Arc Property Services Partnership Limited

Risk Register as at May 2018

“Trusted to Deliver”

Working in partnership with Nottinghamshire County Council Scape Group

Policy and Strategy

It is Arc Partnership's policy to proactively identify, understand and manage the risks inherent in our products, services and future plans to encourage responsible and informed risk taking. Risk management is all about understanding, assessing and managing the organisations threats and opportunities.

Arc Partnership accepts the need to take **proportionate risk** to achieve its strategic objectives, but expects these to be **appropriately identified, assessed and managed**. Through managing risks and opportunities in a structured manner, the organisation will be in a stronger position to ensure it meets its objectives.

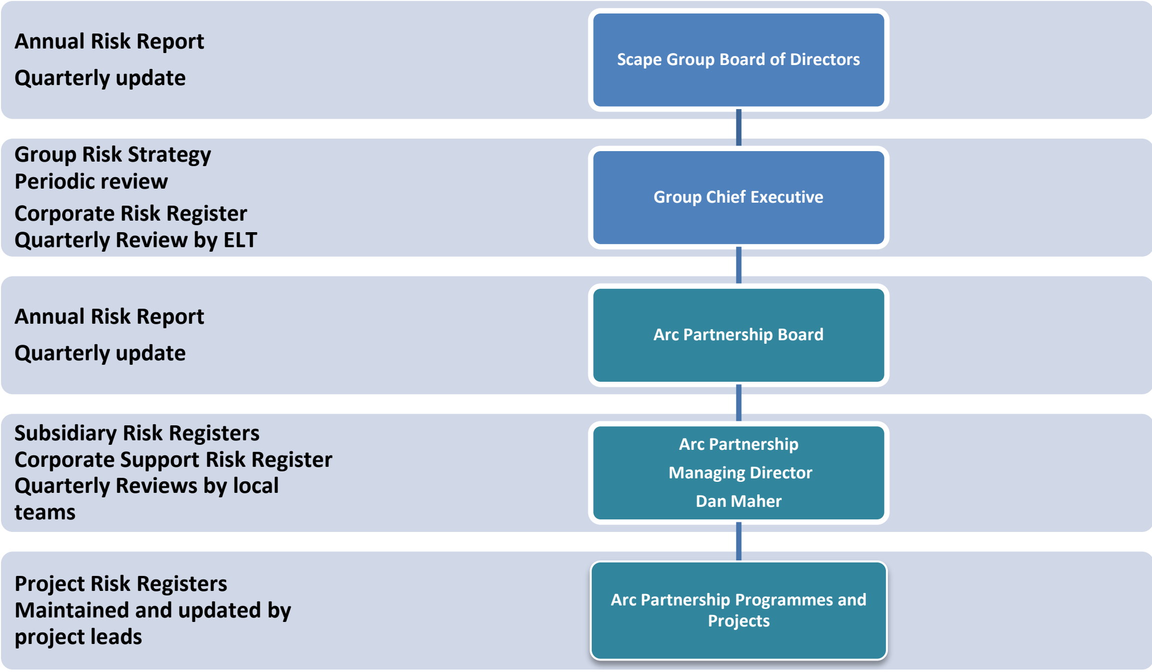
Arc Partnership's Risk Management Strategy aims to:

- Ensure that risk management becomes an integral part of business planning, decision making and project management
- Enable Arc Partnership to deliver its priorities and services economically, efficiently and effectively
- Protect Arc Partnership's position when entering into new partnerships and/or evaluating existing partnerships
- Align risk management and performance management to drive improvement and achieve better outcomes
- Guard against impropriety, malpractice, waste and poor value for money
- Ensure risk management training forms part of the normal training/induction programmes
- Ensure compliance with legislation, such as that covering the environment, health and safety, employment practice, equalities and human rights
- Minimise the prospects of any damage to Arc Partnership's reputation/and or undermining of public confidence in the organisation
- To have a performance framework that continues to allow managers to proactively track performance, and assess/deal with risk in a timely way

The effective management of risk is an important principle for all businesses to address. For organisations such as Arc Partnership, managing risk is a key element of good corporate governance. Our risk management strategy seeks to promote the identification, assessment and response to key risks that may adversely impact upon the achievement of the organisation's stated aims and objectives. It also seeks to maximise the rewards that can be gained through effectively managing risk.

