Resource type: Project 13

Project 13 Commercial Handbook - enterprise risk management

The approach to risk management in an enterprise centres on increased transparency for all organisations involved. This begins with jointly developing an understanding of the risk profile for the programme at the outset of the enterprise which everyone contributes to and is maintained transparently throughout the programme.

Ultimately the majority of the risk defaults to the owner and investor in the assets; they are the beneficiary so they have the most at risk. This cannot be allocated or transferred away to another party. Instead the enterprise model seeks to incentivise those who can put in place risk mitigation measures for the owner and investor to do so and to be rewarded if they succeed. This is done through the allocation of the proportion of 'programme shares'.

As with all shares programme shares can go up or down depending on the performance of the enterprise and therefore gaming to take on more shares when you are not able to mitigate the risks or innovate is an unwise strategy. It's in everyone's best interests to share according to skill sets. This will also encourage innovation as niche suppliers such as tech companies can bring innovation and secure substantial rewards as a result of their percentage of programme shares.

The process for deciding how to allocate programme shares is as follows:

1. Understand the value and risk profile of the programme
2. Consider who amongst the key suppliers is best placed to maximise value and mitigate these risks
3. Allocate programme shares based on a function of 1 & 2
4. Create a forecast value profile based on when benefits are realised and shares will be paid out

Underperformance and risk exposure

There is an important consideration to be decided in the commercial strategy on the risk exposure for the integrator, suppliers and advisors under the programme share system. Although a degree of incentivisation for receiving a loss as a result of joint poor performance is required the scale of this could have significant implications for the overall programme costs from excess private sector insurance liability costs and the sustainability of the private companies engaged in delivery of the enterprise if unlimited loss is recovered. There are options already in use around capped loses which are agreed in the contract so the owner takes on the additional liability or through an insurance system for the enterprise with an 'excess' type of arrangement.

Understanding Risk Profiles

The National Audit Office have designed a Delivery Environment Complexity Analytic tool based on their analysis of major programme delivery which sets out 12 categories of risk. Alongside this Project 13 and the Infrastructure Risk Group has drawn on strategic risk registers from both Crossrail and the Olympics to create a standard template for defining a strategic risk profile for a programme.

Included below is this template filled out for a fictitious programme, initially it is important to identify the risk rating (the likelihood and impact the risk has on the overall programme delivery) to determine the risk profile. Secondly the risk owner (who ultimately loses out if the risk is realised) and those who can help mitigate this risk should be identified.

Risk profile			Risk Owner/Mitigator Who owns the risk / is incentivised				
Risk Category	**High level risk statement**	**Risk rating**	**Investor**	**Owner**	**Integrator**	**Advisor**	**Supplier**
Strategic importance	Defining the investment need and business case	M		X			
	Responding to government and external environment	L	X	O	O		
	Managing results and out turn confidence	H	O	X	O	O	O
Stakeholders/ Influencers	Managing corporate affairs and public relations	M		X	O	O	
	Complying with legal regulatory and tax frameworks	L		X	O	O	O
	Providing leadership and motivational alignment	H		X	O		
	Managing resources and collaborative partnerships	M		O	X	O	O
Requirements and benefit articulation	Specifying the investors requirements	M	X		O	O	
	Realising the operational benefits	H	O	X	O		
	Defining the functional specification	H		X	O	O	O
	Specifying the engineering requirements and standards	M		X	O	O	O
Dependencies	Managing project controls and core processes	M			X	O	O
	Managing business continuity, force majeure and catastrophic events	L	X	O	O	O	O
Inter-connected-ness	Operating the infrastructure and delivering the service	M		X	O	O	O
	Integrating systems and commission the works	L		O	X	O	O
Financial impact and value for money	Developing policies and strategic plans	H	X	O	O		
Stability	Responding to incidents and service disruptions (construction and operation)	M			X	O	O
	Managing risk, governance and assurance	M	O	X	O		
Interfaces/ Relationships	Obtaining Permissions & powers to construct and operate	L		O	X	O	O
	Achieving operational readiness	M		O	X		O
	Managing insurance warranties and third party compensation	L	O	X	O		
Execution complexity (including technology)	Confirming operational viability	M		X	O		
	Establishing the safety duty holders and safety management system	L		O	X		
	Investigating the site and data gathering	H		X	O	O	O
	Implementing the works	M		O	X	O	O
	Establishing the procurement strategy and commercial arrangements	M		X	O		
Range of disciplines and skills	Engineering the scheme and reference design	M		O	X	O	O
	Developing estimates that support the investment and business case	L		O	X	O	O
	Managing resources and collaborative partnerships	M		O	X	O	O
Extent of change	Building high performing teams	H	O	X	O		
Organisational capability: performance to date	Managing contracts and works authorisations	M		O	X		
	Planning the commercial proposition	M		O	X		

What are the benefits of a standard risk register and creating a risk profile like this?

- It gives an investor a standardised view of risk and risk exposure across their portfolio of programmes.
- Programmes can compare their assessment of who owns and who can mitigate risks.
- There is transparency on who owns and who can help mitigate risks to delivery.
- Risk mitigation is incentivised rather than blindly transferred to the supply chain so there is a much clearer view on risks to delivery.