

NHSBT Board Meeting**Risk Appetite**29th March 2022**Status: Official****1. Summary and Purpose of Paper**

This paper brings to Board the background to risk appetite and the standards upon which NHSBT is building its risk appetite statements. It asks for approval of the general and risk impact area risk appetite statements and seeks approval for the action plan for future work.

2. Action Requested

The Board is asked to:

- Approve the general principles in section 4 and the concepts in section 5.
- Approve the general risk appetite statement in section 7 and the risk impact area statements in section 8.
- Approve the action plan for further implementation (Section 9) and, specifically, to agree a six-month settling period for risk appetite to allow existing child risk scores, the new strategic risks and risk appetite to come together and begin operating cohesively.

3. Background

Risk appetite is the amount of risk that an organisation is prepared to accept, tolerate, or be exposed to at any point in time. NHSBT has had a risk appetite statement in place for many years, the current version is in the Risk Management Manual. The statement has always been a general statement of relative risk, and the current statement is based on a universal application of risk score. So, all risk with a residual score above 15 is unacceptable, for example, with no nuance based on whether that risk impacts staff safety or innovation.

A workshop was held with the Executive Team to explore the creation of a new risk appetite statement and how that would be applicable to risks and their management.

4. General Principles

The Executive Team agreed that, to provide rigor to the process and to ensure alignment with Government Departments and other Arm's Length Bodies, NHSBT would adopt the Treasury Orange Book guidance (known more formally as "Management of Risk, Principles and Concepts", with the risk appetite guidance available online¹).

To be consistent with this guidance, NHSBT would adopt the risk impact areas outlined in the Orange Book, with the addition of an impact area for "Donor and Patient harm" and "Staff & Public safety and wellbeing". For consistency, but also for clarity, the desired risk position would be identified as the "optimal risk position".

¹ [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1012891/20210805 - Risk Appetite Guidance Note v2.0.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1012891/20210805_-_Risk_Appetite_Guidance_Note_v2.0.pdf)

It was agreed that Risk Appetite was a Board level decision, and that the risk appetite statement and risk policy would be removed from the Risk Manual and be approved by Board as a separate document. The risk manual containing technical details, operational guidance, scoring tables and other operational issues would be the responsibility of the Risk Management Committee.

5. Concepts of Risk Appetite

It was agreed that each risk impact area would have an optimal risk impact position, describing the area where risk would be comfortable. These would not be identical for each area but would vary according to how much risk the Board was prepared to take. For legal compliance that might be a very low level of risk, for innovation supporting strategic change that might be higher. There would also be a tolerance zone, for example, during the pandemic there has been increased risk for staff. Additional controls at both operational level (e.g. many staff working from home, the compulsory wearing of facemasks and social distancing) and for governance (e.g. situation reports, Emergency Team meetings) were put in place to mitigate the risk as far as possible.

A risk limit describes an undesirable position requiring immediate action and Board reporting, and between the tolerance zone and the risk limit, a judgement area in which Executive Directors, Senior Managers and Subject Matter Experts will judge whether the risk can be managed or needs escalating.

This concept is illustrated below in figure 1.

