The Healthy NHS Board
Principles for Good Governance

Foreword

The Healthy NHS Board

We are delighted to introduce The Healthy NHS Board: principles for good governance, and would like to encourage boards across the system to make use of this guide as they seek to address the challenges of improving quality for patients.

The National Leadership Council (NLC) has led this work to bring the latest research, evidence and thinking together.

High Quality Care For All made it clear what the NHS is here to do – to improve the health of our population and to make quality the organising principle of the service.

Boards must put quality at the heart of all they do. This guide, and the online resources that accompany it, support boards in exercising that responsibility.

When we talk about quality, we mean patient safety, effectiveness of care and patient experience. Assuring these three elements of quality for patients should be central to the work of everyone in the NHS.

The NHS is putting in place levers and incentives to improve quality, including linking the payment system more closely with patients' experiences, as well as strengthening the regulatory system to safeguard quality and safety. As these changes take shape, it is timely to refresh guidance to NHS boards to support them as they go forward.

In a system as large and complex as the NHS, it is helpful to have a common understanding of what we mean by good governance and what it takes to be a high-performing board.

The NHS has had a decade of growth but is facing the challenge of managing with less in the future. Boards are being asked to improve quality on the one hand, while controlling their resources on the other.

The international and national evidence demonstrates it is perfectly possible to improve quality and productivity at the same time. It is a lesson much of the rest of the global economy has already learned.

The key is to drive improvements in quality and productivity through a relentless focus on innovation and prevention. In 2009, the NHS was set the challenge of releasing efficiency savings in the order of £15 - £20 billion by the end of 2013/14, to reinvest in year-on-year improvements in quality.

Boards must focus on looking after quality, and expect resources to fall out of that process, not the other way round.

Where the NHS has failed patients on quality, too often a dysfunctional board has focused in the wrong areas and without the appropriate governance arrangements in place to improve quality for patients.

While this guide does set out processes and systems to support good governance, the main focus is on the importance of building an open and honest organisational culture. Checklists have their place, but good governance results from grounded debate and good judgement.

Strong boards don't build walls around themselves. They look out to their patients, to their communities and to their partners, and build strong relationships. In future, we expect Boards to play their part in shaping how partners and other organisations are working together, particularly around patient pathways.

Boards are facing difficult questions around prioritising, rationalising, service reconfiguration and potential mergers and acquisitions. Identifying and promoting the interests of patients and the public must drive this work - not re-organising as a knee-jerk reaction.

In the past, we have seen how cuts to services have impacted on patients, who have borne the brunt of poor planning and decision-making. As we move into leaner times, the NHS is committed to protecting the interests of patients. This is enshrined in the NHS Constitution, which all NHS organisations are legally obliged to take account of. Boards have the ultimate responsibility to keep that commitment to their patients.

We would like to thank everyone who has contributed to this work. More than 1,000 people have been involved, including Board members, NHS staff, the Steering Group, the Appointments Commission, the NHS Confederation and Monitor.

Sir David Nicholson KCB CBE
Chair, National Leadership Council

Elisabeth Buggins CBE
NLC Board Development Lead

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1 Introduction

This chapter explains the purpose of this Principles guidance and provides a visual summary to help readers navigate through the document. It also describes the online resources that accompany it.
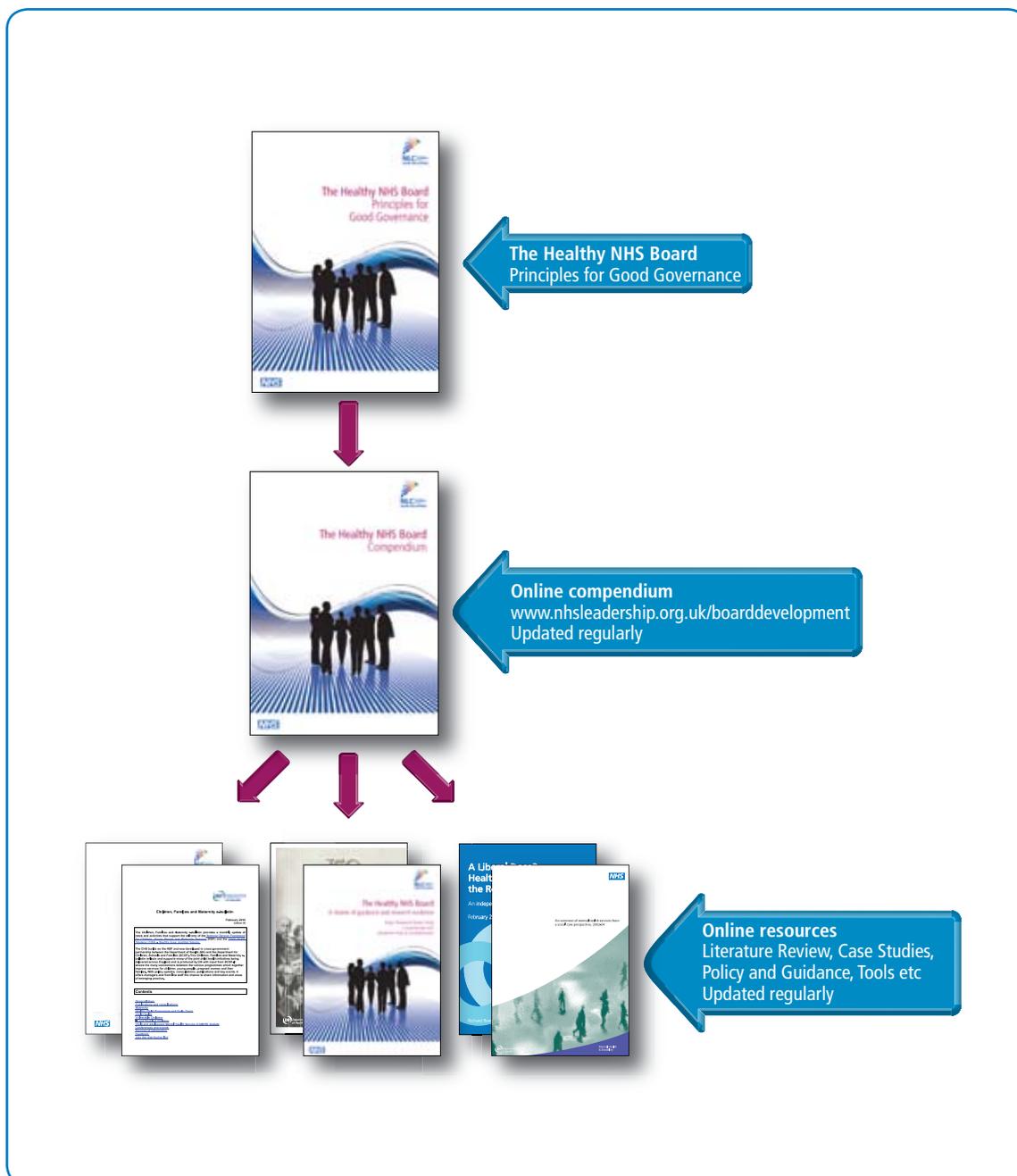
Purpose of this guidance

1   This document sets out the guiding principles that will allow NHS board members to understand the:

   • Collective role of the board.

