

NHS Greater Glasgow and Clyde	Paper No. 21/69b
Meeting:	NHSGGC Board
Meeting Date:	26 October 2021
Title:	Risk Management - Risk Appetite Statement
Sponsoring Director/Manager	Mark White Director of Finance
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1. Purpose

The purpose of the attached paper is to seek Board approval of the attached Risk Appetite Statement.

2. Executive Summary

The paper can be summarised as follows:

Background

The Audit & Risk Committee (ARC) approved an updated Risk Management Strategy and Risk Register Policy and Guidance note in September 2021. Links to these documents are now available on staffnet.

As part of good governance and the revised Risk Management Strategy the Board is required to agree an overarching risk appetite statement i.e. a statement confirming the amount of exposure to risk the Board is willing to accept in order to deliver its strategies over a given time frame. The Risk Appetite Statement will be published as a separate document once agreed.

Purpose of the Risk Appetite Statement

The purpose of the Risk Appetite Statement is to clarify the Board's position and articulate its views on risks. The Risk Appetite Statement is a key element of our risk management arrangements.

The Institute of Risk Management, defines risk appetite as *“the amount and type of risk that an organisation is willing to take in order to meet its strategic objectives”*.

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The Orange Book – Management of Risk, Principles and Concepts (2020) describes risk management as “*an essential part of governance and leadership, and fundamental to how an organisation is directed, managed and controlled at all levels.*” It considers the application of an organisational risk appetite, as a necessary element of this process.

It describes the role of risk management within governance and leadership arrangements as follows: ‘*Risk should be considered regularly as part of the normal flow of management information about the organisation’s activities and in significant decisions on strategy, major new projects and other prioritisation and resource allocation commitments.*’

As part of decision making, an organisation’s considerations should include whether:

- *Intended benefits justify the plausible range of outcomes*
- *The plausible outcomes are within the current appetite*
- *Available resources can be reallocated, if necessary, to allow benefits to be realised within the stated appetite*

When forming a risk appetite statement it is important to keep it relevant to what the Board does in practice, be pragmatic and avoid over-complication.

Development of NHSGGC’s Risk Appetite Statement

A draft Risk Appetite Statement was presented to the Board seminar for initial discussion in July 2021. Feedback following that session led to a revised statement being drafted which went to the September 2021 ARC to note the progress being made.

In October 2021 a working group comprising the Chair, ARC Chair, 2 other Non-executive Directors and a number of senior executives reviewed the outstanding issues and concerns around the statement and agreed this final updated version for submission to the Board, enclosed at Appendix A.

Appendix B contains a summary of all feedback and queries received in relation to the statement together with a note of the actions taken/responses.

Next Steps

The risk appetite statement defines the Board’s appetite for each high level risk type. Once the statement has been agreed by the Board the detailed risks on the departmental and corporate risk registers will each be aligned to specific high level risk types so that going forward they can be either:

- managed within the agreed risk appetite;
- or where this is exceeded, action can taken to mitigate/reduce the risk; and
- The Board’s risk appetite statement will be communicated to relevant staff involved in the management of risk.

The Risk Appetite Statement will be reviewed annually by the Board every year.

Areas for further consideration

The working group identified a number of areas for further consideration by both the Audit & Risk Committee and in future reviews of the Statement. These include:

- Audit & Risk Committee to consider carrying out an annual review of one or two of the risk categories, looking at decisions actually made by the Board and considering if these decisions reflect the appetite set.
- Development of additional risk categories in future iterations of the Statement e.g Property Risk and IT/Technology Risk.
- Risk Appetites for each Risk Type will be reviewed annually as part of the Board review of the Statement. These appetites may change over time depending on Board circumstances.

3. Recommendations

The Board is asked to consider the following recommendation:

To:

- a) note the work that has gone in to develop the Risk Appetite Statement;
- b) note the ongoing annual review process, and
- c) approve the enclosed updated Risk Appetite Statement as recommended by the working group.

4. Response Required

This paper is presented for approval.

