

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



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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:

