A robust and focused approach to risk management

“The Board has overall responsibility for ensuring that the Group’s exposure to risk remains proportionate to the pursuit of its strategic goals and long term stakeholder value.”

Adrian Ewer,
Audit Committee Chair

How we manage risk

Ultimate accountability for risk management lies with the Board, supported by the audit committee. Our approach combines a top down strategic assessment of risk and risk appetite with a bottom up operational identification and reporting process, which also looks at the impact of a combination of risks coming through. We have robust risk management and internal control systems across the Group and we empower all of our colleagues to manage risk. The diagram on page 45 illustrates the key roles and responsibilities across our risk management framework.

There is a robust risk management framework in place for assessing bid and acquisition related risks.

The Board is mindful of the detrimental impact principal risks could have on our strategic objectives: protect and grow the core, win new bus and rail contracts, and develop for the future of transport.

To read more about how we balance our principal risks against our strategic objectives, please see our risk appetite statement on page 46.

Focus during the year

During the year, the Board continued to enhance the management of risk within the Group, building on progress made in the previous year. The risk discussions at operating company, audit committee and Board level continues to be of a very high quality, with focus on the principal risk, control and mitigation areas.

This year, the Board spent considerable time discussing a number of key risk focus areas, with scheduled in-depth presentations at most meetings provided by the executive directors and senior management. The Board regularly discussed GTR’s operational performance and financial forecasts and were kept up to date on a wide range of matters including plans for the May 2018 timetable change. Another example included cyber security, where there was a continued focus this year on understanding these risks and the measures being taken to address potential areas of vulnerability. The Board also reviewed the risks associated with the General Data Protection Regulations, the programme of work underway across the Group to ensure compliance with the new regulations, and the security and counter terrorism measures in place across the Group.

Read more about our principal risks on pages 47 to 49.

Risk culture

We endeavour to foster an environment where people feel comfortable raising issues and management teams treat all concerns seriously. This approach is designed to highlight potential problems and issues at an early stage so that prompt action can be taken to minimise any impact on our stakeholders.

The ongoing culture change programme to embed our vision, beliefs and attitudes supports the wider adoption of the culture the Board wants to achieve. Strong internal communications material and regular ‘better together’ forums and cross functional and operating company meetings assist in sharing experiences and good practice between teams.

Risk management framework

Implementation and compliance responsibility

Top down

Board

- Sets strategic priorities
- Agrees the Group’s appetite for risk and assesses risks and tolerance levels and makes sure they are appropriately managed
- Sets delegated levels of authority
- Approves Group policy and procedures as needed

Audit committee

Monitors risk management and assurance arrangements

Effectiveness of risk control processes

Review of the effectiveness of key risk management and control processes through:

- Internal audit
- External audit
- Insurance
- Risk surveys
- Health and safety auditing

Executive directors

- Monitor performance and changes in key risks
- Provide regular reports and updates to the Board

Group risk management process

Provides guidance and advice to operating companies to assist with:

- Identifying risks, assessing extent of risks’ impact and implementing mitigating actions
- Health and safety auditing
- Insurance

Reports to the Board and the audit committee on the status of key risks

Local operating companies

- Identify, manage and report local risks
- Maintain local risk management plans
- Implement mitigating actions

Bottom up

Risk identification and reporting responsibilities

Viability statement:

In accordance with the provision of the UK Corporate Governance Code 2016, the Directors have assessed the Group’s viability over a three-year period to June 2021. This is consistent with the period covered by the Group’s more detailed Corporate Plan which is the basis for the three years of the strategic plan, though longer periods are reviewed by management with no issues being identified.

This gives the Board greater certainty over the forecasting assumptions used. In making their assessment, the Board took account of the Group’s current financial position, operational performance, banking covenants, other key financial ratios (including those maintaining the Group’s existing investment grade status), committed and future funding and both its contracted and anticipated capital expenditure. A key assumption is that funding for the Group is reasonably available in the form of capital markets debt, bank debt or alternatives and sufficient funding will be available in all plausible market conditions.