The purpose of this Risk Management Strategy is to establish a framework for the effective and systematic management of risk, which will ensure that risk management is embedded throughout Arc Partnership and makes a real contribution to the achievement of the organisation's vision and objectives.

Set out below is the reporting structure for risk management:

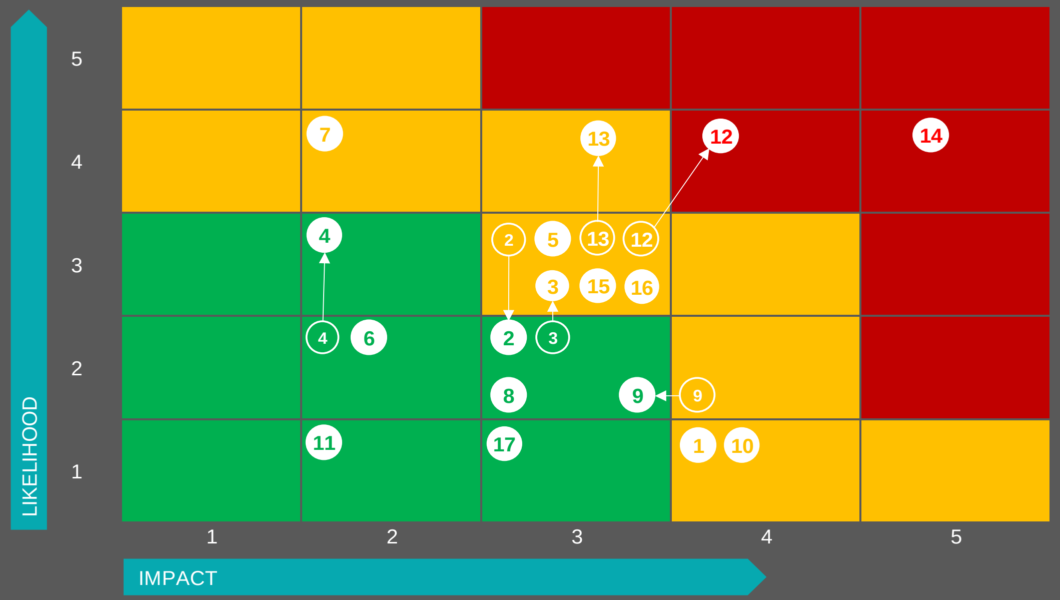


A matrix is used to plot the risks (each risk should be given an identifying number which is then plotted into the appropriate square on the matrix) and once completed this risk profile clearly illustrates the priority of each risk.

When assessing the potential impact of a risk and its consequences this is linked back to the achievement of the vision, objectives and priorities of Arc Partnership. In turn, likelihood is assessed by asking how likely it is that the risk event should occur and impact is assessed by asking what the impact would be. The combination of both allows the Arc Partnership to plot the risks on the matrix and set the risks in perspective against each other. Those risks towards the top right hand corner with higher likelihoods and impacts are the most pressing with the priority falling as we move down to the bottom left hand corner.

It is important to note that as an operational business risks within Arc Partnership will be managed at both business unit level and at individual programme/project level, with Risk Registers in place for every programme/project. Having assessed the likelihood and impact of each risk for Arc Partnership, the risk profile is plotted on the Risk Matrix below. Arc Partnership Risk Register, provides granular detail of risks and mitigations within the business unit.

Risk Matrix



		Baseline	Q1	Q2	Q3	Q4	Target
1	Construction health and safety	4	4	4	4	4	4
2	Reputation	9	9	9	9	6	6
3	Cashflow	9	9	6	4	6	4
4	Growth (external)	9	4	4	4	9	3
5	Financial success	12	12	9	9	9	9
6	Succession / key personnel	6	6	4	4	4	4
7	Commercial effectiveness	8	8	8	8	8	6
8	Procurement & supply chain	6	8	8	8	8	6
9	Arc - client collaboration	12	12	8	9	6	9
10	Performance of services	4	4	4	4	4	4
11	Failure to stay Teckal compliant	2	2	2	2	2	2
12	P2 ICT system failure / loss	20	20	9	9	16	15
13	Release of NCC workload	15	15	9	9	12	15
14	Pension scheme liabilities (on exit)	20	20	20	20	20	20
15	Contractual obligations	9	9	9	9	9	6
16	Programme & Project Risk profile	9	9	9	9	9	9
17	Impact of specification or design failure	3	9	9	3	3	3

Red Risks

[14] Pension Scheme Liabilities – The evaluation of this risk has remained static since the last report at 4/5 (likelihood/impact). This remains the most significant risk for both Arc Partnership and Scape Group, both in terms of pension exit cost liabilities, and the immediate implications of FRS102/1AS19. The risk definitions and associated implications have been previously detailed to Board. Mitigation strategies will need to be developed for both risks identified.

