

Executive Summary
Report to the Board of Directors
Held on 28 September 2021

Subject	2021 Review of Risk Appetite Statement
Supporting TEG Member	Sandi Carman, Assistant Chief Executive
Author	Judith Green, Corporate Governance Manager
Status	Approve

PURPOSE OF THE REPORT

To ask the Board of Directors to note the scheduled review of the Trust’s Risk Appetite Statement and approve its continued adoption.

KEY POINTS

The purpose of a Risk Appetite Statement is to articulate what risks the Board is willing or unwilling to take in order to achieve the Trust’s strategic aims. Since its development in 2018 the Statement has been used in agreeing target risk scores for Principal Risks on the Integrated Risk and Assurance Report (IRAR) and when discussing mitigations for areas of strategic risk.

It is good practice to review the Risk Appetite Statement on an annual basis and/or following any significant changes or events. This paper supports the review for 2021 and follows a number of successive reviews undertaken in 2020 to assess whether any temporary changes were required to support decision making during the first two waves of the Covid-19 pandemic.

The reviews during 2020 acknowledged that the reality of delivering care and supporting staff during the pandemic had resulted in a heightened risk profile across the Trust as evidenced by changes recorded on the 2020/21 IRAR, however concluded that the Trust’s risk appetite remained unchanged.

The scheduled review of the Risk Appetite Statement for 2021 further builds on this by presenting a trend analysis of IRAR scoring over the last three years. This supports the assessment of definitions and validation statements used to describe organisational appetite for each domain of strategic risk in the context of movement in Principal Risk scoring agreed by the Board of Directors.

This analysis identifies a continued heightened risk profile, increased acceptance of risk during continued operational challenges and some areas where approved target risk scores have increased. Interpretation by TEG concluded that this analysis reflected greater maturity of the Trust’s risk management arrangements, rather than any change in risk appetite and therefore no recommendations are being made with regard to changes to risk appetite descriptions.

IMPLICATIONS

AIM OF THE STHFT CORPORATE STRATEGY		TICK AS APPROPRIATE
1	Deliver the Best Clinical Outcomes	✓
2	Provide Patient Centred Services	✓
3	Employ Caring and Cared for Staff	✓
4	Spend Public Money Wisely	✓
5	Deliver Excellent Research, Education & Innovation	✓

RECOMMENDATIONS

Members of the Board of Directors are asked to note the annual review of the Trust’s Risk Appetite Statement undertaken by TEG and approve continued adoption of the current statement.

APPROVAL PROCESS

Meeting	Date	Approved Y/N
TEG	08.09.21	Y
Board of Directors	28.09.21	

2021 Review of Risk Appetite Statement

1. Introduction

The purpose of a Risk Appetite Statement is to articulate what risks the Board of Directors is willing or unwilling to take in order to achieve the Trust's strategic objectives. It is good practice to monitor and review the statement on an annual basis and /or following any significant changes or events.

Well Led guidance¹ published by NHS Improvement references regular review of the Board's risk appetite and tolerance as part of evidence that there are clear and effective processes for managing risks, issues and performance (KLOE 5).

This paper supports the scheduled review for 2021 and follows a number of successive reviews undertaken in 2020 to assess whether any temporary changes were required to support decision making during the first two waves of the Covid-19 pandemic.

The current Risk Appetite Statement is presented as Appendix I.

2. Risk Appetite and Risk Tolerance

The most recent review of the Risk Appetite Statement was undertaken during the first two waves of the Covid-19 pandemic. Three successive reviews were undertaken by the Trust Executive Group (TEG) during 2020 to assess whether any temporary changes were required to support decision making.

While concluding that the Trust's risk appetite remained unchanged, these reviews acknowledged that the reality of delivering care and supporting staff during the pandemic had resulted in a heightened risk profile across the Trust and that there was an increased maturity around the acceptance of risk during periods of operational challenge.

These conclusions were evidenced by Board approved changes recorded on the 2020/21 IRAR in the form of extended timelines for delivery of target risk scores and increases in current risk scores.

The acceptance of a greater deviation from our Risk Appetite for some individual areas of decision making and/or acceptance of the need to reprioritise previously agreed risk mitigation actions can be regarded as Risk Tolerance (the degree of variance from the organisation's Risk Appetite that the organisation is willing to tolerate).

Individual examples of decisions made during the first two waves of the pandemic to illustrate a higher level of risk variance being tolerated included accepting higher risks for elements of service quality and patient experience (increased waiting times / visitor restrictions) and accepting a higher level of risk variance due to the need adopt changed practices for financial decision making to support operational service delivery.

¹ NHSI, Developmental reviews of leadership and governance using the well-led framework: guidance for NHS trusts and NHS foundation trusts; June 2017.