   • Governance role within the wider health system.

   • Activities and approaches that are most likely to improve board effectiveness.

   • Contribution expected of them as individual board members.

2   It is hoped that NHS board members will find this guidance valuable and will focus effort in ways that the evidence suggests should be most productive.

3   This guidance is intended for boards of all NHS organisations. Some interpretation will be required for organisations operating at a national or regional level.

4   This guidance will also be of interest to those aspiring to be NHS board members, to governors of Foundation Trusts and to those who support and work with NHS boards.

How to use the document

5   This document describes the enduring principles of high quality governance, which transcend immediate policy imperatives and the more pressing features of the current health care environment.

6   Alongside this statement of principles, a regularly updated digital compendium sets the principles in the context of the current policy and organisational landscape. It describes recent developments and offers up to date case studies with examples to help board members put the principles into practice. The compendium is accessible at http://www.nhsleadership.org.uk/boarddevelopment.

7   The material in the compendium is complemented by a range of practical resources to support board effectiveness. These resources are available for download. Regular contributions of new tools, approaches, case studies and good practice from the service will be actively sought to ensure that this collection of resources remains current and relevant. This is represented in Figure 1. If you find a resource that merits inclusion please send a copy or a link to boarddevelopment@nhsleadership.org.uk.

8   This document can be used by board members as an introduction to the subject of governance in the NHS. Since it is designed to be enduring, it can be kept as a reference – a first place to turn – in the future. The compendium should be consulted when more detail is needed on specific issues, or to understand details of underlying guidance and references.

9   The development of this guide and its accompanying resources was underpinned by a comprehensive review of governance literature and an extensive process of engagement with the NHS. In all, some 1,000 NHS staff and board members took part in this consultation, and the shape and content of the guide reflect their contributions. In addition, the literature review, entitled 'The Healthy NHS Board: a review of guidance and research evidence', considered over 140 sources; it is available for download at http://www.nhsleadership.org.uk/boarddevelopment.

Figure 1: Structure of this guidance

The Healthy NHS Board
Principles for Good Governance

Online compendium
www.nhsleadership.org.uk/boarddevelopment
Updated regularly

Online resources
Literature Review, Case Studies,
Policy and Guidance, Tools etc
Updated regularly

2 Purpose and role of NHS boards

The purpose and role of NHS boards is set out in this chapter, helping board members to navigate through the wide range of guidance available.

10 The purpose of NHS boards is to govern effectively and in doing so to build public and stakeholder confidence that their health and healthcare is in safe hands. This fundamental accountability to the public and stakeholders is delivered by building confidence:

- In the quality and safety of health services.

- That resources are invested in a way that delivers optimal health outcomes.

- In the accessibility and responsiveness of health services.

- That the public can appropriately shape health services to meet their needs.

- That public money is spent in a way that is efficient and effective.

11 There are a range of models of governance in use in both the public and private sectors, a number of which are summarised in Appendix 1.

12 This guide aims to provide board members with an overarching and durable framework that will allow them to make sense, and effective use, of the wide range of available advice and guidance both in the United Kingdom and internationally. It draws on established good practice in governance and a wide-ranging review of more recent literature, from all sectors.

13 The role of NHS boards is described below and is illustrated in Figure 2.

14 Effective NHS boards demonstrate leadership by undertaking three key roles:

- Formulating strategy for the organisation.

- Ensuring accountability by holding the organisation to account for the delivery of the strategy and through seeking assurance that systems of control are robust and reliable.

- Shaping a positive culture for the board and the organisation.

Underpinning these three roles are three building blocks that allow boards to exercise their role. Effective boards:

- Are informed by the external context within which they must operate.

- Are informed by, and shape, the intelligence which provides trend and comparative information on how the organisation is performing together with an understanding of local people's needs, market and stakeholder analyses.

- Give priority to engagement with key stakeholders and opinion formers within and beyond the organisation; the emphasis here is on building a healthy dialogue with, and being accountable to, patients, the public, and staff, including clinicians.

15 The three roles of the board and the three building blocks all interconnect and influence one another. This is shown in Figure 2.

16 The roles and building blocks shown in Figure 2 are examined in more detail in the next sections.

Figure 2: Roles and building blocks of NHS boards
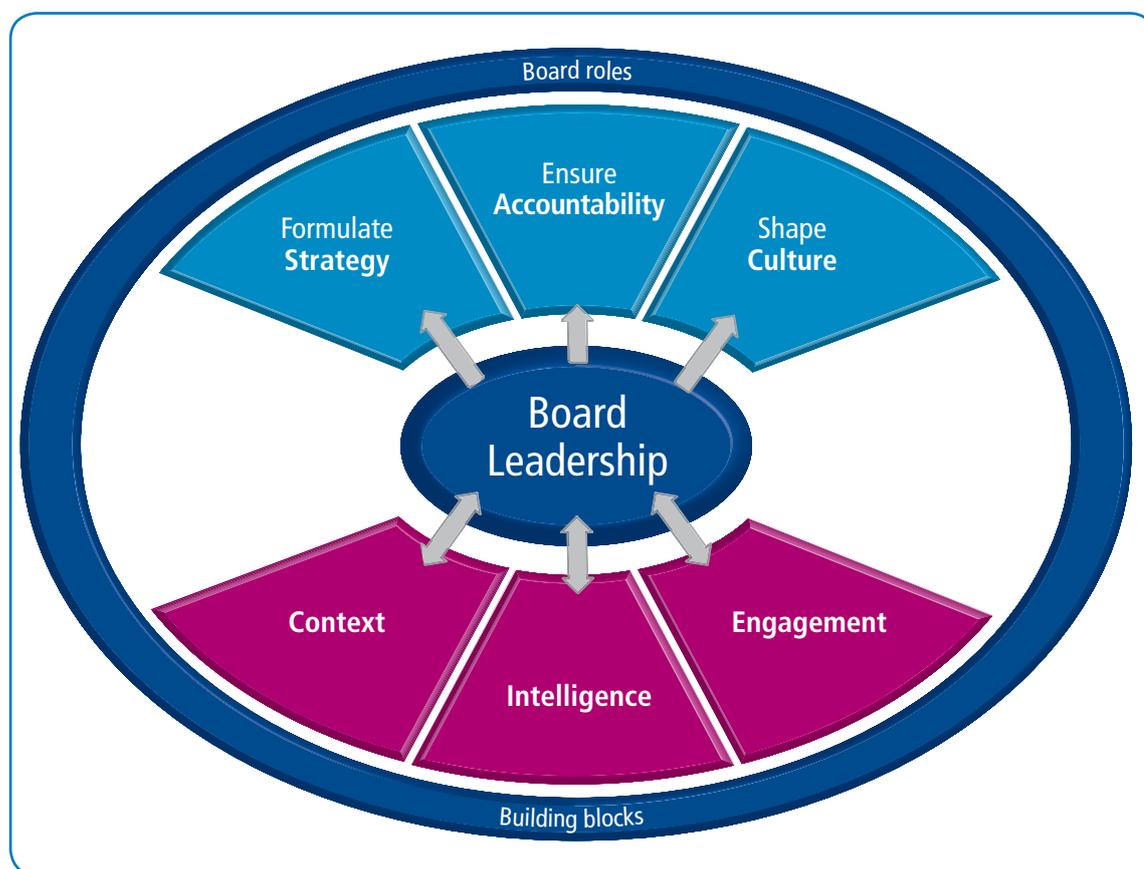
"The board's role is to articulate the ambition for the organisation and to manage the risk that that ambition contains."

