7.   Risk management

Boards are responsible for ensuring the health service is sufficiently agile to respond to changes in both its internal and external environment. Effectively understanding and assessing a health service's risk landscape can turn potential clinical, financial and reputational challenges into strategic opportunities.

Questions that directors of health services should ask

- Are the relevant roles and accountabilities for risk properly formalised and documented?
- Are assurance activities based on appropriate and robust structures and aligned to the risk profile of the organisation?
- Does the board appreciate the potential consequences of serious risk and governance failures?
- Are there early warning systems in place to alert the board and senior management to emerging risks?
- Is there integration of risk management with strategic direction and planning? Are risks related back to the core goal of delivery of safe, high quality care?
- Are the right risks being identified, assessed and managed?
- Does the board challenge the risk approach, risk reporting and management plans?
- Does the board provide oversight on plans for crisis management and business continuity?
- Is the board establishing the 'tone at the top' to reinforce and promote a risk aware and positive reporting culture?
- How is the board updated on changes to the laws and regulations relevant to the health service?
- What is our communications and social media strategy for managing a crisis or emergency?

Red flags

- Risk management is not connected to the health service's strategy.
- Leadership from the top is lacking.
- Risk management is positioned as a compliance and backroom exercise.
- Risk reporting and risk management plans are not challenged at board level.
- A healthy risk culture is not embedded throughout the organisation.
- The risk register is very brief and does not contain relevant risks.
- The risk register is not regularly reviewed by the board.
- The board and management are constantly responding to unforeseen events.
- Directors are unable to identify key risks for the health service when asked.
- The board is unwilling or unable to respond to risk issues.
- The escalation process for bringing risk issues to the board is not clear or staff do not feel comfortable reporting risks.

Introduction to the chapter

Health services are inherently risky. It is the role of a health service to take on clients in some form of medical distress or in need of care. The very nature of this purpose adds to the risks any corporate entity would face. Risk management is the flip-side of strategy. All health services must operate with a certain level of risk. This chapter looks at:

- key risk concepts and how they manifest in the Victorian health sector
- key elements of effective risk reporting
- the board and CEO's role in overseeing risk within the health service - and how they differ.

Defining risk

Risk and risk management can mean different things depending on the context. The following high-level definitions are provided to assist in interpreting some of the issues discussed in this chapter.

- **Risk** - the chance of something happening that will have an impact on objectives. It is expressed in terms of the consequence of an event and the associated likelihood of occurrence.[93]

- **Risk management** - the culture, processes and structures that are directed towards the effective management of potential opportunities while managing the potential adverse effects.

- **Enterprise-wide risk management** - an organisation-wide approach to the identification, assessment, communication, and management of risk in a cost-effective manner – a holistic approach to managing risk.

- **Risk governance** - incorporates the processes necessary to bring reliable risk management information to the attention of the board.

Effective boards consider the robustness of risk governance systems, understand how they work, and to what extent they can provide them with assurance.

Risk in the Victorian public health sector

Risk management is a significant responsibility of the board, requiring directors to ensure that robust monitoring frameworks, policies and procedures are implemented by the executive team.

Elements of effective risk management

- Trended and analysed risk and improvement data are used by the board and executive to make decisions about improvement.

- The organisation's safety culture is measured and strategies implemented to improve it.

- An incident management and investigation system that includes reporting, investigating and analysing incidents, that results in corrective actions.

- Hazards are identified prior to occurrence and mitigation strategies in place.

- Risks are reviewed on a regular basis to ensure controls and management actions are operating appropriately.

- Risk register is regularly reviewed by the board.

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[93] Please refer to AS/NZS ISO 31000:2009 Risk Management - *Principles and Guidelines*.

Health services should:

- monitor the performance of the health service to ensure effective and accountable risk management systems are in place. This includes financial, strategic and clinical risk management in accordance with the relevant Victorian Government guidance.

- ensure the Minister and Secretary are informed in a timely manner of any issues of public concerns or risks that affect or may affect the health service.

