Principal risks and uncertainties

Our risk management approach

We take a holistic approach to risk management, first building a picture of the principal risks at divisional level, then consolidating those principal risks alongside Group risks into a Group view.

Our risk management structure

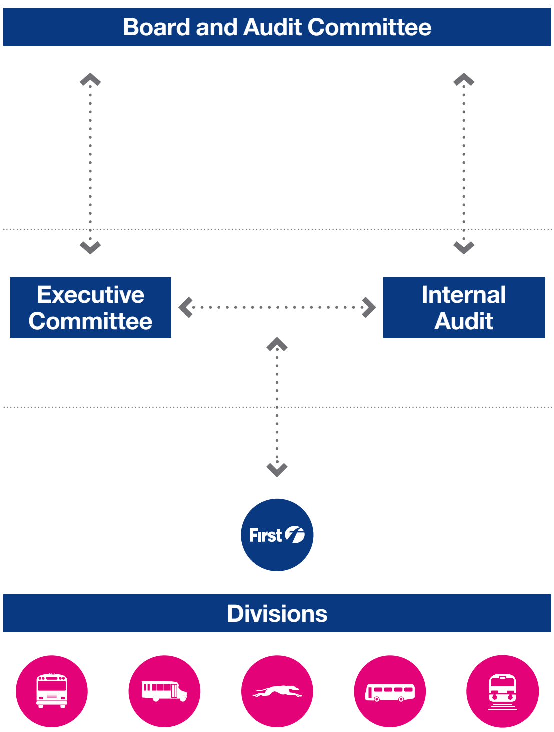
Whilst some risks such as treasury risk are managed at a Group level, all of our businesses are responsible for identifying, assessing and managing the risks they face with appropriate assistance, review and challenge from the Group functions.

We seek to continue to improve the quality of risk management information generated by our businesses. The Group has a risk appetite framework which informs the business on the Board's appetite for certain risks.

Our current risk management structure is shown below:

Our risk management framework

Top down Strategic risk management		Bottom up Operational risk management
Review external environment Robust assessment of principal risks Set risk appetite and parameters Determine strategic action points	BOARD/ AUDIT COMMITTEE	Assess effectiveness of risk management system Report on principal risks and uncertainties
Identify principal risks Direct delivery of strategic actions in line with risk appetite Monitor key risk indicators	EXECUTIVE COMMITTEE	Consider completeness of identified risks and adequacy of mitigating actions Consider aggregation of risk exposure across the business
Execute strategic actions Report on key risk indicators	DIVISIONS	Report current and emerging risks Identify, evaluate and mitigate operational risks recorded in risk register



Responsibility	Process
The Board has overall responsibility for the Group's systems of internal control and their effectiveness. The Audit Committee has a specific responsibility to review and validate the systems of risk management and internal control.	The Board reviews and confirms Group and divisional risks and the Audit Committee reviews the Group's risk management process.
The Executive Committee acts as Executive Risk Committee and reviews the Group's risk management processes. Internal Audit provides assurance on the key risk mitigating controls and ensures that the audit plan is appropriately risk-based.	The Executive Committee and other Group management review and challenge Group and divisional risk submissions.
The divisions and Group functions management have responsibility for the identification and management of risks, developing appropriate mitigating actions and the maintenance of risk registers.	Divisional and Group risk champions maintain and update risk registers for their function or division. Risks and mitigating actions are monitored through normal business management processes.

Principal risks and uncertainties

Our risk management methodology is aimed at identifying the principal risks that could:

- adversely impact the safety or security of the Group's employees, customers and assets
- have a material impact on the financial or operational performance of the Group
- impede achievement of the Group's strategic objectives and financial targets
- adversely impact the Group's reputation or stakeholder expectations.

The Group's principal risks are set out in the table on page 43 onwards. These risks have been assessed taking into account their potential impact (both financial and reputational), the likelihood of occurrence, and any change to this compared to the prior year and the residual risk after the implementation of controls. Further information on our risk management processes is contained in the Corporate governance report on pages 65 to 66.

Areas of focus during the year

During the year work has continued in the development of a revised risk management system, designed to capture risks and opportunities to the Group.

New and emerging risks

New vehicle technologies are evolving rapidly in response to market innovation, increasing environmental regulation and consumer demand. Although these do present significant opportunities for our businesses, there is risk associated with the change required to our business models.