SHA chair

Roles of the board

Formulate strategy

17 The first of the three roles of the board is formulating strategy. There are three main elements to consider:

- The **process** of developing strategy.
- The **hallmarks** of an effective strategy.
- The approach to strategic **decision-making.**

18 In general, an effective strategic **process**:

- Ensures that the strategy is demonstrably shaped and owned by the board.
- Provides for the active involvement of and influence by clinicians and staff.
- Ensures that there have been open, transparent, accountable consultation and involvement processes with patients, the community, members, governors (in the case of Foundation Trusts) and key institutional stakeholders.
- Is underpinned by regular strategic discourse in the board, throughout the year. Strategy needs to be dynamic in responding to changes in the external environment.

19 Some of the **hallmarks** of an effective strategy include:

- A compelling vision for the future underpinned with clear strategic objectives that are reflected in an explicit statement of desired outcomes and key performance indicators.
- An organisational vision that puts quality and patient safety at its heart
- A clear statement of the organisation's purpose.
- An approach that takes appropriate account of the external context in which the organisation is operating.
- A perspective which balances the priority given to national and local performance indicators and targets.
- Evidence that the strategy has been shaped by the 'intelligence' made available to the board.
- A longer term view (with at least a 3 to 5 year planning horizon)

- A long term financial model and risk analysis.
- A long term workforce model that sets out the organisational arrangements required to deliver the strategy and identifies the workforce implications of strategic choices.
- Demonstrable links to the needs of users, patients and communities.
- An integrated approach to prevention and health promotion.
- Inclusion at its heart so that services that are commissioned or delivered produce accessible, fair and equitable services and outcomes for all sections of the population served.
- Commitment to treating patients, service users and staff with equity
- Explicit attention paid to the ability to implement the strategy successfully.

20 Strategic **decision-making** is an integral part of the board's role in formulating strategy. Good practice here includes:

- Strategic decisions which are aligned to overall strategic direction, and are expressly identified as such.
- A formal statement that specifies the types of strategic decisions, including levels of investment and those representing significant service changes that are expressly reserved for the board, and those that are delegated to committees or the executive.
- Early involvement of board members in debating and shaping strategic decisions and appropriate consultation with internal and external stakeholders.
- For significant strategic decisions: consideration by the board of options and analyses of those options.
- Criteria and rationale for decision making that are transparent, objective and evidence based.

Ensure accountability

21 The second core role of NHS boards is **ensuring accountability**. This has two main aspects:

- Holding the organisation to account for the delivery of the strategy.

- Seeking assurance that the systems of control are robust and reliable.

Holding the organisation to account for its performance in the delivery of strategy

22 This aspect is at the heart of the board's role in pursuing high performance for its organisation. It is important that boards are not too readily assured or reassured. Where issues arise they need to be addressed – swiftly, decisively and knowledgeably – by the whole corporate board. A robust but fair approach is important, particularly where there are problems of underperformance. Effective boards recognise that 'the buck stops with the board'.

23 The Audit Commission reviewed how boards of NHS Trusts and Foundation Trusts get their assurance and developed a checklist against which boards can assess the reliability of their systems of control.[1] A key observation in this review is 'there has been no lack of guidance … the challenge for boards is therefore not finding out what to do, but instead translating the theory into an approach that works in their trust and then following through with appropriate rigour'.

24 The fundamentals for the board in holding the organisation to account for performance include:

- Drawing on board 'intelligence' – the board monitors the performance of the organisation in an effective way and satisfies itself that appropriate action is taken to remedy problems as they arise.

- Looking beyond written intelligence to develop an understanding of the daily reality for patients and staff, to make data more meaningful.

- Seeking assurance where remedial action has been required to address performance concerns.

- Offering appreciation and encouragement where performance is excellent.

- Taking account of independent scrutiny of performance, including from governors (for Foundation Trusts), regulators and overview and scrutiny committees.

- Rigorous but constructive challenge from all board members, executive and non-executive as corporate board members.

Seeking assurance that the systems of control are robust and reliable

25 This second aspect of accountability has seven elements:

- Quality assurance and clinical governance
- Financial Stewardship
- Risk Management
- Legality
- Decision-making
- Probity
- Corporate Trustee.

Quality assurance and clinical governance

26 The board has a key role in safeguarding quality, and therefore needs to give appropriate scrutiny to the three key facets of quality – effectiveness, patient safety and patient experience. Effective scrutiny relies primarily on the provision of clear, comprehensible summary information to the board, set out for everyone to see, for example, in the form of quality accounts.

> » A recent US study reported that boards of 'high performing' healthcare organisations are significantly more likely to receive and use a quality dashboard.[3]

27 The board has a statutory duty of quality.[4] In support of this, good practice suggests that:

- All board members need to understand their ultimate accountability for quality.

- There is a clear organisational structure that clarifies responsibility for delivering quality performance from the board to the point of care and back to the board.

- Quality is a core part of main board meetings both as a standing agenda item and as an integrated element of all major discussions and decisions.

- Quality performance is discussed in more detail regularly by a quality committee with a stable, regularly attending membership (see page 14).

- The board becomes a driving force for continuous quality improvement across the full range of services.

"It is important not to mistake reassurance for assurance."

NHS chair

"Good corporate governance overall depends critically on the abilities and experience of individuals and the effectiveness of their collaboration in the enterprise. Despite the need for hard rules in some areas, this will not be assured by overly-specific prescription that generates box-ticking conformity."

David Walker Review[2]

"Processes without intelligent and rigorous scrutiny are not enough. Governance arrangements that are persuasive on paper must work in practice. The aim of board assurance is to give confidence that the trust is providing (or commissioning) high quality care, in a safe environment for patients by staff who have received appropriate training; that it is complying with legal and regulatory requirements and that it is meeting its strategic objectives."

