

Board of Directors' Meeting Report – 2 May 2017

Agenda item 50/17

Title	Trust Risk Appetite
Sponsoring Director	Diane Sarkar – Chief Nursing Officer Yvonne Blucher, Managing Director
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Purpose	The purpose of this report is to present the Trust Risk Appetite for consideration and approval by the Board
Previously considered at	Site Management Team meeting – 21 April 2017
Executive Summary	
<p>The UK Corporate Governance Code states that ‘the board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives.’ In recent years, many NHS organisations have agreed a ‘risk appetite’, which is a well-established concept in the commercial sector.</p> <p>Risk Appetite is defined as ‘the amount of risk the organisation is prepared to accept, tolerate, or be exposed to at any point in time.’ It allows the board to take considered risks and to seek assurance that risks of any grade in areas of low tolerance are being managed, rather than focussing predominately on high rated risks. As per best practice the Trust should have a Risk Appetite Statement as a separate document; however we do not currently have one.</p> <p>A Risk Appetite Statement has therefore been drafted and is being recommended for approval by the Board. The Board will review its Risk Appetite at least annually, to ensure that the risk tolerance levels are acceptable and to ensure that the Board and staff consistently undertake Trust activity. The risk appetite will also be reviewed if there are actual or proposed significant changes to the local healthcare environment.</p>	
Date Reviewed by Execs	13/04/2017
Related Trust Objective	Excellent Patient Outcomes Excellent Patient Experience Engaged and Valued Staff Financial and Operational Sustainability – Financial, Operational, Estate
Related Risk	Risk 1 – Failure to provide adequate patient safety and quality of care Risk 2 – Poor patient experience Risk 3 – Failure to meet operational performance targets Risk 4 – Trust not being financially sustainable Risk 5 – Inability to recruit and retain staff Risk 6 – Unable to maintain estates and facilities to an adequate standard

Essex Success Regime	Does this proposal have any implications for the other Trusts within the Essex Success Regime (BTUH and MEHT) or for the Mid and South Essex health economy as a whole? No
Legal implications / regulatory requirements	To ensure the Trust complies with recommended good governance practice.
Quality impact assessment	By recognising risk and ensuring appropriate controls are in place to both monitor and respond to those risks will improve our standards and ensure we provide the best possible experience for our patients and their families.
Equality impact assessment	As far as can be ascertained this paper has no detrimental impact for the 9 protected characteristics under the Equality Act 2010.
Recommendations: The Board is asked to approve the Risk Appetite statement.	

Risk Appetite

Risk in healthcare is unavoidable, and every organisation takes action to manage risk in a way that it can justify to a level that is tolerable. The risk appetite is the tolerance, acceptability or exposure to risk at any point in time and is key to achieving effective risk management. (HM Treasury, 2004^[1]).

In setting risk tolerance levels, the Board will consider both external and internal risk factors.

The Trust needs to know about its risk appetite because if the organisation's collective appetite for risk is set at a certain level and the reasons for it is not known, then this may lead to erratic or inopportune risk taking, thereby exposing the organisation to a risk it cannot tolerate. Conversely an overly cautious approach can be taken which may stifle growth and development. If the leaders of the organisation do not know the levels of risk that are legitimate for them to take, or do not take important opportunities when they arise, then service improvements may be compromised and patient outcomes affected.

The Trust will periodically review its appetite for and attitude to risk, updating these where appropriate. This includes the setting of risk tolerances at the different levels of the organisation, thresholds for escalation and authority to act, and evaluating the organisational capacity to handle risk. The periodic review and arising actions will be informed by an assessment of risk maturity, which in turn enables the board to determine the organisational capacity to control risk. The risk appetite review will consider:

- Risk leadership
- People
- Risk policy and strategy
- Partnerships
- Risk management process
- Risk handling
- Outcomes

The risk appetite of the Trust is the decision on the appropriate exposure to risk it will accept in order to deliver its strategy over a given time frame. In practice, an organisation's risk appetite should address several dimensions:

- The nature of the risks to be assumed
- The amount of risk to be taken on
- The desired balance of risk versus reward

On an annual basis the Trust will publish its risk appetite statement as a separate document covering the overarching areas of:

- Quality/ Outcomes Risks
- Innovation Risks
- Financial/Value for Money (VFM) Risks
- Compliance/Regulatory Risks

^[1] The Orange Book Management of Risk – Principles and Concepts

- Reputational Risks

The statement will also define the Board's appetite for each risk identified to the achievement of strategic objectives for the financial year in question.

Risks throughout the organisation should be managed within the Trust's risk appetite, or where this is exceeded, action taken to reduce the risk.

The Trust's risk appetite statement will be communicated to relevant staff involved in the management of risk.

DRAFT Risk Appetite Statement 2017

The Trust Board is responsible for determining the nature and extent of the risks it is willing to accept to enable Trust objectives are successfully achieved. Risk in day-to-day Trust activity is unavoidable and the Board seek to manage risks to a tolerable level. The risk appetite of the Trust is the amount of risk it is willing to accept, tolerate or justify.

The Board will review its Risk Appetite at least annually, to ensure that the risk tolerance levels are acceptable and to ensure that the Board and staff consistently undertake Trust activity. The risk appetite will also be reviewed if there are actual or proposed significant changes to the local healthcare environment.

The Trust risk appetite is scored utilising the CGI Risk Appetite for NHS Organisations (2012) (see Appendix 1).