[12] P2 ICT System Failure / Loss – Risks associated with the P2 system have been escalated to red status. The likelihood for underperformance of this core business ICT system, with potential disruptive impact on operations is higher than it has been at any time since Arc was established.

The system is provided for Arc Partnership to use by NCC under clearly defined contractual terms. NCC's contractual relationship with the system supplier (Concerto) has expired, leaving both NCC and Arc susceptible to performance issues which cannot be managed or enforced. Equally, the original terms of the system licence held by NCC limit Arc's ability to use the system as the basis for commercial relationships with third parties. Finally, both parties have locally managed ICT support staff, a specialist and expensive resource cost to both; Arc does not always get the necessary and informed support from NCC in managing Concerto and prioritising development needs.

Failing a more collaborative resolution, Arc will ultimately need to acquire its own software licence and database, the costs of which will be carried by both shareholders, and will be in addition to the costs already met by NCC.

Key Risk Movement

Escalating Risks

[13] Release of NCC workload – The evaluation of this risk has escalated from green to amber, and to 4/3 (likelihood/impact). In the final quarter of 2017/18, delayed commissioning of approved future projects (for delivery in 2018/19) from NCC has inhibited Arc's ability to recover costs and has directly impacted on the 2017/18 year-end accounting performance. Pipeline visibility and early commissioning of all NCC works is critical for Arc, as it enables balancing of demand between third party work and NCC priorities. Equally, securing NCC economic regeneration works are critical to the future NCC pipeline; in line with Arc's privileged position as NCC's exclusive supply chain partner. Arc will be working closely with NCC colleagues to review these impacts and consider what approaches can be taken to prevent this problem re-occurring in future. Early commissioning also provides Arc with greater time to secure cost effective delivery solutions for each project.

[3] Cashflow – Over the last financial year, the cash position has improved considerably (year-end cash was £937,000), which allowed the removal of the NCC Advanced Payment Facility, as planned, and all creditor payments are being managed in line with credit terms. We have also generated the appropriate profit/cash to facilitate the repayment of the two £200,000 loans to both NCC and Scape Group on 31 May 2018, therefore, allowing the business to trade in 2018/2019 debt free. There are no significant overdue debtors, and work in progress is being actively managed.

Nonetheless, cashflow remains a risk as it is influenced by timely transactional finance activity by NCC; both payments, but also in ordering approved projects where Arc is committing staff time at risk at present. There is recent evidence that suggests a renewed focus on this would be helpful at NCC, resulting in escalation from green to amber.

[4] Delivering third party growth – The current (3/3) and target risk scores (1/3) for this aspect has been updated, reflecting the targets now set in the 2018/19 business plan; recognising that for the first operational year, external growth is business critical. Organisational capability and supply chain arrangements are in place to deliver third party work. Opportunities have been identified and captured in terms of a forward pipeline, and a clear strategy approved by the Board for reciprocal trading as the primary source of income. Organisational procedure, and high-quality contract management with new clients will be crucial to protect third party work cashflow.

De-escalating risks

[2] Arc Partnership / Client Collaboration – The relationship with the client team at NCC has never been stronger. The ADSM review being undertaken into the joint venture arrangements for NCC has been incorporated into the Turner and Townsend review of property operation; this is a vote of confidence in the operating model from NCC members. New governance arrangements, with NCC member input to the JV Board, will further strengthen ownership of Arc's performance and issues by NCC members. In recent months, the client has moved a huge distance in support of Arc, notably supporting the review of fees to make the business more sustainable, especially resolving losses in repairs and maintenance operations caused by a flawed original model. Mid to lower level management personalities and views are introducing some new risks; there is a need to focus on maintaining and building relationships at this level.