In addition to any specific requirements under the Enabling Acts, there are similar requirements for managing risk in the public sector that fall under the FMA. The FMA requires that boards and CEOs implement and maintain risk management governance, systems and reporting requirements contained in the *Victorian Government Risk Management Framework* (VGRMF).[94] Section 81 of the PAA also requires that boards notify the Minister of "known material risks" that could impact on the health service.

Victorian Managed Insurance Authority (VMIA)

As discussed above, the VMIA provides risk advice and insurance services for the Victorian Government and its entities.

As the State's insurer, the VMIA has developed tailored insurance products which covers most aspects of Government operations and infrastructure, including not only hospitals, but also schools, roads, rail, buildings, as well as people, for example doctors and nurses.

The VMIA regularly conduct training programs, seminars and educational events on current and emerging topics in insurance and risk management. As providers of insurance services to the public health sector, they have a strong understanding of the risks health services face – and are therefore a valuable resource for all health service directors and executives.

VMIA is a Statutory Authority established by the *Victorian Managed Insurance Authority Act 1996* (Vic) and is a successor in law to the former State Insurance Office.

VMIA's core business is in two areas, prevention and recovery, helping:

- the State prepare for, prevent or reduce the impact of harm (prevention)

- government agencies restore services and recover quickly (recovery).

Prevention

One of the VMIA's focus areas is as a risk management adviser; allowing health services to deliver programs and services for the Victorian community by assisting them to better understand and manage risk. Having effective risk management in place helps health services make better decisions and improve performance, which is essential for developing and delivering safe, high quality services.

The VMIA undertakes client training focusing on building risk management capability through workshops, client training programs, forums, consultations and site visits. This allows health services to improve their capability in limiting their exposure to potential damage and disruption in service delivery.

The VMIA's risk services and tools are informed by the VGRMF based on the current risk standard: *AS/NZS ISO 31000:2009 Risk Management - Principles and Guidelines.*

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[94] The VGRMF can be obtained from the DTF or available from: http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Victorian-risk-management-framework-and-insurance-management-policy.

Recovery

The other key area of focus is recovery. The VMIA restores services and repairs assets as quickly as possible to enable Victoria to recover quickly after a risk incident or event. For health services, this involves assisting with responding to incidents and crisis events promptly and efficiently. Additionally, it handles the majority of claims made against health services and adheres to model litigant guidelines considering it is a Statutory Authority.

Risk management roles and responsibilities

Role of the board in managing risk

The board is ultimately responsible for risk management. In practice, this requires boards to have a proactive approach to managing risk, particularly clinical risk management which is one of the five domains in the *Victorian Clinical Governance Framework* (refer to **Chapter 2** in this Toolkit).[95]

Risk is more than a compliance function. Risk is integral to strategy development and performance management – two other critical roles of a health service board.

A focus on risk, compliance and assurance is a key component of board performance. In the health context, this includes clinical and operational risk management planning, an effective internal audit program, well performing finance and audit committees and a compliance focus including legislative and regulatory compliance.

Effective risk management should be connected to strategy development and not be purely compliance focused. This requires the board to have continual insight into strategic, operational, financial, political and social landscapes that may impact or optimise the health service in achieving its strategic objectives.

From a process perspective, the board needs to:

- approve and regularly review and update the organisation's risk framework including the risk management policy and the establishment of a risk committee
- receive regular updates about key risks and trends (from both internal and external sources)
- adopt early warning indicators and escalation protocols
- monitor compliance with the Victorian public health sector risk policies including financial, clinical, operational and strategic risks
- ensure that a comprehensive risk register of current and emerging operational and strategic risks, is maintained and regularly reviewed, challenged and updated by the board.

Board responsibilities for managing risk are outlined under the relevant Enabling Acts, and may require that boards ensure that effective and accountable risk management systems are in place.

Role of the CEO in managing risk

The board and CEO must liaise with DHHS in managing their health service's risk to ensure there are no surprises. Under section 81 of the PAA, 'major known' risks must be identified to the Minister, for example, the resignation of the health service's CEO.