Taking it on Trust

28 Boards are also required to endorse and sign off declarations of assurance to regulators in relation to quality, and comply with the registration requirements of the quality regulator.

29 But ensuring accountability in relation to quality is facilitated by more than regular scrutiny of information on quality – however exemplary. Research suggests that governance of quality can be improved if board members periodically step outside of the boardroom to gain first-hand knowledge of the staff and patient experience. It is also important to ensure that clinical leaders are properly empowered to lead on issues relating to clinical quality. Boards benefit from regular opportunities both to take advice from clinical leaders and to reflect on innovative practice in relation to quality improvement.

Financial stewardship

30 The exercise of effective financial stewardship requires that the board assures itself that the organisation is operating effectively, efficiently, economically and with probity in the use of resources. The board has a statutory duty to balance the books[5]. It is also required to ensure that financial reporting and internal control principles are applied, and appropriate relationships with the Trust's internal and external auditors are maintained.

Risk management

31 The role of the board in risk management is twofold.

- Firstly, within the board itself an informed consideration of risk should underpin organisational strategy, decision-making and the allocation of resources.

- Secondly, the board is responsible for ensuring that the organisation has appropriate risk management processes in place to deliver the annual plan/commissioning plan and comply with the registration requirements of the quality regulator. This includes systematically assessing and managing its risks. These include financial, corporate and clinical risks. For Foundation Trusts, this also includes risks to compliance with the terms of authorisation.

32 Risk management by the board is underpinned by four interlocking systems of control:

- **The Board Assurance Framework:** This is a document that sets out strategic objectives, identifies risks in relation to each strategic objective along with controls in place and assurances available on their operation. The most effective boards use this as a dynamic tool to drive the board agenda. Formats vary but the framework generally includes:

  - Objective

  - Principal risk

  - Key controls

  - Sources of assurance

  - Gaps in control/assurance

  - Action plans for addressing gaps.

- **Organisational Risk Management:** Strategic risks are reflected in the Board Assurance Framework. A more detailed operational risk register will be in use within the organisation. The board needs to be assured that an effective risk management approach is in operation within the organisation. This involves both the design of appropriate processes and ensuring that they are properly embedded into the operations and culture of the organisation.

- **Audit:** External and internal auditors play an important role in board assurance on internal controls. There needs to be a clear line of sight from the Board Assurance Framework to the programme of internal audit. While clinical audit is primarily a management tool, the advice in 'Taking it on Trust' suggests that 'it would be reasonable to expect it to appear (in the Board Assurance Framework) as a significant source of assurance'.

- **The statement on internal control:** This is signed by the chief executive as Accountable Officer and comprehensively sets out the overall organisational approach to internal control. It should be scrutinised by the board to ensure that the assertions within it are supported by a robust body of evidence.

33 The approach to risk management needs to be systematic and rigorous. However, it is crucial that boards do not allow too much effort to be expended on processes. What matters substantively is recognition of, and reaction to, real risks – not unthinking pursuance of bureaucratic processes.

> » An international consultation[6] in the wake of the financial crisis that began in 2007 suggests widespread failure of risk management was due to disconnection of the risk management system from strategy and other management systems.

Legality

34 The board seeks assurance that the organisation is operating within the law and in accordance with its statutory duties.

Decision making

35 The board seeks assurance that processes for operational decision making are robust and are in accordance with agreed schemes of delegation.

Probity

36 The board adheres to the seven principles of public life. This includes implementing a transparent and explicit approach to the declaration and handling of conflicts of interest. Good practice here includes the maintenance and publication of a register of interest for all board members. Board meeting agendas include an opportunity to declare any conflict at the beginning.

Seven Principles of Public Life
Selflessness
Integrity
Objectivity
Accountability
Openness
Honesty
Leadership

37 Another key area in relation to probity relates to the effective oversight of top level remuneration. Boards are expected to adhere to HM Treasury guidance and to document and explain all decisions made.

38 Corporate trustee

• Finally, if the organisation holds NHS charitable funds as sole corporate trustee the board members of that body are jointly responsible for the management and control of those charitable funds, and are accountable to the Charity Commission.

• Some NHS organisations have a separate trustee body which manages the charitable funds linked to the work of the NHS body. Where this applies the board does not have responsibility for the charitable funds.

Committees of the board that support accountability

39 In order to enable accountability, boards are statutorily required to establish committees[7] responsible for **audit** and **remuneration**. In addition the boards of NHS organisations have a statutory duty of quality. Over time NHS organisations have configured board committees in a variety of ways to discharge these functions. For ease of reference, these are described as three core committees. Good practice in respect of the configuration of the membership of board committees can be found in the compendium. The three core committees are:

1. **Audit Committee:** This committee's focus is to seek assurance that financial reporting and internal control principles are applied, and to maintain an appropriate relationship with the organisation's auditors, both internal and external. The Audit Committee offers advice to the board about the reliability and robustness of the processes of internal control. This includes the power to review any other committees' work, including in relation to quality, and to provide assurance to the board with regard to internal controls. The Audit Committee may also have responsibility for the oversight of risk management. Ultimately however the responsibility for effective stewardship of the organisation belongs to the board as a whole.

2. **Remuneration Committee:** The duties of this committee are to make recommendations to the board on the remuneration and terms of service for the chief executive and other executive directors; and to monitor and evaluate the performance of the executive directors and to oversee contractual arrangements, including proper calculation and scrutiny of termination payments. The Remuneration Committee should take into account relevant nationally determined parameters on pay, pensions and compensation payments. No director should be involved in deciding his/her own remuneration. The committee may additionally have a role in succession planning for executive level roles.

3. **Quality Committee:** There is a trend for boards to delegate responsibility for seeking assurance that there are effective arrangements for monitoring and continually improving the quality of healthcare provided to or commissioned on behalf of patients. Evidence suggests that Quality Committees are becoming more common and that they can enhance board oversight of quality performance by ensuring input from people with quality expertise, such as clinical, nursing, management and non-healthcare domains. This provides a real opportunity to probe and scrutinise performance in relation to quality. However, the ultimate accountability for quality rests with the board.

40 All board committees normally have a non-executive chair. Audit Committee members are all non-executive directors with executives in attendance as appropriate. At least one member of the Audit Committee must have a financial background. Checks and balances need to be maintained in committee membership. So, for example, the board chair cannot be a member of the Audit Committee, nor can the Audit Committee chair be the senior independent director. Best practice suggests that the vice chair of the organisation should not chair the Audit Committee in order to avoid potential conflicts of interest.

41 Effective boards minimise the number of standing board committees. However, boards may establish other committees. Examples include investment committees, risk committees[8] and Charitable Funds Committees.

Shape culture

42 The third core role of the board is shaping a positive culture for the board and the organisation. This recognises that good governance flows from a shared ethos or culture, as well as from systems and structures. The board also takes the lead in establishing and promoting values and standards of conduct for the organisation and its staff.