5. Impact Assessment

The impact of this paper on NHSGGC's corporate aims, approach to equality and diversity and environmental impact are assessed as follows: *(Provide a high-level assessment of whether the paper increases the likelihood of these being achieved.)*

- | | |
|------------------------|-----------------|
| • Better Health | <u>Positive</u> |
| • Better Care | <u>Positive</u> |
| • Better Value | <u>Positive</u> |
| • Better Workplace | <u>Positive</u> |
| • Equality & Diversity | <u>Neutral</u> |
| • Environment | <u>Positive</u> |

6. Engagement & Communications

The issues addressed in this paper were subject to the following engagement and communications activity:

The statement was prepared based on feedback from Board members and in consultation with the working group.

7. Governance Route

This paper has been previously considered by the following groups as part of its development:

- A working group of Non-Executives and Executives reviewed the draft statement and agreed an updated draft during October 2021
- An earlier draft was noted by the ARC on 14/09/2021
- An initial draft went to the Board seminar in July feedback from which was used to update and revise the statement

8. Date Prepared & Issued

Date Prepared: 18/10/21

Date Issued: 19/10/21



Draft RISK APPETITE STATEMENT

Lead Manager:	Chief Risk Officer
Responsible Director:	Director of Finance
Approved by:	
Updated:	October 2021
Date for Review:	October 2022
Version:	V1.1

Board Risk Appetite Statement

Introduction

Setting a risk appetite helps an organisation establish a threshold of impacts they are willing and able to absorb in pursuit of objectives.

The concept of calculated risk and acceptable loss can be challenging to reconcile with the essential nature of many public services. However, if properly applied and maintained, understanding risk appetite can result in improved management of risks to achieving objectives, whilst supporting organisations to maintain performance and demonstrate value for money.

Public sector organisations cannot be entirely risk averse and also be successful. Effective and meaningful risk management in the public sector remains vital in order to take a balanced view to delivering public services.

Risk management is an integral part of good governance and corporate management mechanisms. An organisation's risk management framework harnesses the activities that identify and manage uncertainty, allows it to take opportunities and to take managed risks not simply to avoid them, and systematically anticipates and prepares successful responses. A key consideration in balancing risks and opportunities, supporting informed decision-making and preparing tailored responses is the organisation's risk appetite.

Key considerations in risk management:

- It is often not possible to manage all risks at any point in time to the most desirable level;
- Outcomes cannot be guaranteed when decisions are made in conditions of uncertainty;
- It is often not possible, and not financially affordable, to fully remove uncertainty from a decision;
- Decisions should be made using the best available information and expertise;
- When decisions need to be made urgently, the information relied upon and the considerations applied to it should be retained; and
- The risk culture must embrace openness, support transparency, welcome constructive challenge and promote collaboration, consultation and co-operation.

NHS Greater Glasgow & Clyde (NHSGGC)

The NHSGGC Board is responsible for setting and monitoring its risk appetite when pursuing its strategic objectives. The Board's approach to, and appetite for, risk is summarised below.

All processes, procedures and activities carried out by the Board carry with them a degree of risk. It is necessary for the Board to agree the level of risk that it is willing to accept, based on what it considers to be justifiable and proportionate to the impact on patients, carers, the public, members of staff and the Board.

The Board's Risk Management approach is based on the *NHS Scotland Health Boards – Blueprint for Good Governance* with the risk appetite model based on an NHSGGC tailored version of the risk appetite models outlined in the *Orange Book – Management of Risk, Principles and Concepts 2019 Risk Appetite Guidance Note* together with the risk appetite model specifically developed for use by NHS Boards by the Good Governance Institute.

Definitions

Risk appetite is the target amount of risk, on a broad level, that NHSGGC aims to accept in pursuit of its strategic objectives.

Risk Appetite Levels used per the Orange Book matrix:

- **0 - Averse** – avoidance of risk is a key organisational objective
- **1 - Minimal** – preference for very safe delivery options that have a low degree of inherent risk and only a limited reward potential
- **2 – Cautious** – preference for safe delivery options that have a low degree of inherent risk and only a limited reward potential
- **3 – Open** – willing to consider all potential delivery options and choose while also providing an acceptable level of reward
- **4 – Eager** – Eager to be innovative and to choose options offering higher business rewards (despite greater inherent risk)

Development of the Risk Appetite Statement

This risk statement was drawn up based on a series of risk categories or types identified through the Government Orange Book which are relevant to NHSGGC. These risk types were then scored against the risk appetite levels outlined above.