Financial / Value For Money (VFM) – recommended Level 2 ‘Cautious’

In light of the current financial climate in the health economy, the Trust Board position for 2017/18 is to adopt a cautious approach with a minimal risk appetite. The Trust Board will focus on meeting its statutory duties of maintaining expenditure within strict resource limits and adherence to financial controls. The primary concern of the Trust board is Value for Money (VfM).

Compliance / Regulatory – recommended Level 2 ‘Cautious’

The Trust Board position for 2017/18 is to adopt a cautious approach to compliance / regulatory issues. The Board want to be confident that the Trust is able to meet any regulatory requirements and is able to demonstrate robust processes underpinning its compliance.

Quality and Outcomes – recommended Level 3 ‘Open’

An open approach is adopted with a willingness to develop systems to optimise operational delivery and demonstrate improvement in patient safety, patient experience and staff engagement. The Board accepts that the responsibility for non-critical decisions may be devolved. The Trust is willing to try new ways of working.

Innovation– recommended Level 4 ‘Seek’

A seek approach is adopted with the desire to challenge current working practices. High levels of devolved authority are required.

Reputation – recommended Level 3 ‘Open’

The Trust Board position for 2017/18 is to adopt an open approach to the management of the Trust’s reputation. The board has a willingness to take decisions that are likely to bring scrutiny of the Trust but where potential benefits outweigh the risks.

Risk Appetite for NHS Organisations

A matrix to support better risk sensitivity in decision taking



Developed in partnership with the board of Southwark Pathfinder CCG and Southwark BSU – January 2012

Risk levels ▶	0	1	2	3	4	5
Key elements ▼	Avoid Avoidance of risk and uncertainty is a Key Organisational objective	Minimal (ALARP) (as little as reasonably possible) Preference for ultra-safe delivery options that have a low degree of inherent risk and only for limited reward potential	Cautious Preference for safe delivery options that have a low degree of inherent risk and may only have limited potential for reward.	Open Willing to consider all potential delivery options and choose while also providing an acceptable level of reward (and VfM)	Seek Eager to be innovative and to choose options offering potentially higher business rewards (despite greater inherent risk).	Mature Confident in setting high levels of risk appetite because controls, forward scanning and responsiveness systems are robust
Financial/VFM	Avoidance of financial loss is a key objective. We are only willing to accept the low cost option as VfM is the primary concern.	Only prepared to accept the possibility of very limited financial loss if essential. VfM is the primary concern.	Prepared to accept possibility of some limited financial loss. VfM still the primary concern but willing to consider other benefits or constraints. Resources generally restricted to existing commitments.	Prepared to invest for return and minimise the possibility of financial loss by managing the risks to a tolerable level. Value and benefits considered (not just cheapest price). Resources allocated in order to capitalise on opportunities.	Investing for the best possible return and accept the possibility of financial loss (with controls may in place). Resources allocated without firm guarantee of return – 'investment capital' type approach.	Consistently focussed on the best possible return for stakeholders. Resources allocated in 'social capital' with confidence that process is a return in itself.
Compliance/regulatory	Play safe, avoid anything which could be challenged, even unsuccessfully.	Want to be very sure we would win any challenge. Similar situations elsewhere have not breached compliances.	Limited tolerance for sticking our neck out. Want to be reasonably sure we would win any challenge.	Challenge would be problematic but we are likely to win it and the gain will outweigh the adverse consequences.	Chances of losing any challenge are real and consequences would be significant. A win would be a great coup.	Consistently pushing back on regulatory burden. Front foot approach informs better regulation.
Innovation/Quality/Outcomes	Defensive approach to objectives – aim to maintain or protect, rather than to create or innovate. Priority for tight management controls and oversight with limited devolved decision taking authority. General avoidance of systems/technology developments.	Innovations always avoided unless essential or commonplace elsewhere. Decision making authority held by senior management. Only essential systems / technology developments to protect current operations.	Tendency to stick to the status quo, innovations in practice avoided unless really necessary. Decision making authority generally held by senior management. Systems / technology developments limited to improvements to protection of current operations.	Innovation supported, with demonstration of commensurate improvements in management control. Systems / technology developments used routinely to enable operational delivery. Responsibility for non-critical decisions may be devolved.	Innovation pursued – desire to 'break the mould' and challenge current working practices. New technologies viewed as a key enabler of operational delivery. High levels of devolved authority – management by trust rather than tight control.	Innovation the priority – consistently breaking the mould' and challenging current working practices. Investment in new technologies as catalyst for operational delivery. Devolved authority – management by trust rather than tight control is standard practice.
Reputation	No tolerance for any decisions that could lead to scrutiny of, or indeed attention to, the organisation. External interest in the organisation viewed with concern.	Tolerance for risk taking limited to those events where there is no chance of any significant repercussion for the organisation. Senior management distance themselves from chance of exposure to attention.	Tolerance for risk taking limited to those events where there is little chance of any significant repercussion for the organisation should there be a failure. Mitigations in place for any undue interest.	Appetite to take decisions with potential to expose the organisation to additional scrutiny/interest. Prospective management of organisation's reputation.	Willingness to take decisions that are likely to bring scrutiny of the organisation but where potential benefits outweigh the risks. New ideas seen as potentially enhancing reputation of organisation.	Track record and investment in communications has built confidence by public, press and politicians that organisation will take the difficult decisions for the right reasons with benefits outweighing the risks.
APPETITE	NONE	LOW	Moderate	HIGH	SIGNIFICANT	