



How do you ensure robust system risk management arrangements?

System finance and governance series



Introduction

This third briefing in our mini-series on system governance issues - the titles of which are set around a priority question for system leaders – builds upon the previous briefings covering aligning system resources¹ and system decision-making². It explores how to develop robust risk management arrangements across systems.

As health and care systems work more closely together, a clear understanding of system risks, including how they impact on each organisation and how they will be managed, is vital to deliver high quality patient care within a system. Recognising that the appropriate approach to risk management will be different for each health and care system, the aim of this briefing is to provide support to HFMA members at different stages in developing their arrangements by considering the key challenges, sharing experiences and drawing out top tips. It is based on a review of national guidance, interviews with NHS finance leads and examples presented at HFMA events. The briefing is intended to be particularly helpful for health and care system leaders, finance officers, non-executive directors and lay members.

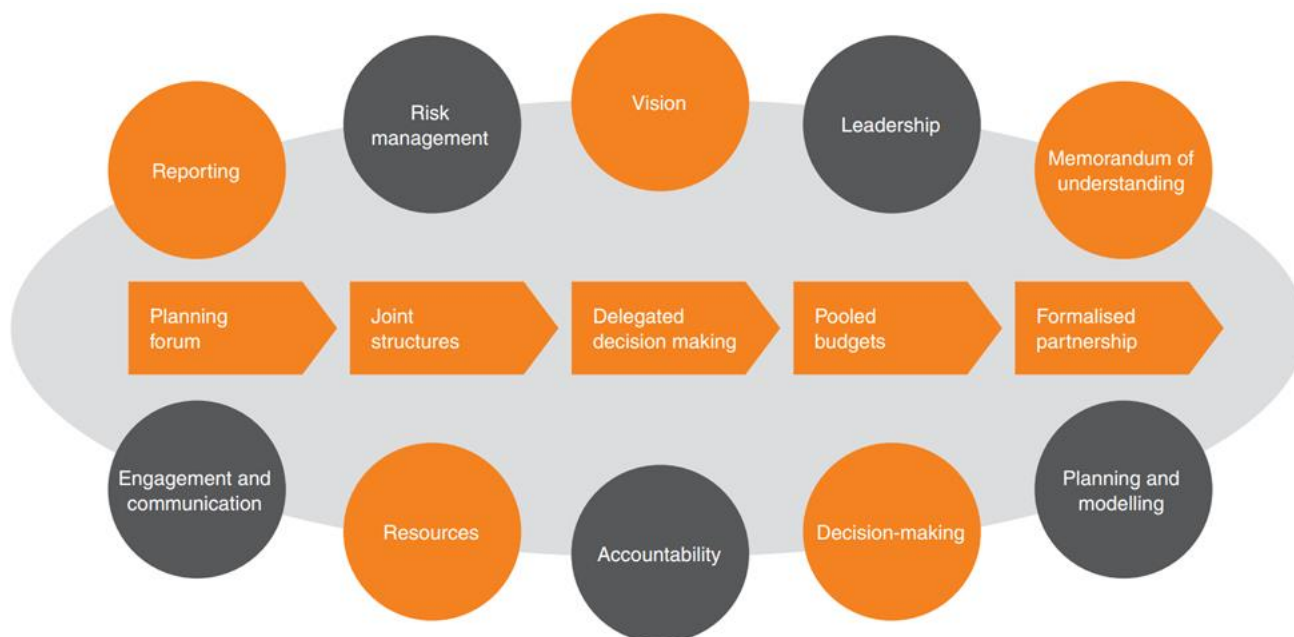
¹ HFMA, *How do you align resource plans across a system?*, October 2018

² HFMA, *How do you support effective system decision-making?*, November 2018

Background

The HFMA's *Sustainability and transformation plan (STP) governance survey*³ explored the views of system finance leads on ten key governance elements of their system arrangements (**exhibit 1**). The findings highlight a mixed picture of developing arrangements. Although a number of comments reflect improving collaboration and positive relationships, some concerns remain. In particular, there are concerns over a lack of clarity around the vision; the need for greater transparency in decision-making processes; the absence of agreed STP wide resources; and a lack of accountability to, and from, individual organisations.

