Risk Appetite Framework

1. Introduction

The LHD Board recognises risk is inherent in the provision of healthcare and its services. Risk management is an integral part of the LHD organisational processes.

The Board's risk appetite is a foundational element of sound risk culture and aligns decision-making with behavioural expectations and balances threats and rewards in the pursuit of our objectives. Understanding risk appetite can increase our capacity to take on risk through efficient allocation of risk management resources.

2. Purpose

Setting the risk appetite explicitly articulates the attitudes to and boundaries of risk that the board expects senior management to take and within which it expects management to operate in pursing the organisation's strategic objectives.

At the broadest level, the strategic/business plan is already the board's articulation of an organisation's risk appetite. However, a considered, clearly articulated risk appetite provides a sound foundation for risk management. This guides management in day-to-day decisions and actions around risk and also around opportunity.

3. Governance

The Risk Appetite Statement has been developed in line with requirements of the NSW Health Policy Directive PD2022_023 Enterprise-Wide Risk Management which provides that:

> *All NSW Health organisations are to ensure risk appetite and risk tolerances are documented, communicated and regularly reviewed. The risk appetite statement must be linked to the organisation's strategic goals, performance agreement and operational plans, and have consideration of the organisation's contribution to broader state-wide health strategies and objectives, such as the NSW State Health Plan and NSW Health Strategic Priorities.*

The LHD Board is responsible for determining the risk appetite. It is approved by both the Chief Executive and by the Board on advice from the Audit and Risk Committee. The LHD Executive are responsible for ensuring organisational risks are managed and controlled within the identified risk appetite.

The risks facing the LHD are identified, assessed and managed at a strategic, operational (district) and local (front line service and unit) level. The Audit & Risk Committee has oversight of risk management processes and report their activities to the Board.

4. Risk Appetite Concepts

- Risk appetite - the amount and type of uncertainty the LHD is prepared to seek, or accept, in pursuit of organisational performance.
- Risk tolerance - our willingness to bear the potential impacts of risk after controls are improved and mitigation applied, in order to achieve organisational objectives.
    - At MLHD and SNSWLHD we utilise our service agreement measures and any other measures of our performance as a basis for risk tolerance.
- Risk profile – the residual risk landscape aligned to organisational objectives.

5. Risk Appetite Use

There are two critical uses of the Risk Appetite:

5.1 Guidance for Senior Management Decision Making

The Risk Appetite Statement:

- Is a collection of statements written from the board to senior management
- Provides a link between the LHD's goals and the risk-taking decisions required by management to achieve those goals.
- Provides guidance from the board about how they feel about taking risks to achieve our goals, remembering that they are responsible for strategic direction of the LHD.

A WELL-DEFINED RISK APPETITE will support the Chief Executive to include the risk factor in decision making:

- Basic risk management: We ask "Is there a risk associated with this decision?"
- Maturing through the practical implementation of risk appetite, we ask "**is this decision within the Organisation's appetite for taking risks**" and "**Can we tolerate the amount of risk associated with this activity?**"

[linking into the LHD Resilience Framework]:

Resilience: Resilience greatly complements risk appetite for decision making by adding ORGANISATIONAL CAPABILITY to the conversation. For example:

- With a resilience lens we add "do we have the capabilities to achieve this decision already in place and what needs to change to ensure success?"
- Linking these concepts to the work of the GRA Unit, our governance, risk and audit unit activities such as risk assessments, governance frameworks, audit plans all consider what areas of LHD capabilities require testing to provide a level of assurance to the Executive and the Board (via the ARC) that **we are capable of achieving the decisions we make**.

The LHD's appetite for risk may change over time, during a crisis, in different geographies, for different business units or for different categories of risk.

The LHD will, from time to time, purposefully make decisions that are outside the risk appetite and we take a risk that is bigger than we are usually prepared to do.

At those times, a risk is triggered, assessed and escalated. Escalated scrutiny and risk management is put in place.

The detailed risk appetite statements describe the risk categories and elements that are to be considered when making decisions about new opportunities or strategic initiatives. A scale of risk is provided by the NSW Health Policy PD2022_023 for each of the risk categories to determine the most appropriate risk management response:

Level	This means there is…
Zero	**No willingness to take on any risk** The organisation **will not** operate in this area.
Low	**A willingness to take on a limited level of risk necessary to achieve goals and objectives** The organisation may operate in this area, or in this way, where the value is assessed as worthwhile, after risks have been effectively mitigated or uncertainty minimised.
Moderate	**A willingness to take on a moderate level of risk for benefits linked to goals and objectives** The organisation may operate in this area, or in this way, after risks have been effectively mitigated to pursue benefits that enhance strategic outcomes or operational objectives.
High	**A willingness to take on higher levels of risk to maximise gains** The organisation may operate in this area, or in this way, after all options are considered and the most appropriate option selected to maximise strategic or operational gains.