Principal risks and strategic priorities

To deliver our strategy, it is important that we understand and manage the risks that face the Group. The table below outlines our principal risks and identifies which of our strategic objectives may be affected by those principal risks.

Risk	Severity (Probability x Impact) High ← → Low	Applicability to divisions and Group Functions						Link to strategic priorities
							First	
External Risks								
Economic conditions including Brexit (V)	◄	●	●	●	●	●		1 2 3 4
Political and regulatory	◄	●	●	●	●	●		1 2 3 4 5
Strategic Risks								
Contracted businesses including rail franchising	◄	●	●		●	●		1 2 3 4 5
Competition and emerging technologies	◄	●	●	●	●	●		1 2 3 4
Operational Risks								
Information technology (V)	◄►	●	●	●	●	●	●	1 2 3 4
Data security including cyber security and GDPR	◄►	●	●	●	●	●	●	1 2 3 4 5
Treasury and credit rating	►						●	1 3 4
Pension scheme funding (V)	◄			●	●	●	●	1 3 4
Compliance, litigation, claims, health and safety (V)	◄	●	●	●	●	●	●	1 2 3 5
Labour costs, employee relations, recruitment and retention	◄►	●	●	●	●	●		1 2 3 4 5
Disruption to infrastructure/operations (V)	◄►	●	●	●	●	●		1 2 3 5

(V) Viability statement (see page 49)

◄ Risk increased

◄► Risk unchanged

► Risk decreased

Strategic priorities

1. Focused and disciplined bidding
2. Driving growth through attractive commercial propositions
3. Continuous improvement in operating and financial performance
4. Prudent investment in our key assets
5. Responsible partnerships with our customers and communities

Risk and potential impact	Mitigation	Comment and movement during the year
External Risks		
Economic conditions including Brexit Changing economic conditions affect our different businesses in different ways. A less positive economic outlook, or a disruptive exit from the EU could have a negative impact on our businesses in terms of reduced demand and reduced opportunities for growth or to retain or secure new business. Our First Rail businesses are particularly sensitive to movements in key economic indicators. The same factors could also affect our key suppliers. A strong economic climate, particularly when combined with lower fuel prices, may result in reduced demand for public transportation in our Greyhound and First Bus businesses as alternative modes of transport become relatively more affordable. Economic conditions may also result in a tightening of labour markets resulting in employee shortages, rising pay, or affect the availability of public funding for transport services.	1 2 3 4 To an extent, our First Bus and Greyhound operating companies are able to modify services to react to market changes. The geographic spread of our operations reduces the risk at a Group level. All of our businesses focus on controlling costs to ensure they remain competitive. The Group does not have any standalone operations entirely in the EU. Focus must be maintained to scan the economic environment and take proactive action so as to not adversely impact FirstGroup's execution of its strategy.	▲ The UK departure from the European Union may adversely impact the UK's economic position which in turn may have an adverse impact on the Group's UK and Irish operations. Action plans have been put in place to manage disruption caused by a disorderly exit from the EU.
Political and regulatory The political landscape within which the Group operates is constantly changing. Changes to government policy, funding regimes, infrastructure initiatives, 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. Following the 2016 Paris Agreement, a number of countries in which we operate have now engaged in defining either city, state or national decarbonisation plans. These plans set ambitious targets for the reduction of transport-related GHG emissions and the transition to low carbon economies.	1 2 3 4 5 The Group has dedicated legal teams in the UK and North America who advise on emerging issues. The Group actively engages with the relevant government and transport bodies and policy makers to help ensure that we are properly positioned to respond to any proposed changes. Our continued focus on service quality and delivery helps to mitigate calls for structural market change. We have a programme to measure and reduce our carbon emissions and are developing Group-wide carbon reduction targets with plans across our divisions to mitigate the regulatory risk and benefit from our operating markets transitioning to a low carbon economy.	▲ The political landscape in the US and the UK continues to present both risks and opportunities.