Exhibit 1: Governance elements



Source: *Emerging approaches: developing STP governance arrangements*⁴

The survey found that risk management arrangements for system-wide working are developing more quickly at individual organisation level compared to the STP level. 78% of respondents felt that appropriate arrangements are either in place or being developed at individual organisations, compared to 40% at the STP level.

With the publication of the ten year plan this winter – underpinned by the additional £20bn funding announced to 2023/24 (a 3.4% annual increase) – there is some uncertainty over the specific framework and expectations to come. However, what is clear is that the direction of travel is towards collaborative working across health and care systems. The updated NHS planning guidance for 2018/19⁵ reinforced the move towards area-wide working, setting a clear expectation that STPs will take an increasingly prominent role in planning and managing system-wide efforts to improve services. NHS England and NHS Improvement are also working together to develop an integrated oversight framework that will provide a 'greater focus on the performance of the local healthcare system as a whole'.⁶

³ HFMA, *Sustainability and transformation partnership governance survey*, March 2018

⁴ HFMA, *Emerging approaches: developing sustainability and transformation plan governance arrangements*, March 2017

⁵ NHS England and NHS Improvement, *Refreshing NHS plans for 2018/19*, February 2018

⁶ NHS England, *CCG improvement and assessment framework 2018/19*, November 2018

Effective risk management across a system is therefore essential. It is recognised within the criteria for selecting the first wave integrated care systems (ICSs), which included the need for ‘strong financial management, with a collective commitment from clinical commissioning groups (CCGs) and trusts to system planning and shared financial risk management’⁷.

Effective risk-management arrangements are integral to the success of all organisations. There is a wealth of guidance and many good practice models available, commonly breaking down the risk - management process into key steps such as those set out in **exhibit 2**. The HFMA’s *NHS corporate governance map*⁸ also signposts guidance on risk management tools, such as board assurance frameworks, commonly used in the NHS.

Exhibit 2: Risk management process



Implementing effective risk managements can be difficult within individual organisations, but it is even more challenging when multiple organisations are involved. This means that explicit, relevant and agreed governance arrangements are required. The HFMA’s briefing *Emerging approaches: developing STP governance arrangements*⁴ looked at the key questions that should be asked when setting up effective governance arrangements and they covered the ten themes set out in **exhibit 1**. Building on a shared vision of delivery, **exhibit 3** sets out the key questions specific to risk management.

Exhibit 3: STP governance checklist: risk management

| Risk Management | Yes/ No |
|---|---------|
| Are effective STP risk management arrangements in place? | |
| Has the STP agreed which risks will be shared and how they will be managed? | |
| Does the STP have a risk register? | |
| Are the STP risks included on individual organisational risk registers? | |
| Are there milestones on the path to achievement of STP objectives, to balance the focus between organisational objectives and cross-system working? | |
| Is there a clear process for identifying emerging risks during the STP implementation phase? | |

Source: *Emerging approaches: developing STP governance arrangements*⁴

In managing risks across a system it is important to be clear about what the risks are and where they lie, recognising that the impact of an action can be different for individual organisations. As systems develop their arrangements to collectively manage risks, this includes the need to consider risk share/risk gain agreements. Systems need to balance and manage both risks and opportunities.

⁷ Department of Health and Social Care, *Government’s response to the Health and Social Care Committee’s report on integrated care*, September 2018

⁸ HFMA, *NHS corporate governance map*, September 2018

Challenges

In the current constrained financial environment, managing organisational risk is a considerable challenge – to then ensure the risks are considered across a system requires a change in culture to focus on the shared outcomes, as well as managing the implications for individual organisations. This is essential in order to deliver improved and sustainable health and social care for the population. The key challenges are explored below.

Accountability: Within the current architecture, individual organisations remain accountable and system working is based on voluntary partnership working. With short-term pressures and organisational regulation, system-wide plans are particularly tested when there it is perceived that an organisation is losing out, there are stranded costs left with one organisation or when plans begin to slip. Risks to the system can be different to risks for an individual organisation. Where this is the case, regulation of individual organisations can make progress more difficult.

