Governance Risk and Audit (GRA)
Operational Procedures:
RISK ESCALATION FRAMEWORK

PURPOSE: This framework provides for the practical implementation of the NSW Health Risk Management Policy Directive PD2022_023 and sits alonside the MLHD Risk Appetite Framework and Risk Appetite Statement. This framework is imperative to enable the correct classification of risk and alignment to strategic goals and supports the LHD ability to assess its ability to meet its strategic and operational goals and assist in decision-making.

> SUMMARY BOX: The key steps to risk escalation / de-escalation are:
>
> **There are two types of risk escalation:**
> - **Risk ratings (an assessment of the risk itself) and**
> - **Risk Levels (movements from one risk level to another. This guide is about levels)**
>
> **LOCAL RISKS – are escalated to OPERATIONAL risks if they begin to impede performance at a district (LHD) level.**
>
> **OPERATIONAL RISKS – are escalated to STRATEGIC risks if they are likely to impact on MLHD's ability to achieve organisational objectives.**
>
> **Risks may also de-escalate if performance is improving.**
>
> **Why is this important?** Reporting risks at the right level enables the right focus and right resources to support performance to achieve MLHD's objectives**.**

GUIDE TO RISK ESCALATION:

- Risks can ESCALATE (increase in risk rating, management becomes more urgent to avoid non-performance) and DE-ESCALATE (decrease in risk rating, management becomes less important as performance is improving).
- There are essentially two types of risk escalation / de-escalation – RISK RATINGS and RISK LEVELS.
    1. **RISK RATINGS:**
    The overall aim of risk management is to manage each risk down to **As Low As Reasonably Practicable (ALARP)** which is the level of risk that is ACCEPTABLE, ie we have met our target risk rating and we are performing or meeting our objectives (ie KPIs met) in the relevant area.
        o If performance cannot be achieved, the facility/Directorate/LHD is heading towards NON-PERFORMANCE, then the risk must be ESCALATED according to its risk rating to enable greater scrutiny, oversight and support with risk management.
        o Refer to **GUIDE TO RISK MANAGEMENT** for discussion on management of risk ratings.
        o De-escalation and risk closure through risk ratings is addressed specifically in **GUIDE TO RISK CLOSURE.**
    2. **RISK LEVELS:**
    MLHD recognises three levels of risk: LOCAL, OPERATIONAL and STRATEGIC. Refer to the **GUIDE TO WRITING A RISK** for details.
    Escalation occurs to and from the LOCAL and OPERATIONAL LEVELS:
        o The LHD Risk Manager monitors LOCAL risks for trends - such as multiple sites with similar issues, or where the performance of a risk at one site may effect the district performance.
            ▪ The Risk Manager will escalate the LOCAL risk(s) into one OPERATIONAL risk

- The Risk Owner will change from the Site/Business Unit Manager to the relevant Director
  - o The LHD Senior Executive Committee (SEC) monitor District OPERATIONAL risks. Escalation from OPERATIONAL risks to STRATEGIC risks can occur in two ways:
    1. **Escalation in the PERFORMANCE of ONE RISK:**
       - Continued or significant decline in performance of ONE risk where that performance is significant enough to impact a strategic goal.
       OR
    2. **Increase in the NUMBER of RISKS that have the potential to IMPACT ON THE SAME STRATEGIC GOAL in a similar way:**
       - Where a number of OPERATIONAL risks exist that align with the same Strategic goal, as recorded in the risk register that have the same impact category (as per NSWH categories) and combined, they have the potential to affect the achievement of THE SAME strategic goal
    ….that risk / those risks will be escalated to (one) **STRATEGIC** risk**.**
- At each level of escalation, there will be a review of the risk and the way the risk is written. A review will be required to match the change in focus from the Facility or Business Unit level (local) to Directorate (Operational) to Organisational (Strategic) level. Impact categories are critical in the process as they act as hinges for the escalation. Refer to the **GUIDE TO WRITING A RISK** for details.
- It is important to make the distinction between levels of risk as it affects who needs to know about the risk, who needs to manage the risk, who has to report on the management of the risk and who it gets reported to.
  - o LOCAL risks – reported in the risk register and part of the Site/Business Unit Manager's goals and KPIs. Local Risk Management at site level by Site (business unit) Manager based on achieving local KPIs. Site/Business Unit Manager is risk owner
    - Risk reviews: Risks are reviewed regularly in line with performance (with the help of BI and other performance reporting systems) and any changes in the environment (controls) etc. The accountability & performance framework is used similarly as it is used for all performance management:
      - MAM down: MAM of Site Manager and relevant NUM/risk manager (to manage operational performance)
      - MAM up: MAM of Site Manager & Cluster Manager for performance oversight.
    - Overview & support to Site Manager from Cluster Manager, noting the General Manager will also be involved in decision making processes and risk escalation if required.
  - o OPERATIONAL risk - Directorate level risk Management: Responsibility rests with the DIRECTOR to make decisions with the support of the Executive where required for multi-disciplinary approaches. Director is the risk owner providing direction to General Managers for operational implementation with their Cluster Managers.
    - Risk reviews:
      - MAM down: MAM of Director with relevant General Manager (to manage operational performance)
      - MAM up: MAM of Director with CE for performance oversight.
    - Overview & support to Director from CE, noting some operational risks require multi-disciplinary approaches and a number of Directors may be involved.