Risk and potential impact	Mitigation	Comment and movement during the year
Strategic Risks		
Contracted businesses including rail franchising Approximately half of the Group's business is contracted, which is dependent on the ability to renew and secure new contract wins on profitable terms. Failure to do so would result in reduced revenue and profitability and incorrect modelling or bid assumptions could lead to greater than anticipated costs or losses. Failure to comply with contract terms could result in termination, litigation and financial penalties and failure to win new contracts or non-renewal of existing contracts. This could also have a negative impact on delivering FirstGroup's strategy going forward. Competition for new rail franchises is intense. We bid against rail operators from both the UK and other countries. Failure to win franchises in the future will result in a lower First Rail division contribution and profitability. The GWR, TPE and SWR franchises cover a period during which there will be significant change including major infrastructure work, electrification and resignalling as well as the introduction of new trains, which require careful planning and management. Failure to manage these risks adequately in accordance with our plans could result in financial and reputational impacts to the Group.	1 2 3 4 5 The relevant divisions have experienced and dedicated bid teams who undertake careful economic modelling of contract bids and, where possible, seek to negotiate risk sharing arrangements with the relevant customer or contracting authority. The Group also has a comprehensive review process for rail bids as they are developed and finalised involving a number of divisional and Group functions as well as final Board sign off. Compliance with our rail franchise agreements is closely managed and monitored on a monthly basis by senior management and procedures are in place to minimise the risk of non-compliance.	▲ We continually review our contracts to take account of changing circumstances such as economic environment or infrastructure changes. Our rail franchise contracts are examples of this. Future commitments to UK rail will only be entered into if they have an appropriate balance of potential risks and rewards for shareholders.
Competition and emerging technologies All of the Group's businesses (both contract and non-contract) compete in the areas of pricing and service and face competition from a number of sources. Our main competitors include the private car and existing and new public and private transport operators across all our markets. Airline competition impacts demand for bus travel, especially in Greyhound's long haul business. Emerging services such as Uber, ride sharing apps and price comparison websites make access to alternative transport solutions easier. However, emerging technologies such as autonomous vehicles and on demand schemes also provide opportunities to grow and develop our market segments. As the uptake of electric vehicle technology rapidly increases, so the per passenger carbon footprint of all modes of transport can be reduced, providing competition for our services on environmental grounds and opportunities for us to reduce our emissions further. Increased competition could result in lost business, reduced revenue and reduced profitability, negatively impacting the effective execution of FirstGroup's strategy in line with its expectations.	1 2 3 4 The Group continues to focus on service quality and delivery as priorities in making our services attractive to passengers and other customers, across our portfolio of businesses. We have a dedicated cross-divisional Consumer Experience Team focused on improving our service to customers and improving access to our services. In our contract businesses, a competitive bidding strategy and a strong bidding team are key. Wherever possible, the Group works with local and national bodies to promote measures aimed at increasing demand for public transport and the other services that we offer. We work with industry bodies advocating for the development of clean vehicle technologies and partners at a local level to develop integrated mobility solutions for our customers and transition our vehicles to modern low emission fleets.	▲ In North America, Greyhound has implemented new pricing technology tools to allow for a more rapid response to an increasingly competitive marketplace driven by low cost airline competition. We currently have a number of autonomous vehicle pilot projects in the US and are working on one in the UK. We are also running pilots for on demand technology both in the US and UK.