43 Over recent years there has been an increasing drive to change the culture of the NHS to be more patient-centred and user-centred. Boards play a key role in creating a diverse, plural, and responsive culture which can deliver services that meet the needs of individual patients and communities.

Shaping organisational culture

44 Effective boards shape a culture for the organisation which is ambitious, self-directed, nimble, responsive, and encourages innovation. A commitment to openness and transparency means that boards are more likely to give priority to the organisation's relationship and reputation with patients, the public and partners as the primary means by which it meets policy and/or regulatory requirements. As such it puts patients and communities at the centre.

45 Boards need to recognise the importance of ensuring that the culture of their organisation reflects the NHS values, as defined in the NHS Constitution. These are:

Respect and dignity.
Commitment to quality of care.
Compassion.
Improving lives.
Working together for patients.
Everyone counts.

46 If shaping the culture of the organisation is a vital role for boards, then embedding the culture, so that it becomes a lived reality is equally important and arguably the most challenging part of the role.

47 Embedding a new culture in an organisation requires sustained effort and consistency of approach, often over a number of years. International research provides some helpful points on how boards can play a role in achieving desired culture change in a health context.

» CULTURE AND QUALITY: Research with hospital boards in Canada[9] suggests that the prominence of quality and safety as organisational values increase when they are set by the board. This is reflected in an increased focus on quality on the ground, in the form of team priorities, improvement initiatives and resources.

» CULTURE AND SAFETY: Board influence on organisational 'safety culture' is well-recognised in guidance[10]. Research in the US, Canada and the UK indicates that boards can contribute to this through visible engagement with the quality agenda, for example by participating in 'walk rounds' where board members discuss safety issues with frontline staff; by hearing patient stories at the board; by distributing 'safety briefings' across the organisation, covering key issues and performance data; and by establishing quality training and education programmes for all staff.

» CULTURE and INNOVATION: Research in the UK, in the NHS and in industry[7], has demonstrated that boards have a responsibility to embed innovation in the organisation's culture. Innovation friendly organisations have decentralised but clearly defined structures, which encourage frontline and managerial staff to innovate by allowing them freedom to make their own decision and take risks (but not at the expense of safety). Their boards avoid a top-down, rule driven approach, but do monitor, evaluate and learn. These boards actively support innovation and innovators.

Board's role in exemplifying and modelling culture

48 So far the focus in this section has been on the board's role in shaping the values and culture for the organisation.

49 An outward looking board leadership culture that actively embraces change, fosters innovation and maintains an unswerving commitment to quality and patient safety offers the best prospect of navigating effectively through a demanding and rapidly changing environment.

50 The board needs to be seen as champions of these values in the way the board itself operates and behaves. There are a number of facets to this. Effective boards and their members:

- Exemplify the seven principles of public life

- Reflect a drive to challenge discrimination, promote equity of access and quality of services and respect and protect human rights

- Ensure that their approach to strategy, accountability and engagement are consistent with the values they seek to promote for the organisation.

An approach to shaping culture

51 Boards may wish to consider adopting a culture shaping process that is gaining prominence among third sector boards in North America. It involves an active but focused process of dialogue and engagement with staff and service users. This approach has a great deal to offer NHS boards as they seek to shape organisational culture and, in turn, use their learning from staff and user experience to set strategy and ensure accountability. It is described in Appendix 1.

52 As boards undertake their strategy development role, this approach could involve an interactive process of direct engagement with key stakeholders, clinicians, staff, members and patients, at key stages in the strategy development process. This ensures that the board as a whole is listening, learning and shaping, rather than just receiving draft strategies for approval. This approach is more likely to achieve a viable and responsive direction, build commitment and buy in, enrich board discussion and challenge board group think.

53 Similarly, when ensuring accountability, a more interactive style of governance could move beyond paper reporting. Examples of such an approach could include patient safety walk rounds, hearing patient stories at the board and staff focus groups.

54 While the importance of board visibility in the organisation has long been recognised, a more interactive process allows board members, staff and users to shape organisational values and culture through direct engagement. It also ensures that board members take back to the boardroom an enriched understanding of the lived reality for staff, users and partners.

"Objectives appear to have focused insufficiently on service quality and patient safety: national targets, including financial balance, and a drive to gain Foundation Trust status, took priority. This analysis was evidenced by analysis of board minutes, the board placing financial performance ahead of addressing staff shortages, and further supported by the views of nursing and medical staff."

Quality regulator investigation into major quality failures in a Foundation Trust

"The board was 'insulated from the reality of poor care."

From a regulator report on a failing NHS Trust

"It has taken quite some time to learn enough about the context within which the NHS operates to be able to contribute effectively as a board member."

FoundationTrust
Non-Executive Director

Building blocks

Context

55 The first building block requires that boards have a comprehensive understanding of the external national and regional context in which they operate.

56 While many of the fundamental principles of good governance are common across a range of different types of organisations (both private and public sector), the complexity of the statutory, accountability and organisational context in which NHS boards operate is a key difference that must be fully understood by all board members. Boards operate in a demanding environment. Some of the challenges are illustrated here in figure 3. In addressing these challenges it is important that Boards listen to the voices of citizens and patients.

Figure 3: Challenges on NHS boards

57 The areas that boards will need to consider when developing an understanding of context are set out below:

Figure 3: Challenges on NHS boards

Rising public expectations
Ageing population
Prevention & wellbeing opportunities
Complex, diverse population
Shifts in settings of care
More patients with long term conditions
Treatment technology advances
Drive for value for money
Workforce skill changes
Drive for environmental sustainability
Board

58 **Policy:** It is important for boards to have a good understanding of the current and emerging policy direction, and the strategies for the NHS and its key partners.

59 **Economy:** Boards need to be aware of information on the economic environment for public services, and the wider economy. This assists boards in understanding the implications for future funding as well as the potential impact of economic changes on the health of the public and the demand for health services.

60 **Legislation:** NHS bodies are subject to a wide range of legislation, from central government and from the European Union. This includes statutes, regulations and a variety of directives and Secretary of State directions.

61 **Institutional landscape:** An understanding of the structures and institutions of the NHS and those with whom the NHS does business is essential for boards to undertake their role effectively. This includes central and local government and other public and voluntary services which contribute to health and well being.

62 **Regulation:** NHS bodies are subject to oversight from several regulators. Developing a good understanding of the most significant regulators and their requirements and expectations of NHS bodies will greatly assist boards as they steer the organisation.

63 **Public Expectations:** Expectations of all public services are rising; arguably this is most pronounced in relation to the NHS. Even the most stretching national targets and standards have struggled to keep pace with mounting public expectations. The most effective NHS boards energetically develop their own understanding of trends in public and patient expectation and ensure that this actively informs their strategic choices.

64 **An understanding of the wider determinants of health status:** It is important for boards to develop an understanding of the wide range of factors that impact on health status. These include poor housing, neighbourhood deprivation, limited employment and educational opportunities, as well as the effects of affluence. This understanding helps inform the board's strategic response and shapes its whole system and partnership working.