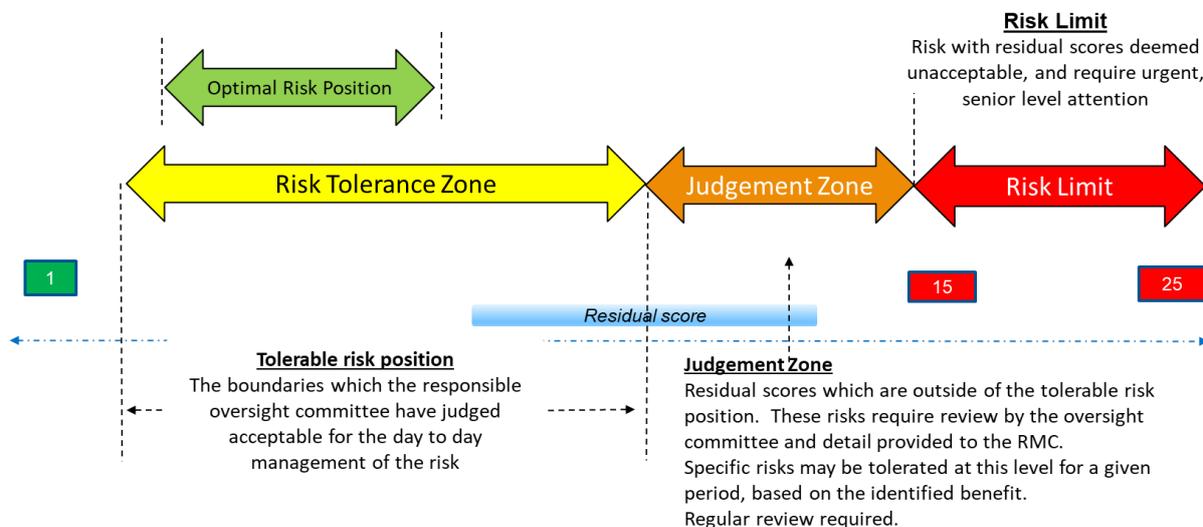


Figure 1. Concepts of Risk Appetite

6. Reporting and Implementation of Risk Appetite

The reporting of risk in the Board Assurance Framework (BAF) will include risk appetite indicators, although these have not yet been finalised. The BAF risks could be plotted on a radar plot that would also show the optimal risk position and the risk tolerance zone, such as that demonstrated in figure 2.

This shows the risk impact area on each spoke of the plot, with scores increasing from the centre to the outside ring, which would be the maximum risk score of 25. The optimal risk

score is in green and the tolerance in yellow, with the risks shown in black with their risk number as text in the black spot.

This representation could be adapted for individual risks to show where child risks fell on the risk appetite distribution and could show movement in scoring by the use of arrows.

This is only one potential representation of the risks against appetite, and others were discussed at the Executive Workshop, although no conclusions on a final format were reached.

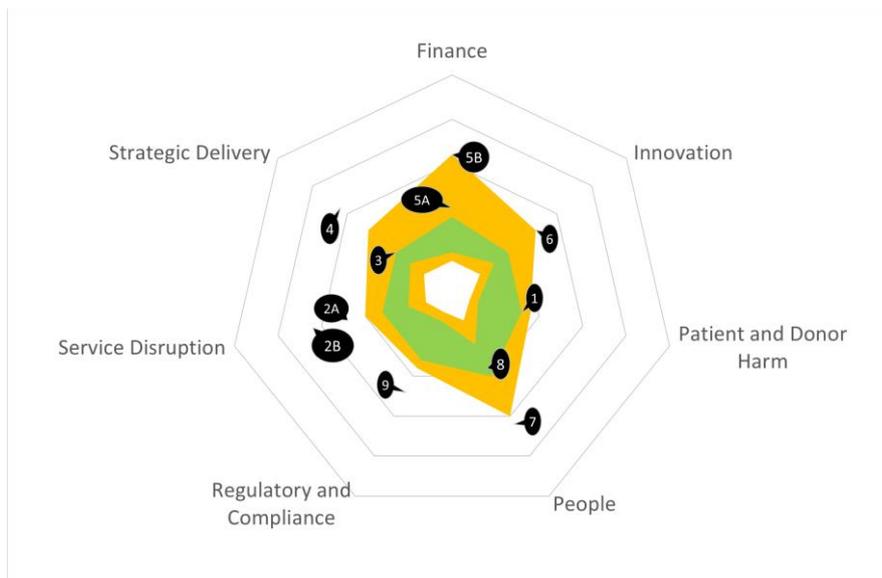


Figure 2 Example plot showing risks against risk appetite "optimal risk score" and "tolerance" zones (not real data)

7. Risk Appetite Statement (for approval)

A general risk appetite statement was discussed at the workshop, and following some discussion the statement was amended to:

NHSBT's Board and Executive Directors accept that:

- NHSBT as a provider of healthcare related services and products, operates in an environment where there are risks associated with the processes and activities required to deliver products and services. Risks will be consistently managed in a considered and controlled manner
- NHSBT must take risks to successfully deliver its strategic priorities, as part of the commitment to fulfil the organisations ambition
- NHSBT will strive to ensure risks are managed within the agreed appetite levels confirmed by the Board, with any risk exceeding agreed tolerances prioritised and managed accordingly
- In certain circumstances risks which exceed the agreed tolerance level and fall within the judgement zone, may be tolerated, if they result in a recognised benefit. This will be by exception, with this risk treatment approved and monitored by the Risk Management Committee
- Risks will not be considered acceptable and will always be actively managed if they have the potential to:
 - Expose donors, patients, staff and the public to avoidable harm

- Compromise NHSBT’s ability to deliver key products and services within specifications and terms of agreements to hospitals, the NHS or other customers
- Breach statute, regulatory, mandatory or professional standard requirements
- Adversely impact the reputation of NHSBT
- Individual risk appetite levels and the appetite statement will be monitored by the Risk Management Committee, signed by the Chair and CEO after approval by the Board, and updated as legislation or the operating environment changes. The risk appetite statement must be considered and approved by Board at least every two years.