The Directors then assessed the potential financial and operational impacts, in severe but plausible scenarios, of the principal risks and uncertainties set out on pages 47 to 49, the likely mitigating actions and the effectiveness of those mitigating actions. Their scenarios took account of the following:

1. the UK Bus Services Act 2017, its impact on the Group’s regional bus business in the period under review;
2. the Group will continue to work effectively with DfT in resolving issues of the ongoing contractual variations and performance benchmarks within the GTR franchise; and
3. adverse operating environment including the cessation of the Group’s UK rail franchises, including the full impact of any repayment of parental guarantees.

Based on this assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet all of its liabilities as they fall due during the viability review period.

Risk appetite

Our risk appetite statement below sets out how we balance risk and opportunity in pursuit of achieving our business objectives. It forms an integral part of the development of our corporate strategy, governance and reporting framework. During the year, the principal risks were reviewed by the Board in the context of the Group's risk appetite statement, which helped determine the level of mitigation and resource required to reduce the potential impact of each principal risk.

Go-Ahead's risk appetite statement:

Safety and security: The Group has no tolerance for safety risk exposure, including an incident such as a major passenger accident or an act of terrorism.

Protect and grow the core:

The Group will only tolerate low risk with regard to the management of its core activities.

Win new bus and rail contracts:

The Group is willing to accept moderate risk within stable and regulated markets as it bids for new bus and rail contracts.

Develop for the future of transport:

In pursuit of its objective to develop the future of transport, the Group recognises that innovation and striving to be one step ahead of our competitors comes with some inherent risk. Moderate risks, in some circumstances, will be accepted in pursuit of objectives.

Definitions

Low: The level of risk will not substantially impede the ability to achieve the Group's strategic objectives. Controls are prudent and robust.

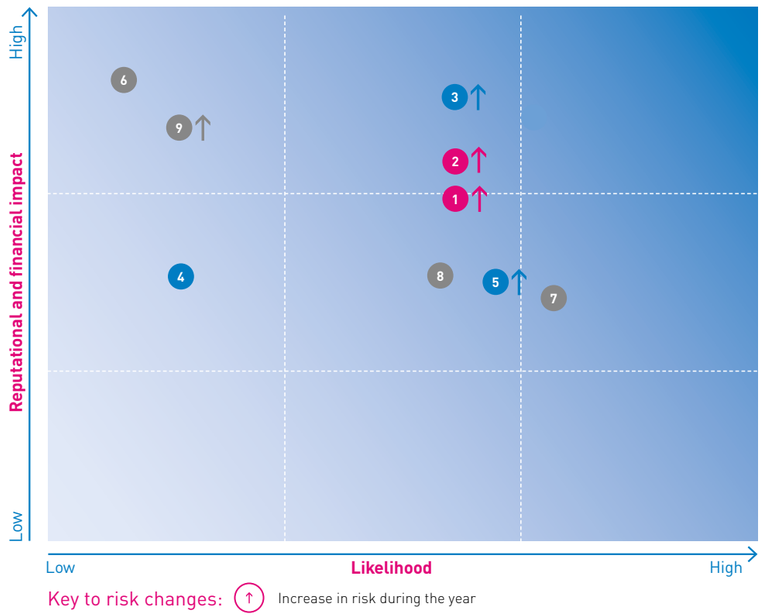
Moderate: The level of risk may delay or disrupt achievement of the Group's strategic objectives. Controls are adequately designed and are generally effective.

Controls: Consist of policies, procedures, employee behaviour or activities that could reduce the likelihood and/or impact of risk events.

Prioritising our principal risks

A robust assessment has been undertaken by the Board to assess the principal risks facing the Group and consideration has been given to those that threaten our business model and could impact on our future performance, solvency or liquidity as well as our strategic objectives.

This heat map shows the position of our principal risks in relation to others and their movement during the financial year ended 30 June 2018. Further details of the key risks within each of the Group's principal risk areas is shown on pages 47 to 49.



Key to risk changes: ↑ Increase in risk during the year

External risks

1. Economic environment and society
2. Political and regulatory framework

Strategic risks

3. Sustainability of rail profits or loss of franchise
4. Inappropriate strategy or investment
5. Competition

Operational risks

6. Catastrophic incident or severe infrastructure failure
7. Large scale infrastructure projects
8. Labour costs, employee relations and resource planning
9. Information technology failure or interruption, or security breach

External risks

1 ↑ Economic environment and society

Lower economic growth or reduction in economic activity.

