

# Briefing: the new UK Code of Governance

## Summary

The Financial Reporting Council (FRC) has published the new UK Corporate Governance Code (the code) which comes into force from 1 January 2019. Annual reporting compliance with the code is a listing requirement for companies with a premium listing in equity shares. The code will be of interest to all trust board members as a benchmark of good corporate governance which is tried and tested not least as the *Code of Governance for NHS Foundation Trusts* has historically been updated in line with the Code. This briefing summarises key changes set out in the code.

## Key points

The new UK code stresses the need for organisations to build trust by fostering strong relationships with their key stakeholders. It requires organisations to set and develop a corporate culture that is aligned with the organisation's purpose and its strategy, which promotes integrity and values diversity.

The new code is based on key general principles and on more specific provisions in common with previous iterations of the code. However in the new code there is greater emphasis on the application of the principles with clear, meaningful reporting to stakeholders. The code also places an onus on stakeholders to assess explanations of non compliance carefully, not adopt a tick-box approach. It is also more concise and should prove to be easier to apply and report on.

The relevance of the new code to the NHS is twofold:

- First it represents the latest thinking on the application of good corporate governance which is a tried, tested and trusted framework for the leadership and direction of organisations in the UK, so it should be of interest to all board led organisations
- Secondly the *Code of Governance for NHS Foundation Trusts*, last revised in 2014, has been based on the UK Code and traditionally has been revised with each new iteration of the UK Code.

## Key changes

The main changes in the updated code include:

**Workforce and stakeholders:** There is a new provision to promote greater board engagement with the workforce to understand their views. The code asks boards to describe how they have considered the interests of stakeholders when performing their duty to promote the success of the organisation.

**Culture:** The new code places far greater emphasis than ever on the need for boards to create a culture which aligns the organisation's values with strategy. Importantly the code asks boards to assess how the

board leads in generating and preserving value over the long-term, a significant move from achieving short term gain.

**Succession and diversity:** The code emphasises the need for boards to have the right mix of skills and experience to ensure constructive challenge and to promote diversity. It stresses the need to refresh boards and for robust succession planning. It also asks that meaningful consideration is given to the length of term that chairs remain in post, so that a clear division of power exists between chair and chief executive.

The new code strengthens the role of the nomination committee in succession planning and ensuring a diverse board. It stresses the importance of external board evaluation including reports to the nomination committee on details of the contact the external board evaluator has had with the board and individual directors.

**Remuneration:** The new code emphasises that remuneration committees should take into account workforce remuneration and related policies when setting director remuneration. It also warns that formulaic calculations of performance related pay should be rejected in favour of the application of discretion when deciding pay awards.

## In summary

In our view, the new code represents a significant change that should have a positive impact on the application of corporate governance in the UK. We will be speaking to colleagues in NHS Improvement about the prospect of updating the code for NHS foundation trusts to ensure it is also relevant for NHS trusts and in line with the UK Code of Governance. The code can be found on [The Financial Reporting Council's website](#).

## Contact info

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