5.2 Warning system utilising risk triggers (tolerances)

Risk TOLERANCES (or triggers or thresholds as they may be called):

- Operationalise the risk appetite statements by using quantitative measures to describe the amount of risk the LHD can afford to, and is prepared to tolerate
- Provide triggers at the organisational level to act as an early warning system when we are at risk of failing to meet our objectives:
    - The risk tolerances provide "triggers" for when performance is heading towards an unacceptable level beyond the board's risk appetite
    - Risk triggers can be based around the already-existing performance measurements (KPIs) and any other KPI, assessed over a defined timeframe. E.g. Service Agreement KPIs assessed monthly.
- We should consider both UPPER and LOWER triggers to inform us:
    - When we are heading towards non-performance
    - When we are over performing and should consider reallocation of resources

Goals we might consider: - Premiers Priorities - NSW Health Plan - LHD Strategic Plan - Operational, clinical, service plans
Triggers we might consider: - Service Agreement Measures - Funding agreements - Self-appointed KPIs (localised goals and measures)
NSW Health do not have a Risk Appetite (noting the 2022 revised policy requires them to). To date we have considered the service agreement represents the Ministry's appetite. It is the main source of tolerances for LHD Operational risk although any person responsible for performance can consider and implement risk tolerances.

When performance hits a "trigger":

- A risk event will occur resulting in an entry on the risk register for appropriate assessment, escalation and management.
- The risk owner will review the current performance against the tolerances to determine the extent of the action to be taken.
    - The risk will be identified as operating outside our risk tolerance
        - As with all risk management, we:
            - Complete a root cause analysis to identify the driver/cause (if it is not obvious) and identify the driver category (know the problem is to fix the problem)
            - Identify the impact and the impact category (for alignment to operational and strategic goals)
            - Assess the current control environment (are we working effectively to manage the risk, has something changed for performance to decline? Do we have the capacity to improve to within our tolerance within current BAU resources?)
            - Identify an additional mitigation required (if we cannot fix purely through BAU resources)
    - Monitor the risk and regular assess against the tolerance triggers
        - We will be able to identify once we are back performing to within our tolerance
        - For areas of risk where mitigation has required additional resources and/or is costly, an "over-performance" trigger should be employed to identify the point at which we may be over-investing in mitigation and those resources may be redeployed.
    - A good outcome would be that a concerted improvement in BAU controls has improved performance and we are not reliant on additional resources to meet performance.

6. Working example of risk appetite

Meeting the NSW State Premier's Priority around "Improving service levels in hospitals" is to ensure **"100% of all triage category 1, 95% of triage category 2 and 85% of triage category 3 patients commence treatment on time by 2023**"

Our Board, through the RISK APPETITE STATEMENTS, direct us in the way we are to take risks to meet this objective:

- Clinical risk exist. A willingness to take on a limited (low) level of risk necessary to achieve goals and objectives. The LHD will be focussed and thorough in its risk mitigation in regards to clinical care and patient safety
- The LHD is willing to accept some risk in order to find innovative solutions
- The LHD is to work collaboratively with strategic partners
- The LHD must engage with clinicians and communities
- The LHD must be sustainable - careful with our expenses.

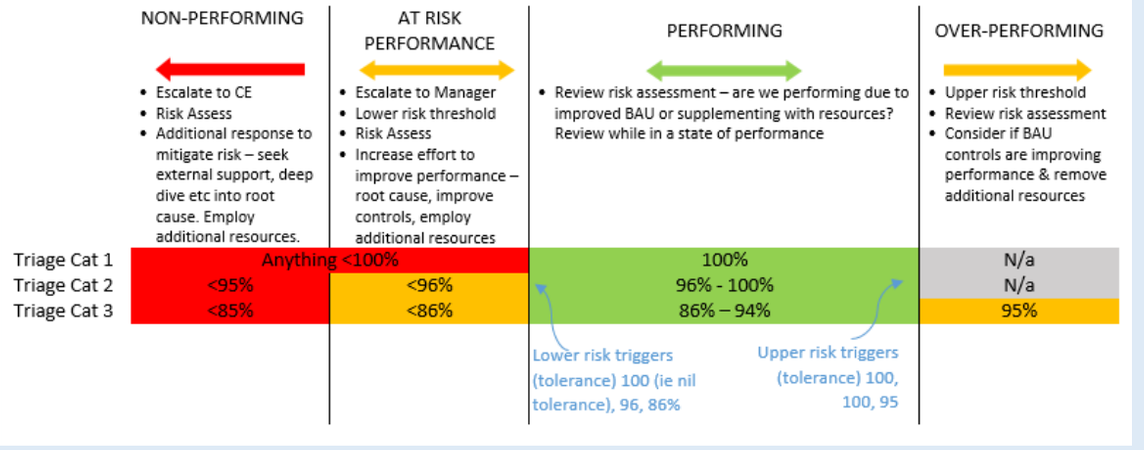
It all sounds like good common sense - Yes it is. If you think about it another way:

- *If we did not consider innovation, collaboration or finances, and only considered the Boards low risk appetite for clinical care then we would pursue clinical care at the expense of everything else and we would not try anything innovative or collaborative to get there.*
- *Clearly that would not be sustainable financially, and we would end up with significant damage to our reputation, amongst other things.*

We make our decisions accordingly – utilising our delegations, policies, processes and procedures and governance in place to direct our workforce, activity and use of infrastructure etc.

