BOARD MEETING: 22 JUNE 2016

ANNUAL RISK REPORT

Recommendation/action required

The Board is asked to note this paper which reports on the management of corporate risk throughout 2015/16 and updates on some aspects of the governance of risk by the organisation. It also seeks approval of the Board for the formal allocation of risks on the new 2016/17 Corporate Risk Register to NHS Health Scotland's governance committees (Appendix 3).

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8 June 2016

ANNUAL RISK REPORT

Purpose of Paper

1.   The purpose of this paper is to report to the Board on the management of corporate risks through 2015/16 and to update the Board on key changes and improvements to the management of risk. As part of that improvement, it also asks the Board to approve the allocation of risks on the Corporate Risk Register (CRR) to NHS Health Scotland's governance committees (Appendix 3).

Background

2.   The Risk Protocol requires that the annual report includes;

a)   An update on what improvements have been made to risk management.

b)   An update on any changes following review of the risk protocol or policy.

c)   A statement of what further developments are planned for the next year including target dates.

3.   The management of risk within NHS Health Scotland has improved significantly. The way in which risk is used continues to mature and is subject to continuous improvement and refinement. There is still work to do to fully embed risk at all levels, but progress continues to be made and risk is currently adequately and appropriately managed. The Audit Committee oversees the management of risk in detail. It has been fully involved in the discussion and development of the risks described in this paper. The Annual Accounts for 2015/16 record satisfactory progress with risk management processes.

4.   The Management of Risk Policy was last reviewed in November 2014 and updated to reflect discussions and decisions that had taken place throughout 2014 within the organisation. The Policy is reviewed on a biennial basis, and is due for review by November 2016. The Risk Protocol was last reviewed in April 2015 and was due for review by the end of April 2016, but it has been agreed by the Audit Committee to delay review of these documents until the autumn 2016 to take on board the changes that we are currently making to governance and processes.

Management of Corporate Risks 2015/16

5.   In line with the previous decision of the Board, the CRR was reissued in-year with the approval of the Corporate Management Team (CMT). This revised CRR is included as Appendix 1, with an analysis of progress and performance against each risk.

6.   The CRR for 2015/16 was framed within the four risk categories previously identified and scored by the Board as follows:

Risk Category	Appetite Target Score
Reputation	12-16
Financial & Planning	5-10
Compliance & Regulatory	3-4
Operational	12-16

7. Analysis of how the average risk rating on the CRR compares with the agreed target score shows that there is some variance. Some very brief commentary on this is provided in the table below. It is an aspect on which the Board's comment is particularly invited and for which some further exploration may be sought. It should also be noted that we intend to return to the subject of risk appetite (Appendix 2) in the context of the new CRR at a Board seminar in October 2016.

8.

Risk Category	Appetite Target Score	Average Risk Rating on CRR	Commentary
Reputation	12-16	11	It is noteworthy that we are tending towards the lower end of this target. This is despite the fact that this 'elevated' appetite is valued as it is perceived to give the organisation more scope to extend the scope and impact of its external messages and public affairs. The extent to which this message has permeated to all teams and staff's confidence to respond is one question.
Financial & Planning	5-10	8.7	It is interesting that this is at the higher end of the target. The balance between 'over planning' within resource available may be one aspect to explore.
Compliance & Regulatory	3-4	8	Reflecting on the compliance risks at the end of the year and comparing them to NHS-wide impact ratings, our view is that we are beyond the Board's expressed appetite for compliance risks because we have tended to overrate the possible impact of compliance risks which, for NHS Health Scotland, are relatively low. Our work to review the Master Risk

			Register during 2016/17 is likely to include a focus on how we assess and manage these risks more confidently across the organisation.
Operational	12-16	12.3	This is at the lower end of the target. Given that a significant proportion of these risks are about organisational change in one way or another, a point of discussion may be whether the Board feels that the appetite for change within the organisation meets the appetite for risk that was set.

Improvements to Process

9.   The Audit Committee have been closely involved in discussions leading to a revised CRR for 2016/17 and a number of improvements to process.