3. IRAR Principal Risk Scoring Trend Analysis

The scheduled review of the Risk Appetite Statement for 2021 is supported by trend analysis of agreed IRAR scoring over the last three years. Key points generated from this analysis presented in Appendix II can be summarised as:

- The average current risk score across all Principal Risks on the IRAR has increased since 2018/19, with the most significant increase occurring during 2020/21. This supports conclusions drawn in 2020 that the Trust is recording a greater strategic risk profile.
- During 2020/21, a greater variance between current and target risk scores was accepted (Risk Tolerance). This has decreased in 2021 for all domains with the exception of regulatory / compliance. However, in most domain areas this is still greater than in 2018/19, again reflecting an increased acceptance of risk during continued operational challenge.
- The recalibration of the IRAR for 2021/22 has resulted in an increase in the average target risk score for some domains, the most significant of which being workforce / staff engagement and clinical effectiveness / outcomes.

This analysis identifies a continued heightened risk profile, increased acceptance of risk during continued operational challenges and some areas where approved target risk scores have increased.

Interpretation by TEG concluded that this analysis reflected greater maturity of the Trust's risk management arrangements, rather than any change in risk appetite and therefore no recommendations are being made with regard to changes to current definitions and validation statements used to describe risk appetite for each domain of strategic risk (Appendix I).

4. Recommendation

Members of the Board of Directors are asked to note the annual review of the Trust's Risk Appetite Statement undertaken by TEG and approve continued adoption of the current statement.

Risk Appetite Statement

1.1 General principles

Methods of controlling risks must be balanced. The Trust may accept some high risks either because of the cost of controlling them, or to deliver innovation or use resources creatively when this may achieve substantial benefit.

As a general principle the Trust has a low tolerance for, and will therefore seek to control, all risks which have the potential to:

- Expose patients, staff, visitors and other stakeholders to harm
- Compromise the Trust's ability to deliver operational services
- Adversely impact the reputation of the Trust
- Have severe financial consequences which may impact on the Trust's future viability
- Cause non-compliance with law and regulation.

1.2 Risk appetite definitions

Definitions for levels of risk appetite are set out in table 1, below.

These have been adopted from the Good Governance Institute's Risk Appetite for NHS Organisations Matrix². (Appendix A)

Risk Levels (consequence)	
AVOID	Avoidance of risk and uncertainty is a key organisational objective ALARP (As little as reasonably possible)
MINIMAL	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 Value for Money (VfM)
SEEK	Eager to be innovative and 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

Table 1: Risk Appetite Levels

² Good Governance Institute, Risk Appetite for NHS Organisations: A Matrix to support better risk sensitivity in decision taking. Jan 2012

1.3 Risk Appetite Statement by domain of strategic risk

	Risk Level
Clinical effectiveness / Outcomes	MINIMAL
<ul style="list-style-type: none"> The Trust has a risk adverse appetite for risk which compromises the delivery of high quality and safe services and jeopardises compliance with our statutory duties for quality and safety. 	
Workforce / Staff engagement	CAUTIOUS
<ul style="list-style-type: none"> There are few circumstances where we would accept risks that would impact on the achievement of our Strategic Aim to employ caring and cared for staff We will not accept risks, nor any incidents or circumstances which may compromise the safety of any staff members and patients, or contradict our Trust Values We will only consider accepting risks associated with the implementation of new models of working / changes in the working arrangements of staff where these enhance or improve patient safety, quality of care or service delivery 	
Patient experience	CAUTIOUS
<ul style="list-style-type: none"> We will accept risks to patient and service user experience if they are consistent with the achievement of patient safety and quality improvements 	
Reputation	CAUTIOUS
<ul style="list-style-type: none"> Tolerance for risk taking is limited to those events where there is little chance of any significant repercussions for the Trust's reputation should there be failure, with mitigation in place for any undue interest 	
Finance / Value for money	CAUTIOUS
<ul style="list-style-type: none"> We strive to deliver our services within the budgets set out in our financial plans and will only consider accepting or taking financial risks where this is required to mitigate risks to patient safety or quality of care We will ensure that all such financial responses deliver optimal value for money 	
Regulatory / Compliance	CAUTIOUS
<ul style="list-style-type: none"> We are cautious when it comes to compliance and regulatory requirements Where the laws, regulations and standards are about the delivery of safe, high quality care, or the health and safety of the staff and public, we will make every effort to meet regulator expectations and comply with laws, regulations and standards that those regulators have set, unless there is strong evidence or argument to challenge them 	
Innovation	OPEN
<ul style="list-style-type: none"> The Trust has a risk tolerant appetite to risk where benefits, improvement and value for money are demonstrated The Trust will not, however, compromise patient safety while innovating service delivery 	
Partnerships	OPEN
<ul style="list-style-type: none"> The Trust is committed to working with its stakeholder organisations to bring value and opportunity across current and future services through system-wide partnership We are open to developing partnerships with organisations that are responsible and have the right set of values, maintaining the required level of compliance with our statutory duties 	