Risk and potential impact	Mitigation	Comment and movement during the year
Operational Risks		
Information technology (IT) The Group relies on IT in all aspects of our business. Any significant disruption or failure, caused by external factors, denial of service, computer viruses or human error could result in a service interruption, accident or misappropriation of confidential information. Process failure, security breach or other operational difficulties may also lead to revenue loss or increased costs, fines, penalties or additional insurance requirements. Prolonged failure of our sales websites could also adversely affect revenues. Continued successful delivery and implementation of the Greyhound IT transformation plan is required to improve yield management and drive future growth. Failure to properly manage the implementation of new IT systems may result in increased costs and/or lost revenue.	1 2 3 4 The Group has continued to focus on removal of legacy assets with a focus on modern cloud-based assets which are naturally more resilient to failure. In addition the Group is fully focused on continuing to improve cyber security defences with additional resources being focused on the area and the appointment of a chief information security officer (CISO) to ensure clear focus.	◄ ► We continue to improve key asset resilience, business and IT continuity as the importance of digital sales channels continues to grow.
Data security including cyber security and GDPR All business sectors are targeted by increasingly sophisticated cyber security attacks. Across our divisions we are seeing increased use of mobile and internet sales channels which gather large amounts of data and therefore the risk of unauthorised access to, or loss of, data in respect of employees or our customers is growing. A failure to comply with the General Data Protection Regulation (GDPR), which came into force in May 2018, could result in significant penalties and could have adverse impact on consumer confidence in the Group.	1 2 3 4 5 We have a number of threat detection tools and processes across all our businesses which remain under constant review against emerging threats.	◄ ► In the year we have appointed a CISO to provide further focus in the area of cyber security and compliance with GDPR, the Health Insurance Portability and Accountability Act, and Network and Information Systems directives. We have also invested in data and cyber security training and awareness programmes for employees and this is now part of a continuous campaign.
Treasury and credit rating As set out in further detail in note 24 to the financial statements on pages 139 to 144, treasury risks include liquidity risks, risks arising from changes to foreign exchange and interest rates and fuel price risk. Foreign currency and interest rate movements may impact the profits, balance sheet and cash flows of the Group. Ineffective hedging arrangements may not fully mitigate losses or may increase them. The Group is credit rated by Standard & Poor's and Fitch. A downgrade in the Group's credit ratings to below investment grade may lead to increased financing costs and other consequences and affect the Group's ability to invest in its operations.	1 3 4 The Group's Treasury Committee manages treasury policy, and delegated authorities are reviewed periodically to ensure compliance with best practice and to control and monitor these risks appropriately. The Group is continuously focused on improving operating and financial performance as part of our strategic objectives as outlined on page 13.	▼ Leverage (Net Debt: EBITDA) remains within our target range. We refinanced our £800m Revolving Credit Facility in November 2018 and that is now committed until 2023, providing significant liquidity headroom for the Group.

Risk and potential impact	Mitigation	Comment and movement during the year
Pension scheme funding The Group sponsors or participates in a number of significant defined benefit pension schemes, primarily in the UK. Future cash contribution requirements may increase or decrease based on pension scheme investment performance, rates of interest and inflation and estimated life expectancy as well as changes in the underlying membership of the schemes. Other factors, such as changes to the relevant regulatory environments, can affect the pace of cash funding requirements.	1 3 4 Diversification of investments, hedging of liabilities, amendment of the defined benefit promises and the introduction of defined contribution benefits for new starters in First Bus, FirstGroup corporate functions and our Canadian businesses have reduced these risks. The Group also seeks to remove liabilities from the balance sheet where it can be achieved cost effectively. Under the First Rail franchise arrangements, the Group's train operating companies are not responsible for any residual deficit at the end of a franchise so there is only short term cash flow risk within any particular franchise.	▲ The Group has closed most of its defined benefit schemes in its Road divisions to future accrual. This will lead to the natural reduction of the size and volatility of the pension funding risk over time. Through our membership of the Rail Delivery Group we are engaged in an industry wide project to consider the long term funding model for The Railways Pension Scheme. The Group is also consolidating its Local Government Bus obligations across England and Scotland separately, which will achieve economies of scale in terms of investment and de-risking opportunities as well as ongoing running costs, with significant risk reduction already taking place.
Compliance, litigation, claims, health and safety The Group's operations are subject to a wide range of legislation and regulation. Failure to comply can lead to litigation, claims, damages, fines and penalties. The Group has three main insurable risks: third party injury and other claims arising from vehicle and general operations, employee injuries and property damage. The Group is also subject to other litigation, which is not insured, particularly in North America, including contractual claims and those relating to employee wage and hour, and meal and break matters. A higher volume of litigation and claims can lead to increased costs, reduced availability of insurance cover, and/or reputational impact. Increased frequency of accidents, clusters of higher severity losses, a large single claim, or a large number of smaller claims may negatively affect profitability and cash flow.	1 2 3 5 Compliance with Group and divisional policies and procedures. The Group has a very strong focus on safety and it is one of our five values. The Group self-insures third party and employee injury claims up to a certain level commensurate with the historical risk profile. We purchase insurance above these limits from reputable global insurance firms. Claims are managed by experienced claims handlers. Non-insured claims are managed by the Group's dedicated in-house legal teams with external assistance as appropriate.	▲ The legal climate in North America, particularly in the US, continues to deliver judgements which are disproportionately in favour of plaintiffs, and at times unpredictable. The costs of dealing with this challenging legal environment are factored into our budgets. Due to the scale and scope of our operations, risk mitigation in this area continues to be an area of key focus for the Group.