Potential impact

Reduced revenue as:

- Customers make fewer journeys
- Customers buy lower priced tickets
- Customers switch mode (to walking, cycling, private car etc)

Mitigating actions

- Continue to focus our operations in more resilient geographical areas
- Local management constantly assesses the needs of local markets and direct services and products accordingly
- Provide attractive services and products
- Focus on driving volumes through innovative and targeted marketing
- Generate customer loyalty through initiatives such as smart ticketing
- Proactive cost control
- Make public transport easier to access and use
- Robust bid modelling considers differing economic scenarios, including the UK's exit from the European Union

Opportunity

- Maximise geographic and product diversification opportunities
- One rail contract will be rebid over the next year allowing for a rebasing of target revenue
- There are variances between geographical areas in the rate of recovery

Change in risk in the year

Increase in risk during the year, as UK growth rates remain volatile and the UK is at risk from political instability.

- Following the result of the EU referendum, economic growth rates have been resilient, but remain volatile (e.g. UK gross domestic product (GDP) was estimated to have increased by 0.4% in Quarter 4 (October to December 2017), while Quarter 1 (January to March 2018) GDP growth was 0.1%)*

* Statistics provided by Office for National Statistics.

Key

- ↑ Increase in risk during the year
- = No change in risk during the year
- Protect and grow the core
- Win new bus and rail contracts
- Develop for the future of transport

2 ↑ Political and regulatory framework

Changes to the legal and regulatory framework, the implementation of the Bus Services Act 2017, and the impact of the UK leaving the EU.

Potential impact

- If bus services are franchised, the Group could lose revenue in some areas
- Adverse change to the rail franchising model, including increase in state control of rail franchises
- Reduced funding for public transport
- A reduction in European immigration to the United Kingdom could have an impact on the availability and cost of employees

Mitigating actions

- Limited exposure to local authority funding, as our operations are largely commercial
- Actively participate in key industry, trade and government steering and policy development groups
- Collaboration and partnership working with local authorities
- Devise strategy for bus franchising
- Demonstrate the value delivered by the private sector through investment in services, responding quickly and flexibly to passenger needs

Opportunity

- The political and regulatory framework provides us with the opportunity to influence decisions through close dialogue with the government, local authorities and other key parties
- The Bus Services Act 2017 could provide business opportunities in new markets, and facilitate the consolidation of existing relationships

Change in risk in the year

Increase in risk during the year, as the UK's political landscape has become increasingly uncertain.

- Labour's 2017 manifesto pledge to bring private rail companies back into public ownership as their franchises expire
- InterCity East Coast franchise held by a joint venture of Stagecoach Group (90%) and Virgin Holdings (10%) terminated on 24 June 2018, and brought into state control with the launch of LNER
- Ongoing political and economic uncertainty prior to the UK's scheduled departure from the European Union on 29 March 2019
- Increased budget pressure for our client Transport for London
- Manchester Mayor commences bus franchising process
- Moves by some local authorities (e.g. Oxford) to implement zero emission zones

Strategic risks

3 ↑ Sustainability of rail profits or loss of franchise

Failure to retain Southeastern franchise on acceptable terms and failure to stabilise GTR's business performance, and comply with franchise terms.

Potential impact

- Group profitability and cash flow could fall over the next three years
- Loss of franchise and/or financial penalties

Mitigating actions

- Flexible and experienced management team which responds quickly and expertly to changing circumstances
- Shared risk through the Govia joint venture, which is 65% owned by Go-Ahead and 35% by Keolis
- Invest in performance improvements
- Work constructively with industry partners, such as Network Rail and the DfT, to deliver long term economic and infrastructure benefits
- Significant resource and financial investment in bidding for new franchises
- Regular Board review of rail performance, and Board approval of overall rail bidding strategy
- Compliance with franchise conditions closely monitored
- Recovery plan for GTR
- Reduce head office costs across the Group
- Preparation for German rail contract ahead of its start date in 2019

Opportunity

- Growing portfolio of German rail contracts
- Growth opportunities within the Nordic region

Change in risk in the year

Increase in risk during the year, as the issues concerning the GTR franchise have intensified and the Group's joint venture Govia was unsuccessful in its bid to win the new West Midland rail franchise.