8. Risk Impact Areas and Appetite Statements (for approval)

NHSBT will follow the Treasury Orange Book impact categories and level descriptors, which go from “Averse” at the lowest level, through “Minimal”, “Cautious” and “Open”, then to “Eager” at the highest level. The descriptors arise from these appetite levels and are taken directly from the Treasury Orange Book, however for “Donor and Patient Safety” and “Staff and Public Safety and Wellbeing” the Treasury Orange Book has been used as a guide, as these two categories are not listed individually.

| Risk Impact Area | Level |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| Donor & Patient Safety <i>Avoid risk, except in very exceptional circumstances, that may result in injury or harm to donors or patients</i> | Minimal |
| Staff & Public safety and wellbeing <i>Avoid risk, except in very exceptional circumstances, that may result in injury or harm to staff or members of the public</i> | Minimal |
| Legal, Regulatory & Compliance <i>Want to be reasonably sure we would win any challenge</i> | Cautious |
| Financial <i>Prepared to invest for benefit and to minimise the possibility of financial loss by managing the risks to tolerable levels</i> | Open |
| People <i>Prepared to invest in our people to create innovative mix of skills environment. Responsibility for noncritical decisions may be devolved</i> | Open |
| Innovation & Development <i>Innovation supported, with demonstration of commensurate improvements in management control. Responsibility for noncritical decisions may be devolved. Plans aligned with functional standards and organisational governance</i> | Open |
| Service Disruption <i>Avoid risk, except in very exceptional circumstances, that may result in minimal or short-term disruptions to service or product delivery, taking into consideration mitigating controls in place</i> | Minimal |
| Commercial <i>Innovation supported, with demonstration of benefit / improvement in service delivery. Responsibility for non-critical decisions may be devolved</i> | Open |

| Risk Impact Area | Level |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|
| Data & Technology <i>Systems / technology developments considered to enable improved delivery. Agile principles may be followed.</i> <i>Accept need for operational effectiveness in distribution and information sharing.</i> | Open |
| Reputation <i>Appetite to take decisions with potential to expose organisation to additional scrutiny, but only where appropriate steps are taken to minimise exposure.</i> | Open |

9. Next Steps

These statements and their associated scores have not yet been applied to risks in the Board Assurance Framework or elsewhere in the Risk Register. In addition, the guidance for risk scoring in the Risk Manual (MPD1336) needs to be revised considering the appetite scores agreed in this paper, and from lessons learned since the last version (March 2021).

The following activity will support the implementation of the risk appetite scoring:

- The Risk Manual to have risk scoring guidance amended, risk appetite statement removed and other update changes to reflect changes in the Board Assurance Framework, Assurance Map and other risk developments. Also, to include how risk appetite should be used in operational management: this document to be approved by Risk Management Committee by June 2022.
- The risks in the Board Assurance Framework to be added to the Risk System, linked to child risks, both updated with risk impact areas as outlined in this paper. An update on progress to Risk Management Committee by June 2022.
- An opportunity for Board to discuss and apply the Risk Appetite criteria to BAF risks in a less formal setting, such as a Board Seminar, to be arranged.
- The Risk Appetite as outlined in this document to be applied to risks in the Risk System, according to the risk impact area, and top-down risk discussions taking place with updates, including rescoring, to Risk Management Committee in June 2022.
- The Board Assurance Framework paper to ARGC and Board to include commentary on progress on these developments.
- A paper to Board in September to approve a risk policy to include the Risk Appetite for formal approval in September 2022.

This will mean that the technical risk system information will be the responsibility of the Risk Management Committee, whilst the Policy and Risk Appetite will be in a separate document, and the responsibility of the Board.

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Appendix - Appetite levels defined by risk categories