Appendix A details the definition of each risk appetite level for each risk type.

NHSGGC Risk Types

Good practice guides indicate that organisations should identify a small number of high level risk types. The risk types used for this Risk Statement are those considered most relevant to NHSGGC from the Government Orange Book. These are:

Operating risks – Risks arising from inadequate, poorly designed or ineffective/inefficient internal processes resulting in fraud, error, impaired customer service (quality, quantity and/or access to service), non-compliance and/or poor value for money.

Legal risks – Risks arising from a defective transaction, a claim being made (including a defence to a claim or a counterclaim) or some other legal event occurring that results in a liability or other loss, or a failure to take appropriate measures to meet legal or regulatory requirements or to protect assets (for example, intellectual property).

Financial/Commercial risks – Risks arising from not managing finances in accordance with requirements and financial constraints resulting in poor returns from investments, failure to manage assets/liabilities or to obtain value for money from the resources deployed, and/or non-compliant financial reporting. Risks arising from weaknesses in the management of commercial partnerships, supply chains and contractual requirements, resulting in poor performance, inefficiency, poor value for money, fraud, and /or failure to meet business requirements/objectives.

Clinical risks – Risks arising from weaknesses in the clinical processes, resulting in poor performance in terms of clinical outcomes, patient safety, wellbeing and patient experience. Failure to deliver services that are, clinically effective, safe, efficient and person centred. Failure to meet compliance and regulatory requirements.

People/Workforce risks – Risks arising from ineffective leadership and engagement, suboptimal culture, inappropriate behaviours, the unavailability of sufficient capacity and capability, industrial action and/or non-compliance with relevant employment legislation/HR policies resulting in negative impact on performance.

Reputational risks – Risks arising from adverse events, including ethical violations, a lack of sustainability, systemic or repeated failures or poor quality or a lack of innovation, leading to damages to reputation and or destruction of trust and relations.

How the Risk Types align to operational risks and Corporate Aims

The high level risk types used by organisations are a part of the overall risk management process. Once the risk types have been agreed, each operational risk will be categorised again these high level risk types. Standing committees with ownership of specific objectives will ensure that any associated risks are managed in accordance with the relevant risk appetite.

Corporate Aims will inevitably span a number of different risk types. For example, the corporate aim “Better Health” is about improving the health and wellbeing of the population and a transition to prevention, rather than treatment, to reducing health inequalities and promote good mental health and wellbeing at all ages.

There are a variety of risk types which underlie this corporate aim, including:

- **Operating** – there will be risks which relate to this corporate aim which relate to innovation and change which supports the effective delivery of corporate objectives and contributes to improving the health and wellbeing of our population. The risk appetite for innovation in this area is likely to be higher than risks relating to Health and Safety of other areas
- **Financial/Commercial** – Better Health will also have risks in relation to finding ways to shift resources, but with measurable, improved outputs that represent value for money

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Further information can be obtained from the Chief Risk Officer.

NHSGGC – DRAFT Risk Appetite Statement

NHSGGC’s purpose is; *“protecting and improving population health and wellbeing while providing a safe, accessible, affordable, integrated, person centred and high quality health service.”* This purpose is supported through commitments to our service users and families, our staff and our partners and underpinned by our values: Care and Compassion, Dignity and Respect, Openness, Honesty, Quality and Teamwork.

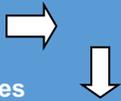
The Board recognises that it is not possible to eliminate all the risks which are inherent in the delivery of healthcare and that at times higher levels of risk can lead to greater reward. On this basis the Board is willing to accept a certain degree of risk where it is considered in the best interest of patients. The Board has therefore considered the level of risk it is prepared to accept for key aspects of the delivery of healthcare and these are described using our objectives.

Risk Type	Risk Appetite
Operating	3 – Open – in relation to innovation and change which supports the effective delivery of corporate objectives.
Legal	1 – Minimal - vital to ensure the board fully meets all legal and regulatory requirements, including adherence to internal Standing Financial Instructions.
Financial / Commercial	3 - Open - prepared to accept the possibility of some limited financial loss. Value for money is still the primary concern but willing to consider other benefits or constraints. Resources generally restricted to existing commitments.
Clinical	1 - Minimal – core services - preference for delivery options of a safe nature with a low degree of inherent risk.
People/Workforce	2 – Cautious - defined as willing to accept a higher degree of risk however still being within a cautious approach.
Reputational	2 – Cautious - defined as willing to accept a higher degree of risk however still being within a cautious approach.