The HSA specifies the responsibilities of the CEO include, amongst other things, the obligation to inform the board (and Minister/Secretary) of any risk that is likely to affect the health service. In practice, the

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[95] Safer Care Victoria. *Governance for safe, quality healthcare, Victorian clinical governance framework* (October 2016).

CEO's role is critical. They must implement the board's risk policies and processes in such a way that the key risks are proactively managed and responded to in a timely and effective way, so as to minimise any negative effects on the provision of health services.

Risk and strategy

In any organisation, there is an intrinsic link between the development of strategy and the risks that threaten its achievement. Despite the benefits of integrating these two key processes, many health services struggle to do this. However, integration is essential if health services are to extract the most out of both strategic and risk management processes.

Experience suggests that health services that make risk management an integral part of their strategy are more resilient in dealing with adverse events and uncertainty. Poor management of material health service risks has been widely reported in the media.

Risk appetite

Risk is inherent in any organisation. This is particularly true for a health service where clinical risks, for example, can result in significant injury and death. All health services must be aware of, accept, and appropriately manage some level of risk. Risk appetite is the amount of risk, on a broad level, that an organisation is willing to accept in pursuit of value. Any organisation, including a health service, cannot operate – and therefore fulfil its purpose – without an appetite for some level of risk.

The organisation's risk appetite will reflect the risk management philosophy and the health service's capacity to take on risk. It will be based on the agreed strategic objectives and stakeholder demands for the organisation. The notion of risk appetite can add discipline and focus when responding to an uncertain and constantly shifting risk environment. A risk appetite statement can provide a decision-making framework for the strategic and operational handling of risk.

Risk framework and governance

Risk governance incorporates a range of elements that together provide a framework for managing and monitoring risk. Risk governance comprises the processes necessary to bring reliable risk management information to the attention of the board. It encompasses the overarching risk management structure to facilitate the management of risks across an organisation.

Key elements of risk framework include:

- a formal risk management policy, that defines the organisation's risk profile and risk appetite

- procedures in place for identifying, assessing and categorising risk

- development of relevant measures and KPIs

- monitoring and reporting requirements to enable effective awareness of emerging and current risks (including escalation processes outlining when matters are to be presented to the board for review).

Being aware of all current and emerging risks is important for all boards and individual directors. It requires directors to be curious, to ask questions and to scan the internal and external environment for issues that could impact the provision of services and the obligations of health services under the Enabling Acts. Sources of information include:

- **Stakeholders** – formal or informal engagement with all stakeholders, including staff (both clinical and operational), DHHS, other health service providers, other governance practitioners

- **Media and public opinion** – keeping up to date on relevant media issues, topics and articles (including social media)

- **Legal/compliance register** – receiving regular updates that monitor and track changes in

relevant legislation

- **Obtaining and reviewing a range of data** - including quality of care/clinical data, financial results, asset condition assessments data, patient flow data or demographic trends, etc from external sources (such as DHHS, VAHI, Australia Bureau of Statistics, other emergency services)

- **Training and information sessions** – initiated by the board (often as part of strategy discussions) or operated by external providers (other health services, DHHS, professional organisations)

- **Regular review of risk** - the risk register should be a regular agenda item on the annual board agenda, with the register being tabled every six months.

Risk reporting to the board

Many board committees (e.g. Audit and Risk, Finance, Clinical Quality and Safety, etc.) have oversight responsibility for the health service's enterprise risk management process, as well as other major risks facing the organisation – including clinical, financial, policy and operational risks.

Risk reporting from these board committees should be aligned to provide transparency in reporting of risks to the board. Board reporting should include formal linkages to key risks outlined in the organisational risk profile and risk register, as well as risk mitigation strategies.

Refer to **Appendix 6** for examples of board risk reports.

Clinical (quality and safety) risk

Clinical risk management refers to the risk associated with clinical practices and the provision of safe, high quality care that is person-centred for each consumer.

Managing this risk requires consideration of a range of issues including:

- organisational culture associated with provision of clinical care

- quality and condition of equipment and assets

- appropriateness of clinical skills and delivery processes

- effectively involving consumers in decisions relating to their care.

