

Risk Management Policy

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# Introduction

1. Risk is the uncertainty surrounding events and their outcomes that may have an impact on NICE. All our activities carry some risk, arising either from potential threats or the non-realisation of opportunities which may harm, prevent, hinder or interfere with the achievement of our objectives.
2. Risk is inherent in every activity and this policy sets out how NICE will manage risks to ensure a balanced approach to opportunity and risk. It explains the approach to risk management; defines risk and how it is assessed, evaluated and escalated; and documents roles and responsibilities for the management of risks.

# Risk management

1. Risk management enables organisations to evaluate and respond to risks and opportunities and seeks to manage the impact of uncertainty by increasing the probability of success and reducing the likelihood of failure.
2. Effective risk management involves evaluating the uncertainties and implications within options and managing impacts once choices are made. It provides a process for identifying risks around new, proposed and current business activities, and involves the categorisation and evaluation of each risk and the application of management controls to mitigate the risk. The evaluation is based on a judgement of the likely impact if no further action is taken, combined with an assessment of the likelihood of the risk re-occurring.
3. Risk management should be both an integral part of all organisational activities to support decision-making in achieving objectives and embedded within the culture of the organisation.

# Risk identification and assessment

1. Like all organisations, NICE faces risks, actual and theoretical, that range from the trivial to the existential. This policy is intended to address both the **strategic** risks which arise from our strategic ambitions and from the potential external threats to NICE from the developments in our operating environment, and the **operational** risks to our objectives and plans we put in place each year to manage and deliver our operational activities.
2. Risk assessment is a qualitative or quantitative evaluation of the nature and magnitude of risk to our objectives and planned activities. The evaluation is based upon known vulnerabilities and threats and considers the **likelihood** of the threats being realised and their **impact** on our work.
3. As part of the business planning process, the Executive Team (ET) will ensure the strategic risks that affect delivery of NICE’s strategy are identified and included in the strategic risk register, for review and approval by the Board. As part of this process, ET will also consider risk interdependencies with Department of Health and Social Care (DHSC) Arms-Length Bodies (ALBs), and other key partners. This will include the other ALBs NICE is dependent on to deliver its priorities. Directors will also ensure that fundamental risks in their centre/department, which are not strategic in nature, are identified, assessed and incorporated in the operational risk register.
4. Directors are required to include a risk assessment in ET and Board reports where there is a substantive new development proposed or substantive change to existing activities.
5. Risk registers are also produced for significant projects, and these will be used to provide mitigations and assurances to ET, for example a large digital transformation project, which is internally facing but is organisation-wide.
6. An **assurance mapping** tool is also available to help Directors in discussion with their teams to assess any risks associated with a new project or new areas of work, and to identify any gaps in assurance where action is required to improve the controls.

# Categorising risks

1. Each risk will be assigned an overall **assessment** depending on its impact and the likelihood of it occurring by applying the approach set out in appendix A. This initial assessment takes account of mitigating controls and assurances already in place and provides a **current risk** rating. Any further planned actions to reduce the risk score are recorded, with the aim of reaching a **target risk** rating, using the format in appendix B.
2. Risks are scored using a 5x5 matrix giving each risk a score of 1 to 5 for both the **likelihood** of it arising and a score of 1 to 5 for its potential **impact** on the organisation. In assessing the likelihood of risks arising, a judgement will be made as to whether the possibility of a risk realising is deemed to be rare, unlikely, possible, likely or almost certain. In assessing the impact on the organisation of a risk realising, a judgement will be made as to whether the result is deemed to be very low, low, moderate, high or severe.
3. An overall assessment of each risk is made according to its impact and likelihood of occurrence based on the current controls in place, using the scoring matrix set out in in Appendix A, leading to an overall rating of very low (light green), low (green), medium (yellow), high (amber), very high (red).
4. Identified risks will be reviewed to determine the action to be taken. This is called the **treatment** of risks. Options open to treat risks include:

* avoiding the risk, if feasible, by deciding not to start or continue with the activity that gives rise to the risk
* taking or increasing the risk in order to pursue an opportunity or a strategic priority
* retaining the risk by informed decision
* changing the likelihood, where possible
* changing the impact, including planning contingency activities
* sharing the risk with another organisation (eg through a contract or partnership agreement)
* escalating the risk to the DHSC, where appropriate