10.   We believe that the new Corporate Risk Register (Appendix 3) is more accurate, better integrated into planning and performance, and the risks will be more transparently governed. This was developed by the CMT and approved by the Board in March.

11.   We are now reviewing our Master Risk Register, we have identified a lot of complexity, duplication, 'silos' and scope to be simpler and more effective.

Governance of Corporate Risk 2016/17

12.   In April 2016, the Audit Committee discussed and agreed new arrangements to govern corporate risks and how governance committees would be involved in this. Each risk on the CRR will be reported to a nominated governance committee and have an assigned corporate lead, to ensure more regular monitoring and reporting of risk management practices and outcomes.

13.   This will ensure governance committees are informed about what is going on and alerted to any issues promptly. This is more frequent reporting than governance committees currently receive, but updates will be kept short and action-focused. The updates will also include any relevant performance management data, with the aim of prompting questions as to whether the controls in place to manage the risks are being effective.

14.   We will continue to include an overall update on the CRR in quarterly performance reports to the Board. The potential of the new CRR is that reports will be much more closely aligned to the performance of the 2016/17 Delivery Plan.

15.   In May, the Staff Governance Committee discussed and supported these arrangements. The Health Governance Committee is also scheduled to discuss

these. However, these arrangements have not yet been formally approved by the Board. The purpose of this paper is to seek that formal approval.

Finance and Resource Implications

16. There are no identified resource or finance implications. Managed well, these risks will have a critical impact on the effective planning and management of resources in key priority areas of the organisation.

Partnership

17. There are no identified partnership implications. The revised CRR provides new opportunities for the Partnership Forum to be involved in the oversight of workforce related risks.

Communications

18. There are no identified communications implications, with the Corporate Risk Register published annually on the NHS Health Scotland website.

Risk

19. This annual report provides assurance to the Board that risk within the organisation is being managed appropriately and efforts continue to improve the management of risk.

Equality and Diversity

20. There are no identified Equality and Diversity issues.

Sustainability and Environmental Management

21. There are no identified Sustainability and Environmental Management issues.

Action/Recommendations

The Board is asked to:

I.   note and discuss the management of corporate risk throughout 2015/16
II. note the overview of ongoing improvements to the risk processes, overseen by the Audit Committee
III. approve the formal allocation of the governance of corporate risks to NHS Health Scotland's governance committees (Appendix 3).

Duncan Robertson
Policy and Risk Officer
8 June 2016

Appendix 1 – Corporate Risk Register 2015/16 End of Year Report

SECTION ONE – Reputational Risks
Appetite – Open – Target Score 12-16 – Mean Score 11

Ref	Potential threat or risk identified	Impact (exposure) resulting from the risk	End Of Year (2015/16) Narrative
1.1	As a result of unsuccessful strategic engagement or national positioning, there is a risk that we will not have the influence required to effect the changes needed to improve policy, practice and support for action at national level or that some current delivery partners will disengage.	Failure to deliver on key strategic priorities and reputational damage.	Progress has been slower than planned in refreshing the core scripts for each core programme- this is likely to be a reflection of the diverse nature of some of the programmes- particularly CP3 and 5. Formulation of our strategic ambitions over the next five years in still work in progress and needs to be clarified by August 2016. There has been significant growth in social media as a channel of communication. Active engagement of key stakeholders has taken place and there has been systematic recording of themes emerging from those engagements relating to our next 5 year plan, however a number of important engagements with CoSLA and other key leaders in stakeholder organisations are still to be held. In relation to general corporate engagement activity there remains more progress to be made in systematically entering information on our customer relationship management system. Clarifying the position and purposes of the national Inequalities Action Group remains a work in progress.
1.2	**Closed**		
1.3	**Closed**		
1.4	As a result of an ambitious strategy that relies on the contribution of many agencies to effect real reduction of inequality in health, there is a risk that the organisation cannot demonstrate measurable impact.	Reputational damage and lost opportunities to be engaged as a credible partner.	A stakeholder survey was completed as part of the web survey research. We have not been able to draw as many conclusions from this as we hoped. The survey will therefore be repeated in 2016/17 and using slightly different methodology. Stakeholder engagement has identified the need for more focus on getting knowledge into action in a way that recognises and responds to the challenges and opportunities in the external operating environment of key stakeholders- particularly in local government and the emerging Integration Joint Boards (IJBs). This is likely to be a key theme of the next 5 year strategy for the organisation. Good progress was made in developing a set of Key Performance Indicators (KPIs) and in identifying improvement areas- mainly in relation to assessing NHS Health Scotland's impact at core programme level. Business planning processes are under review and improvement measures being clarified- areas that need to be strengthened include environmental scanning, gap analysis and early engagement with policy and decision makers across the system. The stakeholder performance forum is moving into a focus on collaborative outcome identification.