- The GTR franchise has seen a difficult year as a result of the impact of major infrastructure projects and the implementation of the new timetable on 20 May 2018

Read more on page 41.

- Organic international expansion, including the recently awarded 13-year rail contract by Transport Ministry of Baden Württemberg in Germany
- Southeastern franchise extended to April 2019
- Bid submitted for new South Eastern franchise

Operational risks

4 (=) Inappropriate strategy or investment

Failure to make appropriate strategic or investment decisions.

Potential impact

- Shareholder value could be lost and the Group could suffer reputational damage

Mitigating actions

- Comprehensive strategic discussions with main Board and advisors
- Extensive valuation and due diligence, supported by external expertise
- Maintain strong financial discipline when assessing viability of opportunities
- Cautious approach to investment opportunities overseas and outside our core operating areas
- The Board has a clear stated risk appetite that governs the acceptable level of risk in pursuit of objectives

Opportunity

- Continual focus on and review of strategy ensures the Board is well placed to assess value adding opportunities as they arise
- Growth opportunities in Singapore, Dublin, Australia, Germany and Nordic region

Change in risk in the year

No change in risk during the year, as the Board Strategy Day did not determine any material change to the Group's strategy.

- Good strategic progress has been made during the year. Continued focus on delivering profit growth in bus, as evidenced in successful bid for a second bus tender in Dublin by Ireland's National Transport Authority
- Go-Ahead has a clear strategy, communicated to all levels of the organisation

5 (↑) Competition

Competition from existing and new market participants, loss of business to other modes and threats from market disruptors.

Potential impact

- Loss of revenue and profits
- Reputational damage
- Rapid change required to business model and structure

Mitigating actions

- Disciplined and focused bidding
- Adapt to changing customer requirements and technological advancements
- Foster close relationships with stakeholders to ensure we are meeting requirements including service quality and price
- Work in partnership with local authorities and other operators
- Promote multi-modal travel, improving the overall door-to-door experience for passengers
- Remain at the forefront of promoting and introducing inter-operable ticketing schemes
- Focus on customer needs and expectations, including more channels for ticket purchase and journey planning

Opportunity

- Strategic partnerships provide opportunities and aim to improve the passenger experience and perception of public transport as a whole
- Increased competition in the market encourages innovation which improves the customer experience. For example, during the year, as part of our strategy to develop for the future of transport, we announced the UK's largest demand responsive trial of high-quality minibuses in Oxford called 'PickMeUp'

Change in risk in the year

Increase in risk during the year, as innovative forms of competition (for example, Uber) continue to challenge the Group's core markets.

- The reduction in oil price, leading to lower fuel prices for motorists, could result in passengers taking more trips in private cars rather than choosing public transport
- Technology based start-ups are entering transport market
- An increase in competition, as more foreign companies enter the UK market

6 (=) Catastrophic incident or severe infrastructure failure

An incident, such as a major accident, an act of terrorism, a pandemic, or a severe failure of rail infrastructure.

Potential impact

- Serious injury to the public, our passengers or our people
- Service disruption with financial losses and reputational damage
- Acts of terrorism, while not directly targeting rail/bus public transport, may discourage travel and tourism

Mitigating actions

- Rigorous, high profile health and safety programme throughout the Group
- Appropriate and regularly reviewed and tested contingency and disaster recovery plans
- Thorough and regular staff training
- Work closely with our industry partners, such as rail infrastructure provider, Network Rail, and government agencies
- We have maintained high levels of safety performance, demonstrating our continuing efforts to minimise this risk

Opportunity

- The threat of such an event requires our staff to be well trained and prepared at all times
- Continuous review of processes and procedures can identify areas for operational improvement and improve overall safety on our networks

Change in risk in the year

No change in risk during the year, as the likelihood of an act of terror impacting the Group's transport network has not increased.