# Risk appetite

1. In developing and monitoring the implementation of our strategic priorities and operational plans, we need to assess the actions we intend to take, together with any known external circumstances that may have an impact on the organisation, for the risks they may pose. This has to be done with an understanding of the extent to which we are prepared to accept the risks associated with the actions we plan to take. This is our ‘**risk appetite**’; the extent to which we will tolerate known risks, in return for the benefits expected from a particular action or set of actions.
2. Through approval of this policy, the Board determines the organisation’s risk appetite and sets the culture of risk management within NICE with particular regard to new initiatives and emerging risks.
3. With careful planning and management, we aim to operate our programmes with a **moderate,** **low** or **very low** level of risk wherever possible.
4. However, there are circumstances where we may be prepared to tolerate **high** risk, for example if we are making significant changes to current programmes, taking on new activities, or external pressures impact our work. We also need to take account of risks that arise from the actions of other organisations that give rise to greater risk for us.
5. It is very likely as a result of the increasingly complex health and social care environment, and the ambitions of NICE to become a more agile, flexible and innovative organisation, that the future risk profile for the organisation will increase.

## We may therefore need to consider accepting very high risks in certain circumstances. This may be in situations where the actions involved represent the single, or least unpalatable option to manage the issues involved, which may have been externally imposed, and therefore over which NICE will have little or no direct control. In addition, it may be necessary to accept a very high risk if an activity is central to our strategic priorities and the risks of not proceeding outweigh the risks of undertaking the activity. The Board will be asked to consider such risks in detail and will need to have reviewed and taken a position on alternative courses of action before the risk is accepted.

1. The risk appetite in relation to individual risks may not therefore be static and may need to vary according to the circumstances facing NICE, which at times, may justify accepting a higher level of risk than would usually be the case.

# Oversight

1. The Board has ultimate responsibility for risk management within NICE including major decisions affecting NICE’s risk profile or exposure. It will review the strategic risk register six-monthly and periodically dedicate time specifically for horizon scanning in order to identify and consider the nature of emerging risks, sources of uncertainty, threats and trends, and also to reflect on any learning from NICE’s response to unforeseen events.
2. The Audit and Risk Committee provides an independent and objective view of the arrangements for the management of risk. It will advise the Board on the co-ordination and prioritisation of risk management issues throughout NICE and advises the Board on the effectiveness of the internal control system. It satisfies itself that risks are being actively managed with the appropriate controls in place and that they are working effectively.
3. The Audit and Risk Committee reviews the strategic risk register at each of its quarterly meetings, including one of the high or very high strategic risks in detail, as part of a ‘deep dive’ risk discussion. The relevant risk owner, or their deputy, will be invited to attend the meeting.
4. The Audit and Risk Committee will report to the Board on internal controls and alert the Board to any emerging issues. The Board will receive minutes of the Audit and Risk Committee, plus an annual report from the committee to provide assurance that the approach to risk management is effective, comprehensive and robust particularly in regard to the significant risks facing NICE.
5. The ET review the strategic risk register bi-monthly, which includes prior to the Audit and Risk Committee’s quarterly review. It will take account of the on-going identification and evaluation of risks and in particular the quality and timeliness of information provided on key risks and the identification of ineffective controls and new risks, to ensure that corrective action can be taken. It will also consider whether new strategic risks have arisen that need to be added to the register.
6. The strategic risks are also shared with the DHSC Sponsor Team for review at the quarterly accountability meetings.
7. The Operational Management Committee (OMC) has responsibility for reviewing the operational risk register bi-monthly, and reviewing the changes made to the live document. The operational risk register has both a risk owner and a risk lead, with the risk owner being an ET member and the risk lead being a Programme or Associate Director. This ensures that the overall accountability remains with ET members whilst the responsibility for oversight and management of the risks sits with senior managers.
8. The OMC ensures that any new emerging risks or existing risks that are increasing in threat level and are strategic in nature, are **escalated** to ET to consider whether they are appropriate for inclusion on the strategic risk register.
9. Alternately, as part of ET’s review of the strategic risk register, where a risk has been mitigated significantly resulting in the risk level decreasing to low or very low, ET may decide that the risk is no longer of a strategic level threat and can be **de-escalated** to the operational risk register.
10. Risks may also be removed from the operational risk register if the OMC considers a threat level has decreased significantly or been mitigated sufficiently. A register of risks that have been **removed** is maintained by the corporate governance and risk manager.
11. The Chief Executive, as Accounting Officer has overall operational responsibility for ensuring a robust system of risk management. Together with the ET, he/she will evaluate the risks identified by directors and apply handling strategies and implement policies to support the process of internal control.
12. The corporate governance and risk manager has responsibility for coordinating the strategic and operational risk registers, and for supporting the ET, OMC and Audit and Risk Committee in their responsibilities for risk assessment and management. They will proactively support directorates and centres in the risk management process, promoting consistency in the risk ratings and entries in the risk register, applying challenge as appropriate.