Principal risks and uncertainties continued

Risk and potential impact	Mitigation	Comment and movement during the year
Operational Risks		
Labour costs, employee relations, recruitment and retention Employee costs represent the largest component of the Group's operating costs, and new regulation or pressure to increase wages could increase these costs. Competition for employees, particularly in an improved economic climate, can lead to shortages which increase costs and affect service delivery. High employee turnover could lead to higher than expected increases in the cost of recruitment, training and labour costs and operational disruption. Similarly, industrial action could adversely impact customer service and have a financial impact on the Group's operations.	1 2 3 4 5 The Group seeks to mitigate these risks via its recruitment and retention policies, training schemes and working practices. Our working practices include building communication and engagement with trade unions and the wider workforce. Examples of this engagement include regular employee communication, satisfaction surveys, and the presence of Employee Directors (who are voted for by the employees) on many of the Group's UK operating company boards and the FirstGroup plc Board. Where increased wages and incentives are necessary to attract and retain employees, those extra costs are factored into our bid models, where possible, to ensure appropriate returns are achieved.	◀ ▶ Strong economic conditions and low unemployment, continue to impact retention and recruitment. Competition for commercially-licensed drivers is increasing as more organisations offer delivery services. During the year, recruitment strategies have been refreshed across all five divisions, providing intensive recruitment support through initiatives such as expanded digital recruitment channels, retention and referral rewards and fast tracked on-boarding.
Disruption to infrastructure/operations Our operations, and the infrastructure on which they depend, can be affected by a number of different external factors, many of which are not within our control. These factors include terrorism, adverse weather events and climate change or potentially pandemics. Greater and more frequent adverse weather caused by climate change increases the risk of service disruption and reduced customer demand with consequent financial impact, potential increased costs and accident rates. As a leading transport provider, we must prioritise these risks of addressing climate change, both through managing its physical and transitional impacts and reducing emissions in support of international agreement to limit planetary warming to 1.5 degrees. As national governments align policies and plans with targets for low-carbon and cleaner forms of energy, climate change also presents a business opportunity related to the falling cost of alternative energy sources and the development of new mobility technologies. The threat from terrorism is enduring and continues to exist in all of our markets. Public transport continues to be regarded as an attractive and viable target and has previously been subject to attack. Across our businesses, we take all reasonable steps to help guard against such activity on the services we operate. An attack, or threat of attack, could lead to reduced public confidence in public transportation, and/or specifically in the Group's security and safety record and could reduce demand for our services, increase costs or security requirements and cause operational disruption.	1 2 3 5 We continue to develop and apply good practice, and provide guidance to our employees to help them identify and respond effectively to any potential threat or incident. We maintain close working relationships with specialist government agencies, in relation to terror threats, in both the UK and North America. We employ dedicated security specialists in the UK and North America. The geographic spread of the Group's businesses offers some protection against specific incidents. In addition, some of our contract-based businesses have force majeure clauses in place. We have severe weather action plans and procedures to manage the impact on our operations. The Group continues to target reductions in our emissions, including through behaviour change initiatives, research and development and investment in new technology. We work closely with those responsible for planning and maintaining our network infrastructures and our asset plans for both our fleet and buildings consider potential climate change impacts.	◀ ▶ Severe weather has led to service disruption in both our North American and UK operations but our businesses have well developed plans to limit as far as possible the disruption. In relation to terrorism, some developments including the weakened position of Islamic State in Syria have created the false perception that the threat may be reducing. This is not the case and the threat remains significant and consistent in relation to western societies.

The risks listed are not all of those highlighted by our risk management processes and are not set out in any order of priority. Additional risks and uncertainties not presently known to us, or currently deemed to be less material, may also impact our business. Indication of a movement in a risk may not indicate a change in the overall net risk position after taking into account risk mitigations.

PROSPECTS AND VIABILITY

The UK Corporate Governance Code 2016 – provision C.2.2

The Directors are required to make a statement in the Annual Report regarding the viability of the Group, including explaining how they assessed the prospects of the Group, the period of time for which they have made the assessment and why they consider that period to be appropriate.

Prospects

Assessment of prospects

FirstGroup is a market leader in five segments of the passenger transport industry, operating primarily in the USA and UK. The Group's business model is set out on page 12, which explains how the Group is managed and its strategy delivered.