(Those highlighted in orange come from the Treasury Orange Book, those highlighted in blue are categories not in the Treasury Orange Book and so have been defined internally))

| | Averse | Minimal | Cautious | Open | Eager |
|--------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Donor & Patient Safety | Avoid risk under any circumstances that may result in injury or harm to donors or patients | Avoid risk, except in very exceptional circumstances, that may result in injury or harm to donors or patients | NHSBT is willing to accept some risk, in certain circumstances, that may result in injury or harm to donors or patients | NHSBT is willing to accept risk that may result in injury or harm to donors or patients, based on some potential benefits | NHSBT accepts risk which may cause injury or harm to donors or patients, based on the potential for short- and long-term benefits |
| Staff & Public safety and | Avoid risk under any circumstances that may result in injury or harm to staff or members of the public | Avoid risk, except in very exceptional circumstances, that may result in injury or harm to staff or members of the public | NHSBT is willing to accept some risk, in certain circumstances, that may result in injury or harm to staff or members of the public | NHSBT is willing to accept risk that may result in injury or harm to staff or members of the public, based on some potential benefits | NHSBT accepts risks which may cause injury or harm to staff or members of the public, based on the potential for short- and long-term benefits |
| Legal, Regulatory | 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 | Avoidance of any financial impact or loss, is a key objective. | Only prepared to accept the possibility of very limited financial impact if essential to delivery. | Seek safe delivery options with little residual financial loss only if it could yield upside opportunities. | Prepared to invest for benefit and to minimise the possibility of financial loss by managing the risks to tolerable levels. | Prepared to invest for best possible benefit and accept possibility of financial loss (controls must be in place). |
| People | Priority to maintain close management control & oversight. Limited devolved authority. Limited flexibility in relation to working practices. Development investment in standard practices only | Decision making authority held by senior management. Development investment generally in standard practices. | Seek safe and standard people policy. Decision making authority generally held by senior management. | Prepared to invest in our people to create innovative mix of skills environment. Responsibility for noncritical decisions may be devolved. | Innovation pursued – desire to ‘break the mould’ and challenge current working practices. High levels of devolved authority – management by trust rather than close control. |

| | Averse | Minimal | Cautious | Open | Eager |
|-------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Innovation & Development | Defensive approach to transformational activity - aim to maintain/protect, rather than create or innovate. Priority for close management controls and oversight with limited devolved authority. Benefits led plans fully aligned with strategic priorities, functional standards. | Innovations avoided unless essential. Decision making authority held by senior management. Benefits led plans aligned with strategic priorities, functional standards. | Tendency to stick to the status quo, innovations generally avoided unless necessary. Decision making authority generally held by senior management. Plans aligned with strategic priorities, functional standards. | Innovation supported, with demonstration of commensurate improvements in management control. Responsibility for noncritical decisions may be devolved. Plans aligned with functional standards and organisational governance. | Innovation pursued – desire to ‘break the mould’ and challenge current working practices. High levels of devolved authority – management by trust rather than close control. Plans aligned with organisational governance. |
| Service Disruption | Avoid risk under any circumstances that may result in any disruptions to service or product delivery | Avoid risk, except in very exceptional circumstances, that may result in minimal or short-term disruptions to service or product delivery, taking into consideration mitigating controls in place | NHSBT is willing to accept some risk, in certain circumstances, that may result in moderate or medium-term disruptions to service or product delivery, taking into consideration mitigating controls in place | NHSBT is willing to accept risk that may result in major or long-term disruptions to service or product delivery which is ‘non-critical’, and there is no direct harm to people | NHSBT accepts risk which may result in catastrophic or the permanent loss of the delivery of a product or service which is ‘non-critical’, and there is no direct harm to people |
| Commercial | Zero appetite for untested commercial agreements. Priority for close management controls and oversight with limited devolved authority. | Appetite for risk taking limited to low scale procurement activity. 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 demonstration of benefit / improvement in service delivery. 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. |
| Data & Technology | General avoidance of systems / technology developments. Lock down data & information. Access tightly controlled, high levels of monitoring. | Only essential systems / technology developments to protect current operations. Minimise level of risk due to potential damage from disclosure. | Consideration given to adoption of established / mature systems and technology improvements. Agile principles are considered. Accept need for operational effectiveness with risk mitigated through careful management limiting distribution. | Systems / technology developments considered to enable improved delivery. Agile principles may be followed. Accept need for operational effectiveness in distribution and information sharing. | New technologies viewed as a key enabler of operational delivery. Agile principles are embraced. Level of controls minimised with data and information openly shared. |

| | Averse | Minimal | Cautious | Open | Eager |
|-------------------|-------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|
| Reputation | Zero appetite for any decisions with high chance of repercussion for organisations' reputation. | Appetite for risk taking limited to those events where there is no chance of any significant repercussion for the organisation. | Appetite for risk taking limited to those events where there is little chance of any significant repercussion for the organisation. | Appetite to take decisions with potential to expose organisation to additional scrutiny, but only where appropriate steps are taken to minimise exposure. | Appetite to take decisions which are likely to bring additional Governmental / organisational scrutiny only where potential benefits outweigh risks. |