[9] Reputation – Maintaining Arc Partnership reputation (and indirectly Scape Group's) is dependent on delivery of the principle clients (NCC) programme of works, linked to the need for a seamless process of commissioning and release of work from NCC. Arc cannot afford to lose focus on continuous improvement around customer excellence, value for money and quality of output. The risk of reputational damage is now reduced as a result of the improving collaborative relationship with the NCC client, and a positive track record; we are able to evidence KPI performance and a successful financial out-turn year of delivery for 2017/18, with NCC's capital programme fully expended and delivered.

Other risks (all remaining static since last quarter):

[1] Safety, Health and Environment – SHE monitoring processes are well embedded and performance strong. The Arc Partnership Safety, Health and Environmental Plan 2016-2018 is now governed through quarterly meetings at the Arc Partnership Safety Meeting. SHE/CDM support is now provided by our own in-house Health and Safety Manager who has been instrumental in gaining ISO 18001 accreditation. Environmental aspects are being included into the existing system of health and safety management. SHE arrangements for responsive repairs and servicing supply chain contractors have been recently reviewed and vetted, alongside DBS checks.

A robust CDM tracker and process exists; operated between NCC officers and Arc's SHE advisor to demonstrate and assure the overall safety system for NCC; all projects are checked for compliance.

[5] Financial Control and Profitability – Noting the already mentioned key risk areas of NCC commissioning and external business growth, overall profitability will also benefit from the new fees and charges agreed with the NCC client team. Financial controls will also improve in the current financial year as our new finance system is implemented, building on our already strengthened financial control team (personnel and process), although in both cases these are yet to take effect.

[6] Succession / Key Personnel – Retention and succession plans are in place across the business. Our Construction Services review will resolve outstanding position(s) where required for the future at a senior level. Enthusiasm from the workforce appears high. As a medium sized business, there remains a dependency on several critical roles where succession and recruitment plans have been prepared and costed into this years' business plan.

[7] Commercial Effectiveness – Work continues to improve the commerciality of the business at all levels, building on the implementation of new commercial procedures / training. The focus of the commercial team will be on strengthening the capabilities of our staff, after an external focus on supply chain controls has delivered greater rigour and discipline in Arc's contracting.

[8] Procurement and Supply Chain – Overall, Arc's procurement arrangements are substantially improved, although the overall profile of risk cannot be reduced until our procurement plan covering all areas of the business is completed. Notably, the framework supply chain has been refreshed, with suppliers across the Scape Procure Frameworks now in use, including the new Regional Construction Frameworks (mobilised in January 2018). Within construction services, specialist M&E supply chain arrangements are in place and a compliant call-off contract for general building services arranged for 12 months. Preparation is ongoing for renewal of repairs maintenance and servicing supply chain contracts, with joint specification and benchmarking being undertaken with NCC client team and North Yorkshire County Council.

[10] Performance of Services causes loss of exclusivity or fails to satisfy client(s) – An improved scheme of KPI measurement and reporting is in place; service performance is consistently in line or above required levels at present for NCC. Qualitative measurement and objective value for money considerations will now become increasingly important. Forward use of these various measures of business and contractual performance will be important to target areas of continuous improvement. A Pre-Construction Manager has been appointed to drive programme performance in this area. We also need to establish internal KPI's to measure our own targets across feasibility design and delivery.

[11] Failure to stay Teckal Compliant – This is under control and being reviewed by the central Scape Procurement team. Current risk is mitigated by our almost sole provision of services to our shareholder partner, NCC.

[15] Failure to Satisfy Contractual Obligations – Obligations have been identified and programmed for delivery in accordance with the requirements.

[16] Programme and Project Risk Profile – There has not been a significant change in makeup or risk profile of the projects being delivered by Arc. Key risks at project and programme level are identified through members of the Senior Management Team interfacing with the delivery teams. The need for a commercial approach to risk management at programme and individual project levels has been recognised, and is being developed for subsequent implementation so that risk management is formally controlled within the delivery teams. Commercial Pricing Risk is however, included in the initial LEC summary which is used by NCC for project budgetary approvals.

[17] Design or Specification Failure Cause Commercial Risk – A process of review of specifications and design standards is underway, led by the Head of Design.