Shared understanding: The health and care system is made up of a number of different organisations including providers, commissioners, local authorities and the third sector. The language used in the various sectors, as well as between finance and clinical staff, is different and time is required to ensure there is a shared, simple and clear understanding of the system vision. An understanding of the different pressures each party faces is important too. For example, specific risks arise for local authorities due to the politics involved, statutory requirements and extreme financial challenge.

Collaborative culture: Historically, organisations have worked competitively rather than collaboratively. To fully understand and manage risk across the system, there is a need for open book working and a focus on system outcomes. This requires significant cultural change, especially around ownership of system (rather than individual organisation) outcomes. Much time and energy is still taken up with contract disputes or savings plans built around maximising provider income or limiting commissioner expenditure, with no overall effect on value gained for the health and care system pound. For effective collaboration organisations need to develop trust and an understanding that information shared will not be used as a tool against them.

Capability and capacity: Setting up of both system-wide risk registers and risk share/risk gain agreements is time-consuming and complex. Open engagement and communication built on trust are essential to understand and manage risks at a system level. Successful risk management requires all staff to have a system-based mindset. But in many areas work on these plans can be seen as an addition to organisational responsibilities, stretching capacity and relying on the good will of staff to focus on system-wide working.

Adaptability: With changing priorities and situations, it can be difficult – but important – to identify and communicate relevant key risks as they increase or decrease. Management of risks and opportunities is complex and requires the forecasting of the impact of different scenarios due to the inter-relationship of risk factors.

System stories

We asked HFMA members to share their approaches to system risk management and their stories are summarised below. Overall, systems are at an early stage in developing these arrangements, reflecting just how complex and challenging system risk management is. Many are at the stage of creating an environment in which it can be progressed. The stories below are not exhaustive and are not intended to provide complete solutions. However, recognising that one size does not fit all, illustrations from others' journeys can provide helpful prompts when thinking about how best to develop appropriate governance arrangements.

Nottinghamshire ICS

Nottinghamshire have developed an ICS level risk management policy. It recognises that a collective understanding of risk in the system is integral to decision-making. To help this, the ICS need to ask:

- is there something that tells us how the system is currently performing?
- do we have a framework we can all collectively use to agree risks, mitigations and what they do to system risk?

The ICS has developed a system risk register, which aims not to duplicate what is in individual risk registers. Some risks, such as financial delivery, do apply to both individual organisations and the system but are viewed differently through the lens of the system risk. At the moment the system risk register is made up of bottom up risks. The next step is to develop a system-wide assurance framework which would align system objectives and the risks to delivering these. Although there is no system audit committee, this system risk register is moderated by the system planning group and non-executive directors group. System board papers are shared with individual organisations and some organisations do take these to their own boards but there is not yet a consistent approach.

Nottinghamshire have tested financial risk sharing across a number of services, most notably for Musculoskeletal (MSK) services in Mid-Nottinghamshire. In developing risk sharing arrangements it is important to understand who can influence the risk and what the implications are of applying a risk share. For example, smaller parties may not be able to bear a large risk share. The ICS have agreed not to spend time on arguing over where the risk sits, but focus collectively on where the risk will be removed or mitigated and each organisations' role in doing so.

Lessons learned from the Nottinghamshire approach include the need for transparency and understanding of risks, aligning influence and risk, and fairness. It is a journey – that all need to be part of – starting with a clear principle of what you are collectively working towards and then agreement on specific practical elements that need to be worked out. Simplicity is key to enable all organisations to understand and sign up to the approach. If there is a perception that it is complex you will struggle to get agreement.

North Cumbria ICS

In North Cumbria, the ICS has started to develop a risk share approach between individual organisations. It was agreed that, rather than spending constrained time on designing a detailed risk share agreement, the initial focus should be on talking about the risks. Initial application of this was on the control totals across the system, where there was a clear collective will and acknowledgement that risk needed to be managed across the ICS. The benefit of these discussions included clear planning in this area and an agreed collective responsibility to manage impacts.