Intelligence

65 Intelligence is the second key building block. It includes performance information, which can be both quantitative (such as performance metrics) and qualitative (such as staff, patient and stakeholder perspectives). It also includes information on the external local environment.

66 Boards need to be provided with information that is timely, reliable and comprehensive. The Intelligent Board series[11, 12, 13, 14, 15] continues to offer excellent guidance to boards, and some of the key elements of this advice are summarised below. More details can be found in the compendium. However, guidance can never be a substitute for discussion in the board aimed at evaluating the usefulness of current intelligence and shaping future intelligence requirements.

67 Intelligence that boards need to consider falls under two headings:

- Performance Information.

- Intelligence on the external local environment.

Performance information

68 This describes how the organisation is performing both strategically and operationally. The key requirement here is that the intelligence:

- Allows the board to arrive at judgments about organisational performance in the delivery of strategy.

- Allows the board to scrutinise operational performance 'in the round' – bringing together its appraisal of organisational performance in relation to operational activity, quality, finance and the workforce.

"The challenge for our board has been to maintain a driving focus on our own, locally determined strategic objectives as the framework for holding the organisation to account. The reporting demands placed on the organisation, by regulators and central government, are onerous and it is easy to succumb to the temptation to confuse the performance information requirements of these external stakeholders with those of the board."

PCT Non-Executive Director

"It is important to be able to state performance criteria in a simple, crisp way, we want to measure against the following characteristics 'prompt, safe, effective, efficient, considerate'."

NHS chair

69 Intelligence about **strategic performance** needs to:

- Be structured around an explicit set of strategic goals.

- Show trends in performance in terms of quality; the experience and satisfaction of patients; business development; and finance.

- Provide forecasts and anticipate future performance issues

- Encourage an external focus.

- Enable comparison with the performance of similar organisations, for example through benchmarking.

70 Intelligence about **operational performance** needs to:

- Provide an accurate, timely and balanced picture of current and recent performance – including patient, clinical, regulatory and financial perspectives.

- Focus on the most important measures of performance, and highlight exceptions.

- Be appropriately standardised in order to take account of known factors that affect outcomes, such as the age and deprivation profile of patients and communities served.

- Integrate informal sources of intelligence from staff and patients.

- Include consideration of assessments from key regulators including comparator information.

- Enable comparisons with the performance of similar organisations.

- Include key workforce indicators, including capacity and capability to deliver future strategy, culture and information on equality and diversity.

71 It is most helpful for boards to receive performance information in a clear, easily digestible format, using graphic overviews, trend analysis and brief commentary. Data can also be presented in the form of dashboards or scorecards, where performance on key measures is presented against nationally or locally established benchmarks. High quality board papers are not purely descriptive – they include analyses that will actively direct the board members' attention to the key issues, implications and consequences.

Focus on Quality

72 Quality is the organising principle of the NHS and needs to be at the heart of everything the board does.

73 While significant progress has been made in shaping and sharpening the finance and activity information generally available to boards, progress has been slower in relation to information that will allow boards to scrutinise the 'quality' of services. Quality accounts should become at least as important as financial statements for boards. Quality comprises three dimensions:

- Clinical effectiveness or patient outcomes.

- Patient safety.

- Quality of the patient experience.

74 As with other organisational priorities, boards should receive this information in an easily digested summary. The closer the data is to 'real time' the greater its value.

Intelligence on the external local environment

75 Intelligence on the local environment should be as important to boards as performance information. It includes:

- **Stakeholder mapping:** One of the key challenges facing NHS boards is the complex stakeholder and accountability landscape. Boards need to have a clear grasp of the entire system within which they operate. This includes an understanding of who are the key local stakeholders, their agendas, priorities and perspectives. For Foundation Trust boards, this includes developing a good understanding of governor and member perspectives.

- **Competitor analysis:** In an increasingly competitive market, the boards of NHS provider organisations need to keep abreast of their competitors (other NHS organisations, independent providers and the voluntary sector), including an understanding of their relative strengths and weaknesses.

- **Market analysis:** Likewise it is important for boards of provider organisations to build their understanding of the local market and the place that the organisation wishes to occupy within it. For boards of commissioning organisations, the challenge is to deliver quality and value for money by enabling the development of a vibrant market of providers. Provider and market intelligence will be critical for effective board strategic decision making. This 'market-

making' function of commissioners becomes increasingly complex in the context of policy drives towards patient choice and 'personalisation' in health services.

- **Health need and demography including diversity and equality issues.** These aspects are particularly important for commissioning boards. It includes intelligence to assist boards to understand the local population, its demographic and health profile, particularly health status, healthcare needs, behaviours and aspirations; and the key equality gaps experienced by different groups within the community, both in relation to each other and compared to similar groups in other localities. This aspect of intelligence should be based on shared analysis and monitoring with local government.

[76] Board members have a key role to play in actively shaping and designing the sort of intelligence they wish to receive.

[77] The research evidence supports the view that the provision of too much or too little information can be a significant risk to effective board functioning, so the key is to strike a balance between providing sufficient and meaningful information without overloading board members.

[78] A final, and important, thought on intelligence: there is an increasing recognition that paper-based intelligence can only take the board so far. Appropriate interaction between the board and key stakeholders underpins the development of strategy, gives 'texture' to ensuring accountability and shapes a culture of openness and dialogue within the organisation. This brings us to the third key building block: engagement.

"In the end, no amount of data, however clear, will make the decisions."

PCT chair

Engagement

79 The effective board gives priority to engaging with key stakeholders and opinion formers within and beyond the organisation. Engaging effectively is an important way that a board and organisation demonstrates its openness and transparency and ultimately its accountability. There are also some circumstances where there is a legal obligation to involve the public[16]. Engagement informs and supports the board in formulating strategy, shaping culture, and even aspects of ensuring accountability. The range of internal and external stakeholders with which boards engage includes:

- Patients and the public.

- Members and governors (for Foundation Trusts).

- Clinicians and staff.

- Partners in delivery (e.g. local authorities, third and independent sector partners).

- Key institutional stakeholders (ranging from other NHS organisation to regulators).

80 Engagement with staff, patients, the public and stakeholders is not new, and has long been a priority of senior leaders in NHS organisations. Boards as a whole generally receive and consider the results of these processes in the form of reports and papers.

81 Recent research has however begun to identify the role that direct interaction between the board and clinicians, patients and the public can play in effective governance.

Patient and public engagement

82 A wide range of guidance is available for boards on patient and public engagement; it is referenced in the compendium. There are three main aspects for boards to consider:

- **Empowering people:** Patients and the public want to be able to influence both their own healthcare and the organisations that provide this care.