# Annual report governance statement and role of audit

1. The annual governance statement in the annual report and accounts assesses the effectiveness and operation of NICE’s risk management arrangements.The statement is informed by the work of internal and external audit.
2. Internal audit is responsible for aspects of the annual review of the effectiveness of the internal control system within the organisation. They will periodically review the arrangements for risk management and levels of assurance around the controls reported to the Audit and Risk Committee.
3. External audit provides advice and feedback to the Audit and Risk Committee on the operation of the internal financial controls reviewed as part of the annual audit and also gives a view on the completeness of the annual governance statement.
4. The Audit and Risk Committee will review the auditors’ findings and management’s response.

# Review

1. This policy will be reviewed by the corporate office in January 2025, or sooner if a change in obligations requires it.

# Appendix A: Quantifying and monitoring risks

Each risk is allocated an **impact** score using the descriptions below ranging from very low with a score of 1 to severe with a score of 5.

|  |  |  |
| --- | --- | --- |
| **Category** | **Score** | **Examples** |
| Very low | 1 | * **Financial** - minimal impact on budgets * **People** - minor changes required to working practices * **Objectives / outputs** - no impact on the quality, timeliness or utility of any outputs * **Reputation** - no external challenge or criticism expected * **System impact** – minimal anticipated impact on the health and social care system |
| Low | 2 | * **Financial** - some impact on one or more budgets, manageable within the budget(s) concerned * **People** -some changes to working practices or minor changes to staff roles * **Objectives / outputs** - minimal impact on the quality, timeliness or utility of any outputs * **Reputation** - some external criticism which is not likely to be material enough to result in reputational damage * **System impact** – potential for some impact on the health and social care system |
| Moderate | 3 | * **Financial** - material financial consequences for the budget or budgets directly concerned, which can be managed within the affected budget(s) or by the use of underspending in unaffected budgets * **People** - material impact on the employment position of staff, which may need to be managed through formal change processes * **Objectives / outputs** - some impact on the quality, timeliness or utility of any outputs, which can be resolved before publication * **Reputation** - external criticism of the Institute’s judgement, which can be met successfully, and which is unlikely to result in reputational damage * **System impact** – likely to have an impact on the health and social care system which will require senior management and/or board discussion |
| High | 4 | * **Financial** - material financial consequences, which can only be managed by the use of reserves and/or in year transfers from unaffected budgets, or exceptionally, transitional funding from the Department of Health and Social Care * **People** - impact on the employment position of staff, which can only be managed by formal change processes, with risk of redeployment and, exceptionally redundancy * **Objectives / outputs** - significant impact on the quality, timeliness or utility of any outputs, which may require amendment, withdrawal and/or replacement post-publication * **Reputation** - external criticism of the Institute’s judgement, which may result in substantial reputational damage * **System impact** – highly likely to have a negative impact on the health and social care system which will likely require sustained senior management/board focus and possible discussion with DHSC sponsor team |
| Severe | 5 | * **Financial** - significant financial consequences which can only be managed by transitional funding from the Department of Health and Social Care * **People** - protracted unavailability of critical skills/people or high risk of requirement to reduce the headcount through redundancy * **Objectives / outputs** - severe impact on the quality, timeliness or utility of any outputs, which require withdrawal and/or replacement post-publication * **Reputation** - national and international criticism of the Institute leading to sustained adverse media and potential Government intervention * **System impact** – significant negative impact on health and social care system which likely to require DHSC and/or wider government action |

Similarly, the **likelihood** of each risk materialising will be assessed on a scale of 1 to 5 as outlined in the table below.

|  |  |  |
| --- | --- | --- |
| **Category** | **Score** | **Definition** |
| Rare | 1 | Highly unlikely to occur in the following 12 months (less than 20% probability) |
| Unlikely | 2 | Unlikely to occur in the following 12 months (between 20% but less than 40% probability) |
| Possible | 3 | May occur in the following 12 months (between 40% but less than 60% probability) |
| Likely | 4 | Likely to occur in the following 12 months (between 60% but less than 80% probability) |
| Almost certain | 5 | Highly likely to occur in the following 12 months (greater than 80% probability) |

**Note**: In the case of strategic risks, a timescale of 24 months should be taken into account given the longer term nature of these risks.