Risk Appetite for NHS Organisations

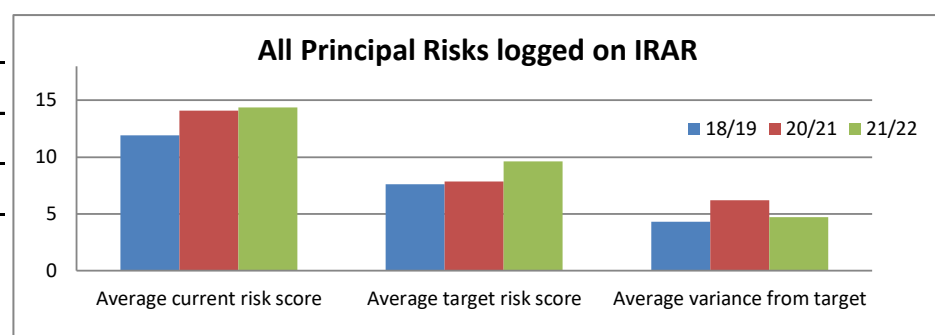
A matrix to support better risk sensitivity in decision taking

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	

IRAR Principal Risk Scoring Trend Analysis

All Principal Risks logged on IRAR	18/19	20/21	21/22
Average current risk score	11.93	14.07	14.37
Average target risk score	7.60	7.87	9.63
Average variance from target	4.33	6.20	4.74



Mapping of Principal Risks to Risk Appetite Statement Domain *

* An individual Principal Risk may be mapped to multiple domains

Domain	18/19	20/21	21/22	Movement from 18/19	to 20/21	to 21/22
Clinical Effectiveness / Outcomes						
Average current risk score	12.00	13.33	13.00	Average current risk score	1.33	1.00
Average target risk score	7.33	7.33	9.67	Average target risk score	0.00	2.33
Average variance between current and target risk score	4.67	6.00	3.33	Average variance between current and target risk score	1.33	-1.33
Patient Experience						
Average current risk score	11.00	15.50	15.20	Average current risk score	4.50	4.20
Average target risk score	9.00	9.00	10.20	Average target risk score	0.00	1.20
Average variance between current and target risk score	2.00	6.50	5.00	Average variance between current and target risk score	4.50	3.00
Workforce and Staff Engagement						
Average current risk score	9.50	12.60	14.00	Average current risk score	3.10	4.50
Average target risk score	5.00	6.80	9.00	Average target risk score	1.80	4.00
Average variance between current and target risk score	4.50	5.80	5.00	Average variance between current and target risk score	1.30	0.50
Finance / Value for Money						
Average current risk score	17.50	17.50	17.50	Average current risk score	0.00	0.00
Average target risk score	10.00	10.00	10.00	Average target risk score	0.00	0.00
Average variance between current and target risk score	7.50	7.50	7.50	Average variance between current and target risk score	0.00	0.00
Innovation						
Average current risk score	13.00	13.00	12.00	Average current risk score	0.00	-1.00
Average target risk score	8.00	8.00	7.50	Average target risk score	0.00	-0.50
Average variance between current and target risk score	5.00	5.00	4.50	Average variance between current and target risk score	0.00	-0.50
Partnerships						
Average current risk score	9.00	12.67	13.50	Average current risk score	3.67	4.50
Average target risk score	7.00	8.00	8.00	Average target risk score	1.00	1.00
Average variance between current and target risk score	2.00	4.67	4.50	Average variance between current and target risk score	2.67	2.50
Regulatory / Compliance						
Average current risk score	12.33	16.67	18.33	Average current risk score	4.33	6.00
Average target risk score	9.33	10.00	10.67	Average target risk score	0.67	1.33
Average variance between current and target risk score	3.00	6.67	7.67	Average variance between current and target risk score	3.67	4.67
Reputation						
Average current risk score	11.00	15.50	12.00	Average current risk score	4.50	1.00
Average target risk score	8.00	8.00	7.33	Average target risk score	0.00	-0.67
Average variance between current and target risk score	3.00	7.50	4.67	Average variance between current and target risk score	4.50	1.67

Summary Conclusion Points

The average current risk score across all Principal Risks on the IRAR has increased since 18/19, with the most significant increase occurring during 20/21. This supports conclusions drawn in 2020 that the Trust was recording a greater strategic risk profile.

During 20/21 a greater variance between current and target risk scores was being accepted (Risk Tolerance). With the exception of regulatory / compliance, this has decreased for 21/22 although in most areas is still greater than 18/19.

The recalibration of the IRAR for 21/22 has resulted in an increase in the average target risk score for some domains (the most significant of which being workforce / staff engagement and clinical effectiveness / outcomes).