- **Putting patient experience centre stage**. Organisations need to ensure the routine, systematic collection and analysis of feedback from people who use services (including real-time patient feedback and an understanding of the perspectives of minority and hard to reach groups). Crucially, boards need to demonstrate that this feedback, alongside intelligence on effectiveness and patient safety, actively informs board priority setting, resource allocation and decision-making.

- **Accountability to local communities.** The organisation, and therefore the board, has a statutory 'duty to involve'[16]. In addition, the organisation exercises its local accountability through overview and scrutiny arrangements led by local government.

Members and governors (for Foundation Trusts)

83 Boards of Foundation Trusts need to recognise that the autonomy and freedoms granted to them rest on the twin pillars of robust independent regulation and effective accountability to patients and the public delivered through membership and governors.

84 Governors of Foundation Trusts are at the heart of ensuring that the organisation remains accountable in this way. If governors are to exercise this aspect of their role effectively, they require regular and meaningful engagement with the board. Governors need to be supported to engage with the members and the wider public so that they can contribute these wider perspectives and expectations in their discussions with Directors.

Staff including clinicians

85 Engagement with clinicians and staff is an important means by which the organisation's leaders shape organisational culture. It can help boards drive culture change, for example in encouraging staff to feed into the risk management system or engage in quality improvement.

86 A recent review[17] of how best to engage staff suggests that use of established approaches, such as surveys seeking staff opinion, are deficient in this area as they leave engagement as an 'add-on'. Ideally, boards should aim to achieve 'transformational engagement', where clinicians and staff are integral to developing and delivering organisational strategy. Boards can project a 'human face of leadership' through direct engagement including holding 'Question Time' style events and participating in web-chats. Clinicians might be engaged to lead improvement and innovation work as 'change agents'; to provide input and leadership on quality committees; and as a key source of 'wisdom' in an engaging approach to governance.

Key institutional stakeholders

87 Boards are advised to develop a coherent strategy for engagement with key institutional stakeholders. These include commissioners, NHS providers, local government, universities and further education, the voluntary sector, independent sector and of course regulators.

88 This stakeholder engagement is most often led by the chair and chief executive. While this is sound, it must form part of a systematic and agreed approach that allows other directors to be engaged in a targeted way.

89 A number of boards choose to hold board-to-board meetings with key institutional stakeholders. Properly focused, this can be an important part of building understanding of, and relationships with, stakeholders.

3 System governance – the board's role

The guidance so far has focused on the board's role in ensuring good governance within its own NHS organisation. This chapter considers the NHS board's role in the wider health system.

90 NHS boards exist within a crowded organisational landscape that includes a range of public, private and community organisations all serving broadly the same citizens. To deliver their core purpose of building public and stakeholder confidence in health and healthcare, NHS boards need to see beyond the boundaries of their individual organisations. This delicate balance involves operating within a 'community of governance' while simultaneously respecting divergent interests in a vibrant market.

91 In a financially constrained environment this becomes particularly pertinent, as boards consider options for strategic partnerships, joint management arrangements, outsourcing, major service reconfigurations, and potential mergers. But whatever the economic environment, the need to develop an effective community of governance is important because:

- Patients and users travel across organisational boundaries to receive services.

- Approaches to health improvement and prevention, as well as tackling health inequalities can only be addressed by taking a whole health economy perspective.

- NHS organisations and other public bodies have a legal duty to co-operate on improving local health outcomes.

92 Boards need to consider their ways of working in the wider system in two main dimensions:

- The requirement for them to operate constructively in the health and social care system.

- The effective governance of established and formalised partnerships.

Operating constructively in the health and social care system

93 The health and social care system in England relies on a complex interplay between collaboration and competition. Boards need to reach finely balanced judgments about how they engage with this complexity.

94 The public interest is best served when all actors in the system reach agreement about:

- Local health need.

- A shared vision for health and healthcare including health outcomes.

- The 'rules of engagement' – how players within the system will work together, including the development of a culture of co-operative transparency.

- Mutual understanding of, and respect for, individual organisational interests and constraints.

95 This shared understanding and agreement can only be reached through regular and ongoing processes of formal and informal dialogue and relationship building. This role is primarily undertaken by the chair and chief executive. Both chair and chief executive play an important role in shaping the climate for inter-organisational engagement and in keeping lines of communication open – especially at times when negotiations may have strained relationships lower down in their organisations. A regular cycle of whole 'board to board' processes has proved valuable in many health economies. The joint production of an annual health system development plan could also be valuable.

Effective governance of formal partnerships

96 A summary of research on inter-organisational working proposes that a partnership might be analysed on two dimensions: its breadth – the range of groups it encompasses; and its depth – ranging from information sharing, through coordinating activities, up to a formal merger of partners.[18]

97 Whatever the form or extent of the partnership, effective governance of these partnerships requires attention to the same three roles that have been described above, as the role of the board. Namely:

- Formulating strategy.
- Ensuring accountability.
- Shaping culture.

Formulating strategy

98 Partnership governance arrangements need to give attention to the three elements of formulating strategy described in section two: the process of developing strategy; the hallmarks of an effective strategy and the approach to strategic decision making.

99 Research on the governance of partnerships identifies the following additional points:

- **Partnership agreements:** It is important to set out and agree a clear purpose for the partnership, which can be formalised through the creation of a partnership agreement. A report on partnerships in public services found that the absence of a partnership agreement can lead to increased difficulties, such as reduced achievement of objectives and even breakdown of the partnership.

- **Care pathway perspective:** for partnerships involved in commissioning or providing care across organisational boundaries, it is important that the strategy takes a clear patient or care pathway perspective.

- **Transparency and openness of strategic decision making:** this is important both to build trust, and also to support shared risk taking. It reduces dominance by any single voice.

- **Clarity of outcomes and performance indicators:** developing a shared agreement on performance measures for the partnership which takes account of the performance expectations of all the constituent partners is key. The aim is to provide assurance that the partnership is operating effectively in terms of its costs and benefits. For many partnerships impact or outcome measures may be long term in nature, in which case identifying appropriate interim measures is important as part of the strategy development process.

Ensuring accountability

[100] Ensuring accountability is a particularly key role for the governance of partnerships. The two elements described under roles of the board are highly relevant, namely: holding the partnership to account for the delivery of strategy, and seeking assurance that the systems of control are robust and reliable.

[101] Key points for partnership governance include:

- **Develop a performance reporting framework** that captures the various targets of all partners that relate to the partnership. The intelligence provided on performance of the partnership is made available to all involved.

- **Monitor progress on outcomes and performance indicators.** It is important to recognise the challenges in monitoring performance of partnerships, but persevere constructively to find ways of overcoming the challenges.

- **Agree approach to shared quality assurance:** for those partnerships involving commissioning or provision of care, ensure a focus on all three elements of quality: effectiveness; safety and experience.

- **Agree approach to shared risk-taking and risk management:** for major partnerships, consider the development of a partnership assurance framework, to serve a similar purpose to the board assurance framework (paragraph 32).