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HINT: Often issues that affect our larger facilities (Wagga, Griffith) can have the ability to affect our district KPIs and as such will require immediate escalation to an OPERATIONAL risk and even have the potential to effect our STRATEGIC goals. An overview of risk escalation showing the TWO TYPES OF RISK ESCALATION is overleaf.

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RISK ESCALATION: OVERVIEW

There are two types of risk escalation (and de-escalation) – by risk rating and by risk level:

1. Risk ratings – are an assessment of the risk itself
2. Risk levels – are movements from one risk level to another

RISK LEVEL	ESCALATION BY RISK **RATING**		ESCALATION BY RISK **LEVEL**
LOCAL RISKS			Risks are managed to ALARP as efficiently as possible to within identified performance (tolerance)…
Local Risk 1	Risks are managed, via controls and mitigation strategies. Risk ratings reflect risk management and can be escalated and de-escalated between LOW, MEDIUM, HIGH & EXTREME.	LOW	**OR**
Local Risk 2			LHD Risk Manager has oversight of local risks and escalates where one or more LOCAL risks may combine to develop one OPERATIONAL risk (usually the same risk at multiple sites or one risk that has the capacity to affect District KPIs)…
Local Risk 3		MEDIUM	
Local Risk 4		HIGH	
Local Risk 5			
etc		EXTREME	
OPERATIONAL RISKS			**THEN**
Operational Risk 1	Risks are managed, via controls and mitigation strategies. Risk ratings reflect risk management and can be escalated and de-escalated between LOW, MEDIUM, HIGH & EXTREME.	LOW	Successful risk mitigation of an OPERATIONAL risk to reduce the risk to ALARP either at the district level or where the risk/s can be managed at a local level….
Operational Risk 2			
Operational Risk 3		MEDIUM	
Operational Risk 4		HIGH	**OR**
etc			One or more OPERATIONAL risk(s) impacts at a STRATEGIC level WHERE IT AFFECTS OUR ABILITY TO ACHIEVE OUR STRATEGIC GOALS.
		EXTREME	
STRATEGIC RISKS			
Strategic Risk 1	Risks at the Strategic level are managed primarily in the operational environment. Controls and mitigation strategies ar ecentred around Board (incl Sub) governance and oversight and supported by strategic engagement with MOH and other (level-up) external bodies and functions	LOW	**THEN**
Strategic Risk 2			Successful risk mitigation of a STRATEGIC risk should reflect the achievement of operational risk mitigation and the achievement of strategic goals. The strategic risk rating will increase or decrease according to the operational risk enviornment driving it.
Strategic Risk 3		MEDIUM	
Strategic Risk 4			
Strategic Risk 5		HIGH	
etc			
		EXTREME	

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Risk Escalation, WORKING EXAMPLE, showing how the impact category is the hinge that supports the escalation of a risk when it is required:

RISK LEVEL / DESCRIPTION	WITH A RISK TO….	ESCALATION POINTS:
LOCAL RISK DESCRIPTION: LOCAL – FACILITY X – FINANCE – There is a risk to facility budget if facility continues to be unable to recruit to key positions as it will impact on our increasing need to employ premium labour or increase staff overtime.	**IMPACT CATEGORY:** **FINANCE** local budgets are at risk due to premium labour and overtime costs.	Risk is managed to As Low As Reasonably Pt55ossible (ALARP) as quickly as possible to meet KPIs… **OR**
In this example, the LHD Risk Manager notes an increasing number of facilities in LHD with a similar risk, indicating the Executive must become aware and a district approach is required. **OPERATIONAL RISK DESCRIPTION:** OPERATIONAL – FINANCE - risk to LHD Budget triggered by significant vacancies across the LHD and unsuccessful recruitment. If MLHD continues to be unable to recruit to key positions it will impact on our increasing need to employ premium labour or increase staff overtime.	**IMPACT CATEGORY:** **FINANCE:** combined impact of site risks require district level approach to achieve finance KPIs	If continued decline in performance (KPIs), REVIEW AND AMEND RISK. If LHD Risk Manager identifies need for escalation, one of more LOCAL risks may combine to develop one OPERATIONAL risk (usually the same risk at multiple sites or one risk that has the capacity to affect District KPIs). **THEN** Successful risk mitigation may reduce the risk to ALARP OR back down to local risks….
In this example, there are a number of different risks that apply to the same Strategic Goal, with combined impacts that threaten LHD's ability to achieve that goal. The Board must be alerted to ensure the Executive implement successful risk management. **STRATEGIC RISK DESCRIPTION:** STRATEGIC – A number of finance risks exist that have the potential to impact LHD's ability to meet or exceed consumer expectations, including funding changes, premium labour and overtime costs.	**IMPACT CATEGORY:** **FINANCE:** LHD Strategic Goal to "meet or exceed the expectations of consumers in all care settings" is AT RISK	**OR** If a one or more OPERATIONAL risks have the capacity to affect a STRATEGIC GOAL (ie have the same IMPACT CATEGORY), a STRATEGIC risk will be triggered.

OKAY,
So now we know:
- how a risk is ESCALATED for INCREASED FOCUS and management

What's next?
- How do we manage a risk? Refer to **GUIDE TO RISK MANAGEMENT**