Considering Risk Appetite:

- Category 1 – These patients must receive care on time. We have a very low tolerance and must meet the KPI of 100% for these patients. Any performance other than 100 triggers a risk event. Resources are aligned with this intent.
    - Performing is 100%, anything outside that is non-performing
- Category 2 – Given clinical need, we set a tolerance of 96% of triage category 2 patients receiving their care on time.
- Category 3 – we take on some risk in this area due to the management of large amounts of activity, workforce constraints and reduced clinical risk in this category
    - Performance is set between 86% and 94% for the LHD - this means that we will trigger a risk event when our performance drops to 86% so that we know we need to put effort and resources into relevant activities to ensure it does not drop to a non-performing level AND we will also get a trigger at 94% because we may be over-performing and it may be prudent to assess the amount of resources in the event that we could be putting resources into another area.
    - If performance drops to 85% or below, we are non-performing. The risk will already be on the register (its rating may change), and significant actions will need to occur to get back to a performing level.



7. Risk Appetite Implementation

Senior LHD management will be responsible for the implementation and compliance with the Risk Appetite Framework and Statement.

7.1 Decision Making

Given risk appetite should be considered at the time of BAU decision-making, the most effective way to implement risk appetite is to update the key LHD documentation – the Decision Memorandum. The DM already includes a consideration of risks associated with the decision. Potential wording for the purposes of risk appetite include:

RISK MANAGEMENT

Relevant Risk Appetite Statement:	
Are there any current risks associated with this decision? If Y: Risk reference no/s:	Y/N
Is this decision within the Board's Risk Appetite? If N, a risk event will be triggered, Risk ref no:	Y/N
Relevant Risk Tolerance Information:	
- Service measures or other KPI's:	
- Relevant Risk thresholds: (consider upper/lower)	

[linking into the LHD Resilience Framework]:

Resilience: As noted previously, resilience greatly complements risk appetite for decision making by adding ORGANISATIONAL CAPABILITY to the conversation. Adding a resilience element to the Decision Memorandum would identify the business processes that are required to REACT to the decision and ACT to support its implementation

Resilience Considerations

Tick the boxes below for each resilience pillar that will be impacted by the decision:

Workforce		Organisational Culture	
Supply Chain Management		Assets & Infrastructure	
Financial Health		Safety & Improvements	
Communications		Information Management & Security	
Risk Management		Disaster Management	
Legal, Compliance, Audit		Business & ICT Continuity	
Aboriginal Impact Statement			

All ticked resilience pillar impacts areas must be summarised below:

Resilience Pillar	Consideration/Discussion/Mitigation

7.2 Risk triggers

Setting tolerances / threshold limits / triggers:

- Capacity for risk taking will be aligned with the service agreement of the Ministry as that directs service delivery requirements that we have and the funding we have to do it with. There are many services under other agreements and these will form the capacity limits for those areas.
  - I.e.: identifying capacity for many of our services will be our operational KPIs, our service agreement measures
- Once capacity is understood, we put triggers in place (KRIs) that act as an early warning to enable management to react quickly, assess and improve the BAU control environment or additional mitigating actions to avoid breaching capacity (KPIs)

Triggers can be set in a number of ways:

- Specific: Set at a specific, individual level based on complexity, need or by the Board or CE request
- Non-specific: set at a certain percentage either side of the capacity limit or KPI
- Formal: Set and built into reporting systems such as LHD Business Information systems with regular management reporting such as Monthly Accountability meetings (MAMs) aligned with the performance framework.
- Informal: Used informally, usually at the service, site or directorate level to inform potential risks to performance. Not required however part of a mature risk culture.

Escalation to the Risk Profile

- For a new risk: Risk is triggered, risk assessment is completed and risk is added to profile
- For an existing risk: Review and update risk
  - and focussed strategies, additional oversight and governance from the board and relevant sub-committees.

8. Reporting and Monitoring

Reporting and monitoring of risks will be in accordance with the NSW Health Risk Management Policy and LHD Performance Framework which includes accountabilities and delegations.

- Using the risk profile – current residual risk
  - The risk appetite will identify areas that are currently operating outside the board's level of comfort (red outline)
  - Those areas should have escalated reporting, including:
    - Additional oversight and governance by Executive (targeted agenda items)
    - Transparent and detailed reporting to Board via ARC
    - Targeted strategies including risk deep dives, audit and additional resources where required
  - Not all high risks will be priority areas as those which have matching high risk appetites are supported by the board
    - Eg leadership capability – high risk in an areas that the board have a high risk appetite. This means the orgnaisation is operating within the boards level of risk
  - However, for example:

Staff fatigue – high risk in an area where the board has a low risk appetite. This area should be (and is) a high priority for the executive with targeted

9. Review

This Risk Appetite Statement will be reviewed by the Board and Executive Leadership Team in accordance with the change in strategic plan, or as required when there is a significant change to the business environment. In addition, the LHD Board has the discretion to request a formal review of the risk appetite statement and risk appetite framework at any time. The Governance, Risk and Audit Unit will coordinate this review.