A **summative** score will be calculated, in each case, by multiplying the impact and likelihood scores, to give a total score. This will lead to an overall rating of the risk. Risks can then be mapped into a risk matrix that has five zones (red, amber, yellow, green and light green).

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Impact** | **Severe**  **5** | **5**  *Low* | **10**  *Medium* | **15**  *High* | **20**  *Very high* | **25**  *Very high* |
| **High**  **4** | **4**  *Low* | **8**  *Medium* | **12**  *High* | **16**  *High* | **20**  *Very high* |
| **Moderate**  **3** | **3**  *Very Low* | **6**  *Low* | **9**  *Medium* | **12**  *High* | **15**  *High* |
| **Low**  **2** | **2**  *Very Low* | **4**  *Low* | **6**  *Low* | **8**  *Medium* | **10**  *Medium* |
| **Very low**  **1** | **1**  *Very Low* | **2**  *Very Low* | **3**  *Very Low* | **4**  *Low* | **5**  *Low* |
|  | **Rare**  **1** | **Unlikely**  **2** | **Possible**  **3** | **Likely**  **4** | **Almost certain**  **5** |
| **Likelihood** | | | | | |

When assessing the likelihood and impact of risk, the most credible worst-case scenario should be considered, not the worst-case.

# Appendix B: Risk register template

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Strategic risk | ET lead | Mitigation and assurance | Current impact score | Current likelihood score | Current Red, Amber, Yellow,  Green, Light green rating | Actions to strengthen mitigation and assurance (include due dates) | Target impact score | Target likelihood score | Target Red, Amber, Yellow,  Green, Light green rating |
| Operational risk | Risk lead &  risk owner |
|  |  |  |  |  |  |  |  |  |  |

**Note:** For operational risks, the risk lead is the accountable ET member, and the risk owner is the responsible senior manager.

**Risk:** the risk itself, expressedin terms of a cause and an event, and their impact.

**Mitigation:** the actions in place to mitigate the risk, together with any timings (also known as controls). This includes reporting arrangements (e.g. to Board, ARC, ET).

**Assurance:** any assurance on the effectiveness of the controls/mitigations, with particular emphasis on sources of external assurance.

**Current rating:** the score allocated to the impact and likelihood of the risk, and the RAG (Red, Amber, Yellow, Green, Light green) rating allocated to it *after the application of current controls/mitigations.*

**Actions to strengthen mitigation and assurance:** the further planned actions to strengthen the controls (to move the current rating to the target rating) and to strengthen the assurance on the controls. This should include dates for completing the actions. The risk owner should ensure that actions are **SMART** (specific, measurable, achievable, relevant, time bound) and that a realistic completion date is assigned to each action.

**Target score:** the target score allocated, after the additional proposed mitigating actions, to the impact and likelihood of the risk, and the RAG rating allocated to it.

# Appendix C - Version Control Sheet

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| --- | --- | --- | --- | --- |
| **Version** | **Date** | **Author** | **Replaces** | **Comment** |
| 2 |  | Julian Lewis | Risk Management Policy 2003 | Incorporates information risk management |
| 2.1 | July 2016 | Julian Lewis | All previous versions |  |
| 3 | 2 May 2017 | Andrew Dillon | All previous versions | Responds to the January 2017 internal audit report and subsequent Audit and Risk Committee, and ET discussions. Changes include the risk appetite, risk identification, evaluation and management process, and risk register template |
| 4 | May 2020 | Elaine Repton | V3 | Periodic review and aligned to HM Treasury’s Orange Book. |
| 5 | March 2022 | Elaine Repton | V4 | Updated terminology to reflect strategic and operational risk registers and to implement a 5x5 risk scoring matrix. |
| 6 | May 2023 | Elaine Repton | V4 | Updated the risk impact and likelihood descriptors. |