These risk appetites will be applied to the risks within the Corporate Risk Register to ensure that risk owners and the standing committees responsible for each risk consider the overarching risk appetite applicable to each risk.

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APPENDIX A

<p>Risk Appetite Level</p>  <p>Risk Types</p>	<p>0 – Averse Avoidance of risk is a key organisational objective</p>	<p>1 – Minimal preference for very safe delivery options that have a low degree of inherent risk and only a limited reward potential</p>	<p>2 – Cautious preference for safe delivery options that have a low degree of inherent risk and only a limited reward potential</p>	<p>3 – Open willing to consider all potential delivery options and choose while also providing an acceptable level of reward</p>	<p>4 – Eager Eager to be innovative and to choose options offering higher business rewards (despite greater inherent risk)</p>
Operational risks	Defensive approach to operational delivery - aim to maintain/protect, rather than create or innovate. Priority for close management controls and oversight with limited devolved authority	Innovations largely avoided unless essential. Decision making authority held by senior management.	Tendency to stick to the status quo, innovations generally avoided unless necessary. Decision making authority generally held by senior management. Management through leading indicators.	Innovation supported, with clear demonstration of benefit / improvement in management control. Responsibility for non-critical decisions may be devolved.	Innovation pursued – desire to 'break the mould' and challenge current working practices. High levels of devolved authority – management by trust / lagging indicators rather than close control.
Legal/regulatory risks	Play safe and avoid anything which could be challenged, even unsuccessfully.	Want to be very sure we would win any challenge	Want to be reasonably sure we would win any challenge.	Challenge will be problematic; we are likely to win and the gain will outweigh the adverse impact.	Chances of losing are high but exceptional benefits could be realised.
Financial and commercial risks	Avoidance of any financial impact or loss, is a key objective. Priority for close management controls and oversight with limited devolved authority.	Only prepared to accept the possibility of very limited financial impact if essential to delivery. Appetite for risk taking limited to low scale procurement activity. Decision making authority held by senior management.	Seek safe delivery options with little residual financial loss only if it could yield upside opportunities. Tendency to stick to the status quo, innovations generally avoided unless necessary. Decision making authority generally held by senior management.	Prepared to invest for benefit and to minimise the possibility of financial loss by managing the risks to tolerable levels. Innovation supported, with demonstration of benefit / improvement in service delivery. Responsibility for non-critical decisions may be devolved.	Prepared to invest for best possible benefit and accept possibility of financial loss (controls must be in place). Innovation pursued – desire to 'break the mould' and challenge current working practices. High levels of devolved authority – management by trust / lagging indicators rather than close control.
Clinical risks	Defensive approach to clinical delivery - aim to maintain/protect, rather than create or innovate. Priority for close management controls and oversight with limited devolved authority	Focus on delivering core clinical services safely. Innovations largely avoided unless essential. Decision making authority held by senior management.	Focus on delivering core clinical services safely. Tendency to stick to the status quo, innovations generally avoided unless necessary. Decision making authority generally held by senior management.	Focus on delivering core clinical services safely and effectively. Innovation in service delivery supported, with clear demonstration of benefit / improvement in patient outcomes. Responsibility for non-critical	Innovation pursued – desire to 'break the mould' and challenge current working practices. Delivery of core clinical services safely and effectively still paramount