Ref	Potential threat or risk identified	Impact (exposure) resulting from the risk	End Of Year (2015/16) Narrative
1.5	As a result of inadequate and/or ineffective policy advocacy, there is a risk that could make public a policy position that is not consistent or feasible within the current policy context.	Damage to our relationship with the Scottish Government, decrease their confidence in our work and weaken our impact on developing stronger support for action.	The corporate sign off protocol is now called the Protect Protocol. There have been no further incidents of risk exposure in the way the organisation has advocated for policy change.

A cross organisational group is working to develop a systematic, central collection of all medium to high risk material going into the public domain.

A learning and development programme is still being scoped, but should form part of the delivery of the 2016/17 workforce development plan. |

SECTION TWO – Financial & Planning Risks
Appetite – Cautious – Target Score 5-10 – Mean Score 8.7

Ref	Potential threat or risk identified	Impact (exposure) resulting from the risk	End Of Year (2015/16) Narrative
2.1	As a result of inadequate financial planning and performance management, there is a risk that we fail to optimise the effectiveness and efficiencies of our resource allocation.	1) Failure to achieve our corporate outcomes. 2) Failure to meet our financial and efficiency savings targets with a detrimental impact on resources available in following years. 3) Adverse reputational impact.	Year end forecasts using the six month accounts identified staff savings which was used to fund a major additional project in 2015/16. Monthly updates to forecast reviews thereafter ensure we operated within our financial allocation and were able to carry forward to 2016/17 a planned 1% surplus of £226k which was confirmed by the Scottish Government on 2 June 2016.
2.2	As a result of changing political priorities impacting on spending plans and efficiency targets, there is a risk that our financial planning assumptions may become unrealistic.	Inability to deliver our strategic priorities.	Worked closely with the Scottish Government to ensure our core funding and our non-core funding (the latter being issued over the course of the financial year) was sufficient to meet our commitments in priority areas.

| 2.3 | As a result of poor planning or prioritisation processes, there is a risk that our financial resources will not be spent on the most important or effective things to achieve a reduction in health inequalities. | Inability to deliver our strategic priorities and loss of reputation. | The improvement plan outlined has progressed in every respect. There are good examples of exit strategies in place, particularly within some health topic areas managed by Health Equity, and further plans in place for this to be lead by that Directorate next year. The Corporate Priorities for 2015/16 were aligned very closely to the Annual Review Action Plan and this has been helpful, although further work will be done in 2016/17 to potentially simplify this even further.

Good work was done in 2015/16 to engage team heads and organisational leads in processes such as Annual Review Action Plan planning and in reviewing whether organisational priorities generally was a useful approach – which this group fed back it was. The data produced through the prioritisation tool was used in depth by some teams during planning and this practice will be promoted to more teams in 2016/17.

A detailed review of planning, including corporate priorities and the use of the prioritisation tool, is being led by the Commissioning Group and will report to the Corporate Management Team (CMT) in May 2016.