Key risk areas for health services

Health services face similar risks to many other organisations including:

- **Organisational risk** – risk associated with the operational performance of the hospital including management of staff, IT systems, procurement, etc.

- **Financial risk** – risk associated with the viable operations of the health service, including funding sources, cost efficiencies, fraud and financial performance

- **Legal/compliance risk** – risk associated with non-compliance with relevant legislation including the Enabling Acts, accreditation standards/requirements, FMA, work health and safety, privacy etc

- **Physical/asset management risk** – risk associated with owning and operating physical assets including health and safety, reliability of service (in relation to clinical care) and asset exposure (e.g. bushfire/flood and disaster recover/business continuity).

Clinical risk (quality and safety)

In addition to the above, health services have the critical and unique addition of clinical risk.

Specifically, health services are required to report on clinical risk structures and activities annually as part of the Victorian Quality Account.

Effective management of clinical risk requires that systems and processes are put in place to identify and prevent harm to patients. All health services are required to implement locally based clinical risk management systems, or to enhance their existing clinical risk management systems, in line with the

Victorian Clinical Governance Framework.[96] Risk management forms one of the five domains of the clinical governance framework and recognises that signs of successful clinical risk management include:

- quality and safety outcomes are monitored against external benchmarks
- trending analysis of data is conducted
- documented review of risks and mitigation actions reported to board at least quarterly
- performance regarding safety culture is reviewed
- the board receives regular reports regarding the progress on achieving organisational goals for safe, quality care for every consumer.

Health services are also required to implement an incident management review process consistent with best practice and their clinical governance policy, and in line with the Victorian Health Incident Management Policy.[97]

Clinical risk is covered in further detail in **Chapter 1**: Victoria's health service governance and **Chapter 2**: Clinical governance.

Risk management policy

Risk management policies should reflect the organisation's risk profile and should clearly describe all elements of the risk management, quality and assurance functions. The policy should be an instrument to communicate the health service's risk-management approach and should include, at a minimum:

- a definition of 'risk' and 'risk management' relative to the health service
- goals and strategies for risk management
- the health service's risk appetite/tolerance
- how risk management targets will be measured
- accountabilities for risk management.

Risk culture

Risk management implementation not only requires significant effort from a framework perspective, but also the creation of a risk management culture that is committed to managing risk within the parameters defined by the board.

Risk culture defines the behaviours (i.e. the 'how we do things around here' that support the framework (i.e. the 'what we do around here'). It is the role of the board to develop and set the risk culture of any organisation. Key actions to establish a common risk culture include:

- communicating the end vision and benefits
- communicating the board vision, strategy, policy, responsibilities and reporting lines to all employees and stakeholders
- developing training programs for risk management
- identifying and training 'risk champions'
- providing success stories and identifying quick wins

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[96] DHHS, *Governance for safe, quality healthcare, Victorian clinical governance framework*, October 2016

[97] Available from: https://www2.health.vic.gov.au/hospitals-and-health-services/quality-safety-service/clinical-risk-management/health-incident-policy

- developing a knowledge-sharing system

- developing and assigning responsibilities for risk management

- providing a positive reporting environment and just culture.

Crisis management and communication

Emergencies and other unpredictable events can cause disruption of essential services and can leave you looking unprepared.

Effective and proactive stakeholder management is critical for crisis management, business continuity planning and disaster recovery.

Having an existing relationship and rapport with stakeholders, where good will is invested over time, allows you to draw from that pool like a credit line when a crisis or emergency presents.

Health services should have crisis management plans in place. Such plans should include reference to the board's role during a crisis and should be considered as part of a board's risk management responsibility. Boards should insist that crisis management plans contain a robust communications element. Without effective communication, health services may inflict additional damage on themselves including:

- losing control of the communications process

- allowing facts to be displaced by rumour and speculation

- reputational harm

- putting employee morale and trust at risk

- alienating shareholders, customers, suppliers and other stakeholders.

Contemporary risk management frameworks, including crisis management plans, should incorporate the mitigation of social media risk as a key function. Boards and senior management need to be prepared to manage and respond to social media.[98]

Further, and as mentioned above, the board and CEO must inform DHHS of risks in order to ensure DHHS and the health service can prepare and manage the message(s) in response.