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Risk Appetite Level  Risk Types 	0 – Averse Avoidance of risk is a key organisational objective	1 – Minimal preference for very safe delivery options that have a low degree of inherent risk and only a limited reward potential	2 – Cautious preference for safe delivery options that have a low degree of inherent risk and only a limited reward potential	3 – Open willing to consider all potential delivery options and choose while also providing an acceptable level of reward	4 – Eager Eager to be innovative and to choose options offering higher business rewards (despite greater inherent risk)
			Management through leading indicators.	clinical decisions may be devolved.	
People/Workforce risks	Avoidance of decisions that could have a negative impact on workforce development, recruitment and retention. Sustainability is primary interest	Avoid all risks relating to the workforce unless absolutely essential. Innovative approaches to workforce recruitment and retention are not a priority and will only be adopted if established and proven to be effective elsewhere	Prepared to take limited risks with regards to the workforce. Where attempting to innovate, would seek to understand where similar actions have been successful elsewhere before taking any decision	Prepared to accept the possibility of some workforce risk, as a direct result from innovation as long as there is the potential for improved recruitment and retention and development opportunities for staff	Eager to pursue workforce innovation. Willing to take risks which may have implications for the workforce but could improve the skills and capabilities of our staff. Recognise that innovation is likely to be disruptive in the short term but with the possibility of long term gains
Reputational risks	Zero appetite for any decisions with high chance of repercussion for organisations' reputation.	Appetite for risk taking is limited to those events where there is no chance of significant repercussions	Prepared to accept the possibility of limited reputational risk if appropriate controls are in place to limit any fallout	Willing to take decisions that are likely to bring scrutiny of the organisation. Outwardly promote new ideas and innovations where potential benefits outweigh the risks	Appetite to take decisions which are likely to bring additional governmental / organisational scrutiny only where potential benefits outweigh risks.

Risk Appetite Statement – response to feedback on the draft statement between Board Seminar July and Sept 2021

Issue	Proposed Action
Feedback from Board Seminar July 2021	
Need to develop a shared understanding of the need and use of a Risk Appetite Statement.	Final paper will include clearer narrative explaining the concept and purpose and its link to the Risk Management Strategy.
Risk Appetite Statement should include positive risk opportunities/ influences.	Statement updated in line with recommended practice.
Risk Types needed further narrative to ensure their definitions were clear. Further development and possible expansion is required on the Risk Types to ensure they met the Board's requirements.	Risk types have been amended in line with the Orange Book and clearer explanations now included.
Input from Board Members to the next version of the Risk Appetite Agreement.	Statement has been updated to reflect feedback received and a working group of Board members and senior managers has been set up which has agreed the revised statement to the October 2021 Board for final approval.
Risk Statement - third sentence was thought to have only negative implications and thought should be given to including positive comments such as innovation to balance the sentence between negative/positive risk outcomes.	<u>Alternative narrative underlined</u> <i>The Board recognises that it is not possible to eliminate all the risks which are inherent in the delivery of healthcare <u>and that at times higher levels of risk can lead to greater reward. On this basis</u> the Board is willing to accept a certain degree of risk where it is considered in the best interest of patients.</i>
Further Board Feedback Aug/Sept 2021	
Operations should be replaced with Operating.	Operations amended to Operating.
Workforce Risk - suggest discussion re the context for being	Discuss at working group - ability to take some greater risks for non clinical staff and

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Issue	Proposed Action
cautious.	consider innovative ways in reskilling front line staff. e.g. Robotics surgery, increasing the pace of qualification of Orthopaedic or MH staff.
‘Risk types’ was the area that caused greatest debate/concern at the seminar. The way we capture risk doesn’t support this proposed categorisation of risk types. For example on the current CRR the risk re failure to implement QEUH recommendations is currently categorised as ‘corporate’, but how should it be categorised in these proposed risk categories, therefore what risk appetite applies? How will the risk register capture the relevant appetite?	Risk Appetite Statement updated to better explain how the risk types align to operational risks and the Corporate Aims and Appendix B updated in line with this too. The Risk Register Policy updated to reflect that risk owners must align each risk to one of the six risk types.
Simpler and more effective to consider risk appetite in respect of each corporate aim. Need to remember this is our starting point. It is then up to each standing committee with ownership of objectives under those aims to ensure that any associated risks are being managed in accordance with that appetite. Appendix B sort of tries to do this, but its confusing.	Appetite Statement updated to better explain how the risk types align to Operational Risks and Corporate Aims and explain what Appendix B shows – App B updated to hopefully make it easier to follow.
Risk appetite levels now proposed are different (0-4) to those that Azets presented at the seminar (0-5).	Changed following further discussion with Azets and the Board Chair to 0-4 based on Orange Book which the Chair suggested we use instead of the Blueprint and Good Governance template previously used.