- Threat levels during the year have been recorded as 'critical' and 'severe' as the likelihood of terrorist related attacks remains high

7 (=) Large scale infrastructure projects

Large scale infrastructure projects on and around the networks on which we operate, such as the Thameslink Programme, HS2 and major roadworks.

Potential impact

- Reduced capacity decreases resilience and creates congestion causing lower reliability which impacts service levels and contractual performance
- Inadequate planning or execution can cause severe disruption
- Slowdown in passenger numbers in regional bus as road networks become more congested

Mitigating actions

- Work constructively with industry partners, such as Network Rail, to minimise the impact of any disruption on our passengers
- Strong engagement with stakeholders, including our customers, to enable effective communication, especially during structural change programmes and disruption to the service
- Good relationships with local authorities and industry bodies, such as the DfT

Opportunity

- Investment in railway infrastructure and roads will deliver long term benefits to passengers travelling on our services

Change in risk in the year

No change in risk during the year, as the predicted impact of large scale infrastructure projects remains unchanged from the previous financial year.

- Our rail operations have been impacted by works associated with the £6.5bn Thameslink Programme, particularly around the implementation of the new timetable on 20 May 2018
- Congestion due to roadworks in London and Brighton and Hove have impacted our services with passengers choosing alternative modes of transport

8 (=) Labour costs, employee relations and resource planning

Failure to effectively engage with our people and trade unions in making change and managing costs, including pensions.

Potential impact

- Failure to retain and attract employees at all levels
- Ageing workforce leading to a shortage in labour supply, skills and knowledge
- Service disruption and costs, arising from industrial action, leading to reputational damage
- Low levels of morale and engagement lead to inadequate customer service
- Inability to deploy new technology and work practices for the benefit of customers
- Wage costs increase or are higher than necessary
- Reduction in value of sterling leading to a slowdown of labour resources from Europe and an increase in labour turnover from employees returning to Europe

Mitigating actions

- Work to maintain good relationships with employees and trade unions
- Robust workforce planning with skill requirements identified
- Robust and regularly reviewed recruitment and retention policies, training schemes, resource planning and working practices
- Experienced approach to wage negotiations
- Employee engagement surveys across all businesses to identify issues
- Engaging all our people in the vision, beliefs and attitudes
- Proactive management of pension risks

Opportunity

- Through fostering positive employee relations and offering good employment packages we have a motivated and committed workforce, with low staff turnover across all businesses
- We are monitoring the impact of changes in the employment market which may affect our ability to retain and recruit staff
- Workforce planning and critical skills shortage identified to ensure critical shortages are addressed and there is a large enough pool of resources to deploy

Change in risk in the year

No change in risk during the year.

- Operational challenges on the GTR franchise have arisen following the introduction of the new rail timetable in May 2018 – these challenges have highlighted the extent of dependence on rail industry processes and the need for an improvement in workforce planning and resource deployment

9 (↑) Information technology failure or interruption or security breach

Prolonged or major failure of the Group's IT systems or a significant data breach.

Potential impact

- Disruption to trading and/or operational service delivery
- Reputation damage and regulatory breach from misuse of data
- Financial loss

Mitigating actions

- Implementation of the Group-wide GDPR project, to ensure compliance
- Appointment of a Group Data Protection Officer
- Robust processes and procedures in place to ensure compliance with the relevant laws and best practices
- Process standardisation and continued investment in best practice systems, including 'light sites' and 'load bearing' servers
- Clear and tested business continuity plans
- Proactive approach to cyber security issues
- Cyber Essentials, a government backed cyber security certification scheme, was achieved
- Continued investment in and maintenance of IT systems across the Group
- Test scenarios conducted across the Group

Opportunity

- Ensuring our systems and processes are efficient and reliable strengthens day-to-day operations across the Group

Change in risk in the year

Increase in risk during the year, following the Data Protection Act 2018 enacting of the General Data Protection Regulation in May 2018.

- The General Data Protection Regulation has increased the Groups regulatory responsibilities, as well as introduced a new regime of fines
- Significant cyber-attacks, including ransomware attacks, across the public and private sector during the year

Key

- (↑) Increase in risk during the year
- (=) No change in risk during the year
- Protect and grow the core
- Win new bus and rail contracts
- Develop for the future of transport