Overall, while progress has been made, the financial climate and the call for a new Strategy to be clearer on focusing on doing fewer things well, mean that this should remain a focus for organisational improvement for long term risk management. |

SECTION THREE – Compliance and Regulatory Risks
Appetite – Minimalist – Target Score 3-4 – Mean Score 8

Ref	Potential threat or risk identified	Impact (exposure) resulting from the risk	End Of Year (2015/16) Narrative
3.1	As a result of inadequate management of processes for corporate governance and compliance, there is a risk that we will not meet our regulatory, legislative or business continuity obligations.	Potential adverse financial, legal and reputational consequences.	Firewalls were replaced to give greater resilience across the sites in February 2016. The remote access solution was upgraded in March 2016, resulting in a more robust service which can support the Information Technology Disaster Recovery (IT DR) plan. An outstanding audit recommendation to train relevant staff on the IT DR Plan and run an annual scenario planning day will be undertaken in June 2016. The Internal Governance Audit concluded that the NHS Health Scotland governance processes are "broadly satisfactory". We have agreed an action plan to improve processes by September 2016. The function review of procurement was completed in March 2015. There has been a transition year for procurement during 2015/16. The finance re-alignment review is expected to be completed by July 2016. No concerns have been raised this year with regard to the legal management of employee relations or law pertaining to the management of employees.

SECTION FOUR – Operational Risks
Appetite – Open – Target Score 12-16 – Mean Score 12.3

Ref	Potential threat or risk identified	Impact (exposure) resulting from the risk	End Of Year (2015/16) Narrative
4.1	As a result of unsuccessful change management processes, there is a risk that staff will not feel engaged with organisational aims.	1) Poor staff morale or resilience, with adverse reputational impact. 2) Loss of productivity.	Functional alignment is set to be completed by June 2016. The interim review of the Change Advisory Group (CAG) approach in August 2015 focussed on the Strategy directorate who were the first directorate to complete alignment. The review identified strengths in the variety of approaches taken to engage and communicate with staff. As a result staff felt better informed about changes and were able to speak up without negative implications. In terms of improvement staff felt the process was taking longer than hoped for and wanted reassurance that the changes undertaken will help improve the delivery of A Fairer Healthier Scotland (AFHS). These comments have informed the approach taken in the remaining months of realignment. The staff survey results in December in 2016 indicated the levels of satisfaction during the twelve month period between September 2014 and September 2015 as remaining relatively similar to the previous year and with no significant statistical change identified in any question. The external European Foundation for Quality Management (EFQM) audit was carried out in March and the detailed findings which will shape a comprehensive action plan which will be developed after receipt of the report in June 2016. The approach taken for engagement for the 6th floor accommodation review "Julyke it here" has been seen by staff as an exemplar and has been shared with Scottish Government as such. There are positive signs that this has contributed to the smooth planning of the moves now proposed for June 2016.

Ref	Potential threat or risk identified	Impact (exposure) resulting from the risk	End Of Year (2015/16) Narrative
4.2	As a result of changing strategic direction and economic constraints, there is a risk that our workforce resource is not aligned with our priorities or not sufficient.	1. Organisational strategy not delivered in full.	Functional realignment has led to a refresh of all job descriptions and has greatly reduced the number of job descriptions by taking a generic and portfolio approach to them. This work has been led by the HR team supporting the individual directorates and also led to additional work for staff and staff side colleagues on the matching and consistency panels. The Workforce Strategic Group has reviewed the AFHS competency framework to ensure it remains fit for purpose and is being effectively supported by the organisation. The Workforce Planning Group continues to monitor in year workforce decisions against the workforce budgets agreed for the financial year including meeting the efficiency target set. Continued work is planned to ensure that workforce, financial and planning data are fully integrated and consistent to support effective decision making.
4.3	As a result of recruitment challenges in an improving employment market there is a risk that we are unable to attract and retain the right staff to implement AFHS.	The combined impact may result in: 1) Not delivering routine business. 2) Not delivering planned developments. 3) Not effectively taking control of new developments from suppliers. 4) Specific failure to deliver remote, web-based and other IT based products leading to unmet customer needs and undermined credibility.	A new structure for the Digital Services team has been agreed, this enhances the team's capacity and introduces better career progression prospects for staff. A team skills audit was carried out in 2015/16 and this will be used to inform a tailored staff development plan in 2016/17.