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Queries/General Comments around the Risk Appetite Statement raised at the July Board seminar

Query/Comment	Response
Feedback from Board Seminar July 2021	
How often should the risk register be reviewed?	The Corporate Risk Register is reviewed regularly through the Risk Management Steering Group, CMT and the relevant standing committees eg financial risk through FP&P review their own risks. In addition the CRR is also regularly reviewed by ARC.
Who should decide on the optimal levels of risk?	The Risk Appetite Statement provides an overarching steer and each of the above governance groups determines what they consider acceptable levels for each specific risk – leading to additional actions being required to mitigate some higher level risks.
Does the make-up of the Board affect the risk appetite?	The make-up of the Board may impact the overall risk appetite in terms of specific risks but the nature of the organisation and high level nature of Risk Appetite Statements means the change at appetite statement level should be minimal rather than significant.
Where do the operational risks sit in relation to the risk appetite?	Operational risks are managed through services and relevant standing committees. The overarching risk appetite statement provides a guide to these services and committees around overall risk appetite which informs the actions required against operational risks within each category.
Is there a different risk appetite for the short term and long term?	Given the high level nature of the statement it's not necessary to differentiate between short and long term – that happens in the operational risk register through the scoring matrix.
How have the initial risk appetites been arrived at for each Risk Type?	The updated appetites were agreed by the working group.
What do the risk appetites mean?	The updated statement makes this clearer.
How does this all align with existing risk registers?	Each risk will be aligned to one risk type and the appetite for that risk type will then influence the actions required around each risk ie if the appetite is low additional actions would be required to mitigating high level risks in that risk type.
How do we ensure the right risk appetite is	This will be done through the CRR, standing committees and ARC – each risk will align to an agreed risk type. The newly appointed Chief Risk Officer will work with services to ensure this is completed by

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Query/Comment	Response
applied through the hierarchy of risks?	31/01/2022.
It should be made clear that the Corporate Risk Type is all risks that are not covered by Clinical e.g., IT, Facilities, HR.	The risk types have been amended to make it clearer what each covers. Corporate is no longer a risk type. Future work will include Development of additional risk categories in future iterations of the Statement e.g Property Risk and IT/Technology Risk.
People should/should not be included – this may depend upon the definition of each of the other Risk Types and whether it is assumed that People is included within each of the Risk Types. Within People do we distinguish service users (patients) and employees?	People is still included but now People/Workforce and Clinical is clarified to make it clear that it covers patients and patient welfare.
Corporate should be broken down further.	The risk types have been amended to make it clearer what each covers. Corporate is no longer a risk type.
More work needed to determine the Risk Types.	This has been done through the working group in line with best practice.
Clinical will be needed to be broken down further as it currently doesn't relate to what has been observed.	This has been done through the working group.
Can we get a patients' view of the risk appetite? For good governance, staff and patients should be engaged – what do they think? They should be engaged as key participants.	This is the Board's risk appetite – patient feedback as it aligns to risk is taken through the standing committees and their consideration of risks it indirectly impacts the overarching Board view and appetite for risk but does not require separate consultation as part of this exercise.
Equality & Diversity should be added with a Risk Appetite of zero. BAME should also be added with a Risk Appetite of zero. Disability should	The detailed risks for E&D, BAME, disability and Environment and their management actions are managed through the CRR and standing committees – the risk appetite statement is a high level guide

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Query/Comment	Response
also be zero. Can Environment be added as a Risk Type with zero appetite and how do these issues get addressed?	and not intended to replace internal risk management processes and cover specific risks.
The risk appetites should be reflected in the Corporate Risk Register (CRR) to provide context for the risk appetites	This will be done once the statement is agreed.
Each Risk Owner for risks on the CRR should review their risks along with the associated draft risk type and appetite.	Risk owners are already required to regularly review their risks. Once the appetite statement is agreed they will be asked to consider that as part of their review.
Once each Risk Owner has reviewed the CRR, this should be presented at the next CMT, and the next Audit & Risk Committee meeting before being presented to the Board	This already happens.
One member commented that the risk statement was very generic and 'apple pie' and that more detail should be added.	That tends to be the nature of risk appetite statements – the nuance is in the narrative against the specific risk types