The Board believes that for the foreseeable future there will continue to be strong customer demand for public transport services and for the carrying of children safely to and from school. As such, there will continue to be growth opportunities in the markets that each of the Group's five divisions operate within.

The annual strategy review, business plan and budget are key processes by which the Board tests and gains comfort in the longer-term prospects for each of the divisions and the Group as a whole. The Group's overall cashflows and financing facilities are also reviewed annually to ensure that the Group has adequate liquidity to continue as a viable entity and to invest in each of its divisions.

As part of its ongoing oversight role, the Board actively considers the risks facing each division and monitors key developments in each of their markets and, where appropriate, agrees relevant initiatives and investments to respond to the risks and developments.

The likely future level of customer demand, the scale of each division and their ability to bring global expertise to local markets, underpins the Board's assessment that the Group overall will remain viable into the future.

Strategy implementation

When implementing the strategy to rationalise the Group's portfolio, with the future emphasis being on First Student and First Transit, including pursuing structural alternatives to separate First Bus, a detailed assessment of the Group's prospects and viability will be undertaken to confirm that there will be a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due. For the purposes of the viability assessment, it has been assumed that any separation plans will only be pursued if they are value-enhancing for the Group.

Viability

Time horizon

The Directors have assessed the viability of the Group over a three-year period. This period reflects the Group's corporate planning processes and is considered appropriate for a fast-moving competitive environment such as passenger transport.

Scenario testing

In making their assessment, the Directors have taken into account the potential financial and operational impacts, in severe but plausible scenarios, of the principal and emerging risks which might threaten the Group's viability during the three-year period to 31 March 2022 and the likely degree of effectiveness of current and available mitigating actions that could be taken to avoid or reduce the impact or occurrence of such risks (details of the risks and mitigating actions are set out on pages 44 to 48). The assessment of the available mitigating actions included the Group's ability to manage its cost base and capital expenditure. In making their assessment, the Directors have made the assumption that the Group will be able to access debt markets to refinance the existing £350m Bond expiring in April 2021.

The broad details of the scenarios that were considered in the assessment are: 1) a significant economic downturn (including the impact of a 'disruptive Brexit') with a GDP fall of 3% resulting in an adverse operating environment; 2) heightened operational pressures due to increased competition, driver shortages and adverse weather; 3) a weak economy with a 2 – 4% fall in UK and US GDP, accelerated funding of pension scheme deficits and a closure of the bond markets to new issues; and 4) consideration of the Group's strategic portfolio rationalisation plans, including modelling of the impact on the Group's viability of the disposal of Greyhound, for which a process is underway.

The results of this scenario testing showed that the Group would be able to remain viable and maintain liquidity over the assessment period.

Corporate planning processes

The Group's corporate planning processes include completion of a strategic review, preparation of a medium-term business plan and a quarterly re-forecast of current year business performance. The plans and projections prepared as part of these corporate planning processes consider the Group's cash flows, committed funding and liquidity positions, forecast future funding requirements, banking covenants and other key financial ratios, including those relevant to maintaining the Group's existing investment grade status. It also considers the ability of the Group to deploy capital. A key assumption underpinning these corporate planning processes is that debt and asset-backed financing markets will be sufficiently available to the Group, even if the bond markets are closed as in scenario 3, to enable the refinancing of existing loan facilities and to put in place, if required, additional finance facilities.

PROSPECTS AND VIABILITY CONTINUED

Statement

Based on the results of the analysis explained above, including scenario testing, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 March 2022.

The Board confirms that in making this statement it carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

GOING CONCERN STATEMENT

The Group has established a strong balanced portfolio of businesses with approximately 50% of Group revenues secured under medium-term contracts with government agencies and other large organisations in the UK and North America.

The Group has a diversified funding structure with average debt duration at 31 March 2019 of 4.3 years (2018: 4.1 years) and which is largely represented by medium-term unsecured bank facilities and long-term unsecured bond debt. The Group has an £800m committed revolving banking facility of which £353.3m (2018: £603m) was undrawn at the year end. This facility has a maturity of November 2023.

The Directors have carried out a detailed review of the Group's budget for the year to 31 March 2020 and medium term plans, with due regard for the risks and uncertainties to which the Group is exposed, the uncertain economic climate and the impact that this could have on trading performance. Based on this review, the Directors believe that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.