Ref	Potential threat or risk identified	Impact (exposure) resulting from the risk	End Of Year (2015/16) Narrative
4.4	As a result of actual or perceived lack of partnership working, there is a risk that employee/employer relations will be impaired.	1) Difficulty in delivering all aspects of business plan. 2) Poorer decision making leading to less effective implementation of strategic aims. 3) Failure to address staff situations quickly and effectively, leading to loss of efficiency and lowered morale.	Partnership Working remains strong and continues to play a key role in all aspects of delivering our corporate objectives together. The following groups continue to meet on a regular basis and relationships continue to be strengthened and further developed: • Change Advisory Group (CAG) • HR/Staffside • Workforce Planning Group • Organisational Policy Subgroup
4.5	As a result of not continuing to improve ways of introducing and maintaining technology in a coordinated and consistent way, there is a risk that our technology footprint will become disjointed and the risks will not be fully articulated and managed.	1) Loss of reputation. 2) Failure to deliver fully on delivery goals. 3) Waste of resource through inefficiency and non optimised ways of working.	Digital developments are coordinated by the business transformation group (Digital team OL, IT team OL and HoS) to ensure a coordinated approach. New structural arrangements have been agreed as part of Delivery Directorate restructure. A new Project Office will enhance this coordinated approach and ensure more robust programme and project management to ensure delivery.
4.6	**Closed**		
4.7	As a result of limited experience or expertise within a small organisation, there is a risk that contracts and SLAs have been or will be entered into that are not appropriate or have significant flaws.	Loss of reputation. Limited recourse where things go wrong with suppliers.	The contract with the technology partner was reviewed and was not renewed. A significant event review is underway to learn lessons. The new Head of Digital post recruited to in 2015 now has responsibility to review all technology contracts and ensure all new contracts are robust – taking lessons learned from previous contacts into account.

Ref	Potential threat or risk identified	Impact (exposure) resulting from the risk	End Of Year (2015/16) Narrative
4.8	As a result of reduced financial allocation we will not be able to do the range of work necessary to achieve our corporate ambitions.	Inability to have the impact we need to reduce health inequalities and improve health.	Related to the analysis of Risk 2.3, improvements have been made during 2015/16 on aligning Annual Review Action Plan (ARAP) asks with corporate priorities and engaging senior managers further in these processes. The Q4 report shows that a number of 2015/16 corporate priorities were achieved in part only. We believe this is attributable more to staff resource not being allocated to or being deflected from the priority actions set out at the start of the year rather than through reduced financial allocation. Data performance processes for 2016/17 will explore this further.

Appendix 2 – Risk Appetite
Risk Assessment Matrix

		Likelihood				
		1 Rare	2 Unlikely	3 Possible	4 Likely	5 Almost Certain
Impact	1. Negligible	1 Very Low	2 Very Low	3 Low	4 Low	5 Medium
	2. Minor	2 Very Low	4 Low	6 Medium	8 Medium	10 Medium
	3. Moderate	3 Low	6 Medium	9 Medium	12 High	15 High
	4. Major	4 Low	8 Medium	12 High	16 High	20 Very High
	5. Extreme	5 Medium	10 Medium	15 High	20 Very High	25 Very High

Risk Topics & Appetite

Topic	Description	Appetite
Reputational	Strategic risks; stakeholder perception	Open
Financial & Planning	Scottish Government funding; value for money; Efficacy of spend	Cautious
Compliance / Regulatory	Health and safety; Freedom of Information; Business Continuity Planning; Human Resources; Data Protection	Minimalist
Operational	Projects; innovation; quality; outcomes	Open

Risk Appetite Matrix

Net Risk Assessment	Risk Appetite	Risk Appetite Response
20-25 – Very High	Hungry	Eager to be innovative and to choose options offering potentially higher rewards despite greater inherent risk.
12-16 – High	Open	Willing to consider all options and choose the one that is most likely to result in success, while also providing an acceptable level of reward
5 -10 – Medium	Cautious	Preference for safe delivery options that have a low degree of inherent risk and may only have limited potential for reward
3 - 4 – Low	Minimalist	Preference for ultra-safe business delivery options that have a low degree of inherent risk and only have potential for limited reward
1-2 – Very Low	Averse	Avoidance of risk and uncertainty is a key organisational objective

Appendix 3 – NHS Health Scotland Corporate Risk Register 2016/17

No.	Description	Owner	Response Coordinators	Board Committee	Metrics
CR16-1	As a result of ineffective organisational performance management: • our performance doesn't improve • we don't deliver our corporate priorities on time and on scope.	DoS	Organisational Leads for Strategic Development Head of People & Improvement	AC	• % corporate priorities delivered on time, scope and budget • % deliverables fully delivered
CR16-2	As a result of not aligning staffing and financial resources to corporate and in year emerging priorities: • we do not make the best use of our resources • and we have less impact than we might • our reputation is damaged.	DoS	Head of Strategy and Communication Head of People & Improvement	AC	• % corporate priorities not delivered because of resourcing issues
CR16-3	Because the knowledge we produce and share about health inequalities is correct but sometimes not followed up with support to apply the knowledge: • we do not give the people who can act to reduce health inequalities what they need when they need it • and so they do not act to reduce health inequalities.	DPHS/DHE	Organisational Lead for Practice Improvement	HGC	• Net Promoter Score for individual products
CR16-4	As a result of our inability to quickly respond to the new political administration and changing landscape: • we fail to meet expectations of our funders and stakeholders • we lose the ability to secure our national position.	DoS	Organisational Lead for Strategic Development	HGC	• % of new outputs created in year delivered on time, scope and budget
CR16-5	As a result of not responding quickly enough to our changing financial situation: • we do not act quickly enough to deliver against strategic opportunities • and we do not meet our financial targets.	EF&PM	Executive Finance and Procurement Manager	AC	• Financial KPIs

CR16-6	As a result of not aligning and adapting our language to the prevailing public and political discourse: • there is a risk that we lose our ability to influence our key stakeholders • and therefore fail to make an impact.	DoS	Organisational Lead for Communications and Engagement	HGC	• % of NHS Health Scotland work being referenced in the Scottish Parliament
CR16-7	As a result of ineffective engagement and/or decision making with regards to our next strategy: • We will not be effectively positioned for a national leadership position on health inequalities for the next five years.	DoS	Organisational Lead for Strategic Development	Board	• % of high influence, high interest stakeholders engaged on AFHS 2
CR16-8	As a result of lack of capacity in the Web and Digital team: • they cannot deliver in response to demand • resulting in failure for the organisation to deliver on commitments.	DHE	Head of Digital & Creative Organisational Lead for People & Workplace	SGC	• No. of days of vacancies in Web & Digital • Difference in % turnover between Web & Digital and all HS mean turnover • Outputs at risk of delivery specifically because of capacity issues in this team
CR16-9	As a result of not properly concluding the functional realignment: • there is a risk that we don't see the improvements we expect from it as quickly as we need.	DoS	Organisational Lead for People & Workplace	SGC	• % of staff who feel clearer about how the changes resulting from functional realignment will better support the objectives set out within AFHS
CR16-10	As a result of not having structured but flexible approaches to project management: • there is a risk that we don't deliver on time, scope and budget • resulting in not delivering on our commitments.	DoS (TBC)	Organisational improvement	AC	• % of outputs delivered on time, scope and budget
CR16-11	As a result of financial and workforce related issues linked to the partnership-based delivery of Healthy Working Lives services: • we may fail to meet the expectations of our customers in terms of the responsiveness of our services • we may not achieve the outcomes we have agreed with our stakeholders.	DH&W	Head of Health & Work Services	HGC	• HWL Customer Results KPIs