Social media is a powerful tool to utilize in order to build trust with the community and consumers of your health service.

It is even more vital in emergency situations or a crisis where the speed of information (or worse, misinformation) can be in itself an asset or in itself a risk.

[98] DHHS can provide guidance with respect to processes and protocols for managing issues that arise through social media, including how best to respond and the appropriate communication strategies. See also: OECD, *OECD Reviews of Risk Management Policies The Changing Face of Strategic Crisis Management*, (December 2015).

<u>Source</u>: Wendling, C, Radisch, J and Jacobzone, S, *The use of social media in risk and crisis communication*", (2013), OECD Working Papers on Public Governance, No. 24.[99]

Business continuity planning (BCP) and disaster recovery (DR)

Planning for a disaster is considered essential practice as all businesses face the risk of a serious event occurring that can damage the organisation's ability to continue operating.

Business continuity planning is related to but <u>not</u> the same as disaster recovery. Business continuity is not just about bouncing back after a disaster – it is about how well you maintain access to and provision of critical services <u>during</u> a crisis or disaster.

Business continuity management focuses on an organisation's responsiveness to an organisational or external crisis that puts its ongoing operation at risk. The aim is to foster and develop preparedness for all types of events that may significantly affect an organisation and enable it to respond and resume normal business operations after they occur.

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[99] Available here: http://dx.doi.org/10.1787/5k3v01fskp9s-en

The ultimate goal of business continuity is to develop a response to events to enable the organisation to maintain its most critical operations, and survive all but the most extreme forms of operational disruption. The key elements of effective business continuity planning are flexibility and simplicity.

A well-prepared organisation will be able to make the right decisions at the right time, based not on rigid instructions contained in a detailed manual, but on tried and tested alternative ways of working.

These arrangements must:

- be integrated into everyday business
- look inside as well as outside the organisation
- be understood by employees and stakeholders
- be regularly and effectively tested to ensure they remain relevant.

A crisis can develop rapidly and managing the messages around it can be crucial in effectively managing the impact and best serving the community.

A health service that neglects communicating and engaging with their consumers (including via social media) may risk a significant loss of trust and confidence when crisis strikes.

Stakeholder management plans for crisis situations and emergencies

Communications and stakeholder engagement plans are common for large projects and help the project owner to control the messaging. Health services should likewise have a crisis communication plan that describes key elements, including:

WHO

- Who are the key stakeholders that need to understand this message?
- Is it the public at large? Our staff? The department/Minister?
- Is it a single/simple group or a complex/diverse group of stakeholders?

WHAT

- What are the key messages of this health service? How does our message align with our health service's values, purpose and strategic plan?
- Is this a matter we can have a public view on? (e.g. is it political/partisan?)
- Do we need to counter misinformation? What is the best way to do that?
- Have we checked our sources and the credibility/validity of the information before the health service puts its name against the material (e.g. via sharing or republishing)?

WHERE

- What is the right messaging channel for this?
- Which medium is the best placed to manage these communications?
- Is this something that we need to get out right now to everyone?
- Is this more of a marketing issue?

WHEN

- Is this crisis the sort that needs immediate commentary as it unfolds such as status updates?
- Is this something that should have additional oversight (e.g. a legal matter)?

HOW

- What is our process for communications oversight?
- What thresholds would trigger certain approvals?
- When should only the CEO communicate?
- When should it be the board chair?
- Should we contact/coordinate with DHHS?
- What approvals are needed? How are these fast tracked in an emergency?

Useful references

- VMIA website - provides useful risk management tools and information for health and Government agencies: https://www.vmia.vic.gov.au/risk

- DTF's Risk Framework: http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Victorian-risk-management-framework-and-insurance-management-policy

- Standing Directions of the Minster for Finance: http://www.dtf.vic.gov.au/Government-Financial-Management/Standing-Directions-of-the-Minister-for-Finance/Standing-Directions-of-the-Minister-for-Finance-2016

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