mitigation
Economic conditions, including Brexit implications	
Declining economic conditions potentially impact demand for the Group's services in some divisions; improving economic conditions may impact the Group's ability to recruit drivers and other staff, or cause inflationary pressure on costs. The terms on which Brexit is negotiated (specifically in relation to the means by which any limitation on free movement/immigration is traded off against access to the single market) may affect the Group's ability to bid competitively within the EU.	Geographical diversification; marketing strategy – services, fleet, CRM; innovation (including digital); close monitoring of revenue trends and implementation of revenue management systems; robust bid modelling; lobbying of Governments and local authorities on the importance of public transport. The Group continues to monitor the position regarding Brexit.
Political/geo-political/regulatory landscape	
The political and regulatory landscape within which the Group operates is constantly changing. Changes to government policy, funding regimes or the legal and regulatory framework may result in structural market changes or impact the Group's operations in terms of reduced profitability, increased costs and/or a reduction in operational flexibility or efficiency.	Constant monitoring of political landscape; effective stakeholder management; lobbying and communication; geographical diversification; strategic partnerships and alliances; operational excellence and cost efficiencies; lobbying of Governments and local authorities on the importance of public transport.
Increasing Competition	
The Group's divisions are facing increasing competition in various ways; price competition, inter-modal (eg coach vs rail), and more recently emerging threats such as Uber or other new market entrants.	Focus on excellence of service delivery, marketing and customer proposition; shared best practice across divisions; continue to drive cost efficiencies.
Terrorism	
The Group can be either directly impacted by a terrorist event, or indirectly, through softening demand from the travelling public.	Close liaison with government agencies and industry partners; major incident/emergency plans; business continuity plans; insurance coverage.
Safety, litigation and claims	
A major safety-related incident (eg bus or rail accident) could impact the Group both financially and reputationally. The Group self-insures a proportion of certain risks such as workers' compensation and auto liability, and higher than planned claims or cash settlements could adversely affect profit and cash outflow. The Group's operations are also subject to potential litigation from other sources such as environmental legislation or wage and hour matters in the US.	Strong safety culture driven from the Group Chief Executive and divisional leadership; continued success and evolution of Driving Out Harm programme; investment in technology such as Lytx DriveCam; World Class Driver programme; Group Safety Committee; divisional safety management systems; insurance coverage; experienced claims management and legal teams across the Group supported by external legal advice where appropriate.
HR and labour relations	
Ineffective succession planning could lead to leadership voids at divisional or Group level. Lack of available talent/leadership skills can inhibit growth. Shortages in drivers and other key staff can disrupt operations. Increased unionisation and/or poor labour relations presents increased risk of strike or operational disruption; inflation of wage and benefit costs; and possible reputational damage.	Employee engagement and retention programmes – surveys, communication and education programmes, training for managers and supervisors, reward and recognition programmes; management of stakeholder and union relationships; advice of specialist outside counsel.

Potential impact	Management/mitigation
Changing customer expectations in a digital environment	
Customers increasingly expect to be able to buy tickets and manage their travel plans through a variety of digital platforms, including the internet, tablets and smartphones. Failure to develop applications and digital channels that are reliable, meet these increasing customer expectations and improve business operational processes could affect profitability, customer satisfaction and the business' ability to capitalise on valuable customer data to enable commercial initiatives. Failure to develop adequate digital sales channels could lead to others (intermediaries) driving the agenda, eroding margins and preventing the capture of valuable customer data.	Appointment of Chief Digital Officer; comprehensive digital strategies being developed in divisions; divisional 'digital scorecards' reviewed by monthly Executive meetings to monitor the effectiveness of various digital channels.
IT and cyber risks	
A major IT failure could disrupt operations and lead to loss of revenues, especially in the Coach businesses. The Group recognises a wide range of cyber threats, including loss of data, social engineering, hacking and extortion.	Comprehensive back-up procedures and disaster recovery plans; dedicated Cyber Risk Security Committee; external expert testing carried out for cyber risk and recommendations implemented.
Credit risk	
As contractual operations, the North American and Spanish urban businesses are exposed to the risk that customers are either late or unable to pay sums owed to the Group.	Receivables in each business are closely monitored, based on robust and thorough documentation; provisions are then made where appropriate on a prudent basis for a certain level of non-collection. Additional contractual terms for interest accrual and repayment of outstanding balances have been agreed with overdue debtors where necessary.
Hazard risk to key site (eg fire); natural catastrophe; extreme weather	
Asset loss/damage; revenue/profit loss due to business interruption; loss of competitive position in the market.	Geographical diversification; emergency plans; continuity and asset replacement plans; insurance coverage.
Foreign Exchange	
The Group's exposure to overseas earnings through its Spanish and North American operations creates a risk that movement in exchange rates may adversely impact translation of profit and cash flows together with Group gearing. In 2016, this resulted in a benefit to the Group as opposed to a risk.	The Group uses currency debt and currency swaps to reduce the impact and mitigate the risk. In addition, management has flexibility to adjust Group capital allocation.
Fuel cost	
Fuel represents a significant cost to the Group and unplanned increases in fuel price potentially impact profitability.	Hedging strategy – 100% of fuel is hedged for 2017.
Pension costs	
Market conditions and/or deficit may lead to increase in service costs and/or increased deficit recovery payments.	Defined benefit schemes closed to new entrants; potential transfer of UK Bus Dundee scheme to Council; specialist external advice.