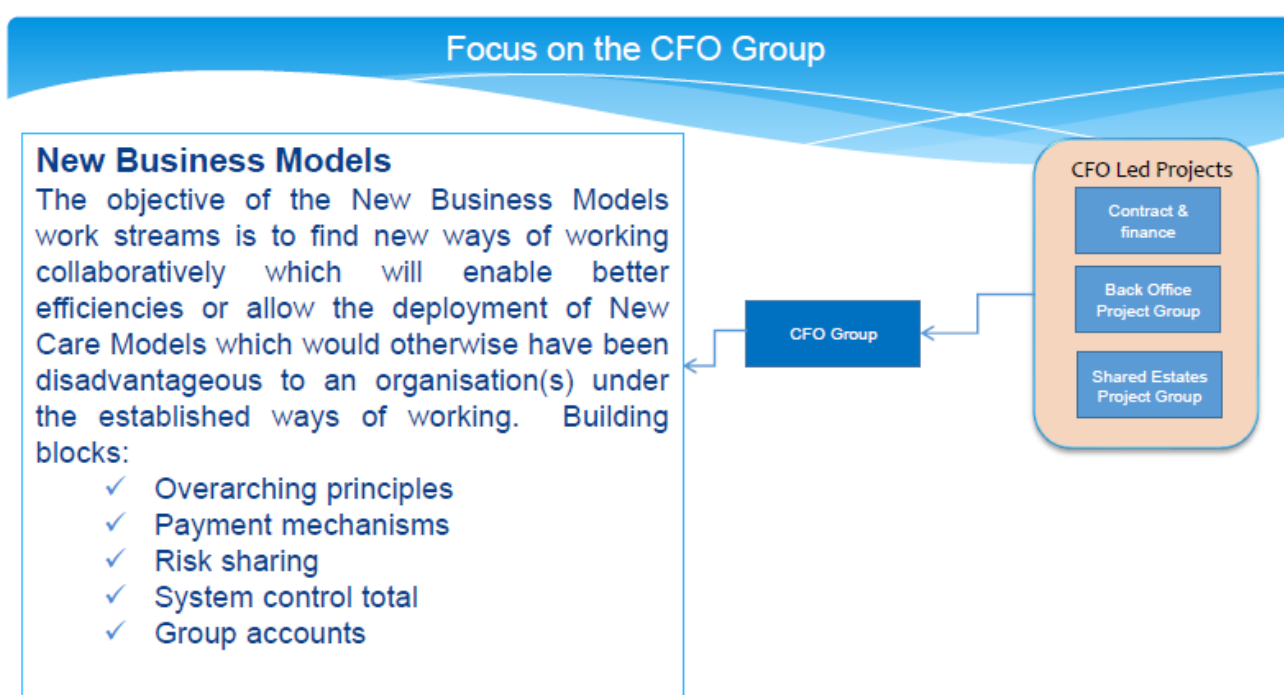
The ICS is at the starting point and the risk management arrangements have not been significantly tested yet. However, clear lessons so far include the need for: a shared vision; trust; genuine transparency; the need to understand any terms set out by regulators on specific agreements; and the importance of a collective will.

Berkshire West ICS

Organisations within Berkshire West ICS have traditionally worked well together and provide a good example of putting aside organisational interest. All parties have signed up to a shared memorandum of understanding⁹ and are held to account by the ICS leadership team that has the experience and personalities to challenge as needed.

One of the commitments of the ICS is to implement new ways of sharing and managing financial and activity risk across the system. The challenge is to do this in a way which remains within statutory and regulatory boundaries and does not require provider boards and the CCG Governing Body to act in ways which is contrary to their interests. As set out in **exhibit 4**, risk sharing is a key building block of the CFO Group's new business models workstream.

Exhibit 4: Berkshire West CFO Group



In the example of adopting a new payment mechanism for 2018/19, the following criteria were used to evaluate options:

- there is no financial disincentive to reduce or change activity flows where this is in the interest of patient
- there is a strong incentive for all to minimise cost for the system, not just for individual organisations
- no partner organisation can benefit at the expense of another
- financial flow is not a barrier to innovation across organisational boundaries
- financial risk is shared equitably, based on the principal of who is best placed to influence relevant spend
- ease of implementation and monitoring.

It is also important to recognise the different starting points of providers along with risk appetite and acceptability to governing bodies/boards. Internal audit has also had a key part to play in reviewing system risk management arrangements across the ICS.

⁹ Managing collective financial resources FutureNHS space, *Berkshire West ICS Finance Group ToR*, viewed November 2018

Cornwall and Isles of Scilly STP

The STP have developed a financial framework covering 2018-19 to 2020-21. The finance directors from the two trusts and the CCG have worked closely together to develop the framework collaboratively and ensure it represents the agreed collective view. This has been beneficial in helping to progress payment and risk share arrangements. One of the programme principles for the STP is that 'Our collective focus will be on managing the system within the total available resource, rather than from any single organisations perspective and thus managing financial risk collectively'. Whilst not operating a system control total the system works together to manage financial risk in meeting the collective control totals of each of the organisations.

The Cornwall and Isles of Scilly system also has an integrated financial model, used for strategic planning, that neutralises the inter-organisational transactions between NHS bodies to provide a collective view of overall system resource and expenditure and which enables modelling of future year financial scenarios at system and organisational level.

Lancashire and South Cumbria ICS

The Lancashire and South Cumbria ICS has also found that the development of an agreed financial framework for 2018/19 supports managing risk across the system. Trust among CCG chief finance officers (CFOs) and Provider director of finance (DoFs) has been fundamental to making this work in practice.

A key aspect of the framework was to create a local transformation and risk fund. Its use has to be agreed by all CFOs and DoFs and approved by the ICS Board. A proportion of the money in this fund was used to assist two providers who could not otherwise reach their control totals to be able to sign up. Although this application of funds benefitted only two of the five sub-regions in the ICS, this was accepted to be in the interests of the system's overall financial position and it enabled £17m provider sustainability fund monies to be allocated that would not otherwise have been on offer. It has helped to demonstrate to regulators that the Lancashire and South Cumbria System can deliver tangible collaborative policies and is an example where good relationships, a system ethos and risk share/gain principles have been successfully tested.

Other areas the ICS is examining are how different types of contract between commissioners and providers enable fair risk/gain share; how estates risks and priorities are managed across the ICS with one set of rules; and how to develop a mechanism to facilitate appropriate financial flows where operating theatre capacity could be managed across the system to minimise waiting times.

Devon STP

The STP's arrangements cover both clinical risk and financial risk. One example is the development of a mutual support arrangement to recruit and retain medical staff. This reciprocal arrangement across the county to retain local talent has been a successful example of the collaborative approach. In terms of financial risk, arrangements are in place to support those organisations having difficulty in delivering against their financial plan. This is done by looking across the system first to bring performance back on track. With a tightening financial position in the area, maintaining this financial flexibility is increasingly difficult. In ensuring this, the system recognises the need for a clear collaborative culture supported by a system framework and principles.

Kent and Medway STP

A key focus of managing financial risks across the Kent and Medway STP has been incorporating them into individual organisational efficiency programmes. There is an STP productivity workstream which looks at how to drive efficiencies across the system and an early focus has been on temporary workforce, supplies and services (trauma and orthopaedics), medicines and biosimilars and pathology. In managing the overall system risk, agreed mitigations have been fed into individual cost improvement plans, to ensure that they are part of organisational agendas.

Ownership of risks has been important in making sure ideas generated across the system are cascaded and actioned. As well as making mitigations part of organisations' individual plans, the STP Board (which has chief executives from all organisations on it) and workstream lead workshops across the patch have been used to communicate and engage individuals on their role in managing risks.

Further stories of what each integrated care system is doing across a range of topics can be found on the NHS England website¹⁰ and the NHS collaboration platform for managing collective financial resources.¹¹

Lessons learnt

Each health and care system is different, but the stories above show that there are some common ingredients to develop good system-wide governance arrangements, and in particular how to manage risk across the system. The top tips below are intended to help readers as they think about how to ensure robust system risk management arrangements.

1. Build collaborative relationships and trust

Without trust – regardless of what structures and documents you have in place – effective risk-management will be almost impossible. Time and effort must be invested to build trust. In the examples above, leaders meet regularly. This can be both formally and allowing time before or after meetings for an informal catch up.

2. Agree risk management principles and record in a memorandum of understanding (MoU)

An MoU is good practice in partnership working and should include a clear set of principles for risk management, including risk/gain sharing. Both the discussions required to agree a set of system principles and the written document itself bring a number of benefits. Board sign-up is key. An MoU allows early engagement and processes to be agreed before difficult situations arise. Currently management is by consensus, so a framework is required to help in potential scenarios, such as where different levels of risk/gain lie with different organisations, who is accountable for managing different risks and how conflicts of interest will be resolved. An MoU will also help when needing to adapt to change, which sometimes has to be done quickly. When moving money around the system, clarity of arrangements becomes even more important and auditors will be keen to see some documentation.

3. Have a clear shared vision, focused on the patient

In many of the examples above, it is the vision to improve the patient experience and the recognition that working across a system is the best way to achieve this, that has driven effective system working and collective risk management arrangements. A focus on the impact of system working for the patient will help to agree a shared and system view of risks and how they can be managed. It will also help ensure that measures to manage risk are focused on outcomes, rather than processes alone.

4. Ensure transparency

Transparency of risk management arrangements, the decisions made to manage risks and their implications are essential to build and maintain trust in organisations within the system and with the public. In some cases the STP/ICS can be incorrectly perceived as a separate group at which risk management decisions are made. Clear documentation of how and why risks are determined, measured and managed across a system, as well as the expected impact on individual organisations and the patient are key.

¹⁰ NHS England, *Integrated care systems web page*, ongoing

¹¹ Managing Collective Financial Resources FutureNHS space, *workspace home*, viewed November 2018

5. Have a clear understanding of the risks and where they lie

System risks may often differ to organisational risks and even where the overall risk is the same, where the risk lies, what this means for different stakeholders and who can influence, differs. In order to understand this, systems need good quality information which is easy to understand and to access. Being clear about what the actual risk or opportunity is, where it sits, and how it will be measured, is essential to then move on to consider how it can be managed across the system.

6. Agree a risk appetite, considering both system risks and opportunities

Often the focus is on risks and how to minimise them, which is an important element of managing the financial position of the system and providing safe care. However, the opportunities of system working – to make significant changes for a future sustainable health and care system – must be managed too. A key part of this is to have an open and honest conversation about the risk appetite of each organisation and the system as a whole.

7. Enable effective engagement

Good engagement with both internal and external stakeholders will help to ensure that risks are well understood. Interviewees commented that engagement throughout the process, to bring people on the journey, and with all staff, not just a few senior officers, are key to making things happen. The perception of risk for any given area or action may vary depending on an individual's own experiences, role or information provided. A series of set piece meetings and a clear mandate to do this will help. The political dimension, particularly in the lead up to elections, must also be recognised and it is important for the system to understand the implications, engage throughout and manage a clear message.

8. Develop a clear assurance mechanism

Clear and simple reporting and monitoring of assurance mechanisms are required for risk management arrangements. The MoU is an important tool for assurance processes. Measures that focus on outcome risks and gains help maintain focus on what the system is trying to achieve. Internal audit and non-executive directors have the potential to add considerable value, having a key role to play in the assurance of system risk management.

Conclusion

With resources available to the health and care system being finite, expenditure needs to be managed in the best way to deliver the best possible value. Managing risks and opportunities – both financial and clinical – across systems are essential to maximise the benefits for patients and taxpayers. However, with the current organisational architecture and regulation, managing risk across a system is complex. The balance of risks, and who can influence them, will differ across a system and there needs to be a clear understanding of what they are and how best to manage them. There is no one approach that can easily be applied to all circumstances and it will take time. Nonetheless the shared stories show there are some clear common ingredients for success – trust, agreement of principles and a clear assurance mechanism.

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