- **Clarify accountability:** staff working in partnerships have to contend with multiple accountabilities: to the partnership, and to the constituent organisations. It is important to establish where the ultimate responsibility and liability rests.

Shaping culture

[102] Shaping culture for a partnership arrangement is more challenging than for a single organisation, as the constituent parts of the partnership will come with very different and distinctive cultures of their own, with different ways of conducting business.

[103] Lessons drawn from research in this field emphasise the importance of:

- An open culture that is receptive to engagement.

- A commitment to building trust.

- Transparency and openness in decision making, in reporting and in information sharing.

- A commitment to learning and understanding the different cultures and ways of working of partner organisations.

- A recognition that partnership requires give and take from all sides.

[104] The building blocks which underpin and support the delivery of the core board roles are as relevant to the governance of partnerships as they are to the role of the board of a single NHS organisation.

4 Improving board effectiveness

This chapter sets out the approaches to improving board effectiveness.

105 This chapter sets out five important clusters of activity that enable boards to improve their effectiveness, namely:

- Building capacity and capability.
- Enabling corporate accountability and good social processes.
- Embedding board disciplines.
- Delegating appropriately.
- Exercising judgment.

106 Further guidance and good practice in this area, and suggested additional reading are provided in the online compendium.

Building capacity and capability

107 This involves activity in the four areas shown in Figure 4:

Figure 4: Areas of board capacity and capability building
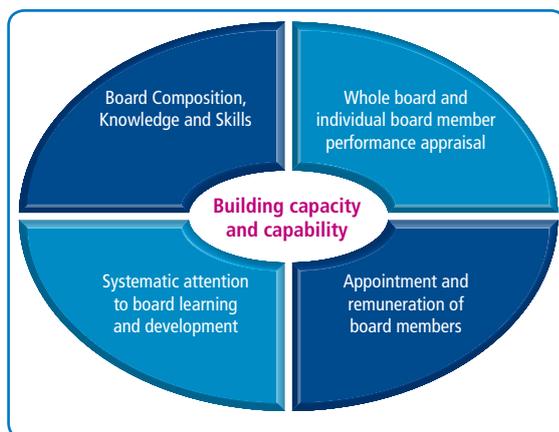
Board composition, knowledge and skills

108 NHS boards should not be so large as to be unwieldy, but must be large enough to provide the balance of skills and experience that is appropriate for the organisation. The composition of the board should achieve a balance between continuity and renewal. Non-executive Directors (NEDs) serve a maximum of 10 years in the same NHS post to ensure this balance. Within this period, any second reappointment must be through open competition.

109 In most NHS organisations, governance is the responsibility of a unitary board, with at least half the board, excluding the chair, made up of independent NEDs.

110 The time commitment required of non-executive directors continues to be a focus of debate. Non-executive directors should be encouraged to look at their time requirements over an annual cycle. There will be a number of situations where more time is required than on average. This includes the first year after appointment, and when the organisation is considering major strategic changes or significant changes to its status. See also paragraph 160.

111 All directors must be appropriately qualified to discharge their roles effectively, including setting strategy, monitoring and managing performance and driving continuous quality improvement. However, over time the strategic challenges facing boards give rise to the need for specific skills, and this requirement must be kept under review in a systematic way. In order to ensure an effective balance of knowledge, skills and backgrounds boards should undertake regular skills audits of current board members.

112 Guidance suggests that organisations are best served by boards drawn from a wide diversity of backgrounds and sectors. This includes the expectation that board composition reflects the diverse communities they serve.

Whole board and individual board member performance appraisal

[113] It is important that the whole board creates opportunities to reflect on its own performance and effectiveness. This should include a formal and rigorous annual evaluation of its own performance and that of its committees. Some boards choose to supplement self-assessment periodically with views obtained from a range of internal and external stakeholders who do not sit on the board but nonetheless experience its impact. This could include leading clinicians, senior managers who are not board members and external partners and stakeholders including patient groups and partner organisations both within and outside of the NHS.

[114] A range of approaches to whole board effectiveness review is outlined in the online compendium.

[115] It is important for boards to develop a framework of knowledge, skills and competencies that fit their organisational requirements and context and that can serve as the basis for whole board and board member appraisal.

[116] Alongside whole board performance evaluation, board members should undergo an annual appraisal of their individual contribution and performance. This appraisal should focus on the director's contribution as a member of the corporate board; in the case of executive directors this is distinct from their functional leadership role. The appraisal of the chief executive by the chair is particularly important because the effective performance management of the chief executive is critical to the success of the organisation and sets the benchmark for other senior NHS managers. Responsibilities for carrying out these appraisals are set out in the table below':

[117] A growing number of NHS boards are choosing to support the development of individual board members by undertaking a '360 degree review'. This offers board members feedback on their approach, performance and contribution from a wide range of colleagues with whom they have regular contact. This can be very helpful, though experience shows that it requires time and commitment from all board members. It must also be undertaken in a manner that respects and protects confidentiality and trust within the board. The whole process – especially individual feedback needs to be handled independently and professionally. 360 degree review approaches are intended to support individual development rather than to inform re-appointment.

[118] All appraisal processes should culminate in a personal development plan, the delivery of which is actively supported by the organisation.

Role	Is appraised by
Chair (non Foundation Trusts)	SHA chair, or the Department of Health for SHA and Arms Length Body chairs
Chair (in Foundation Trusts)	Senior independent director, drawing on the views and perspectives of fellow Directors, governors and partners
Chief executive	Chair
NEDs	Chair
EDs	Chief executive with input from the chair on their contribution as a member of the board

Systematic attention to board learning and development

[119] Effective boards use the performance appraisal processes outlined above as the basis for focused board development action plans. The plan should include:

- **A structured process for induction of new board members.** This is an opportunity to attend to the board members' understanding of local and – especially if they are new to the NHS – national context.

- **Individual board member opportunities to refresh and update skills and knowledge.** Conferences and similar events are likely to be very helpful. Organisations should ensure that board members are aware of development opportunities and that new policy and contextual knowledge is systematically shared with board members, including through informal briefings between board meetings.

- **Opportunities for the board to learn together.** Board development should not be limited to externally provided development events and conferences. These are valuable events, especially for the transmission of knowledge and information, but carving out time for the whole board to learn together is valuable. This is particularly true when exploring the applicability of new or innovative ways of working in the board, or when developing new skills and capabilities.

[120] **Foundation Trust boards should give particular attention to supporting the development of governors.** Careful and comprehensive induction is critical. Foundation Trusts have a responsibility to ensure that governors have the skills and capability to deliver their core statutory functions[19] (appointment and removal of chair and NEDs, appointment of auditors, scrutiny of organisational performance, and informing and consenting to annual plan). Governors also need to be supported to build their skills and capacity to engage with their 'constituencies' in order to deliver their role.

[121] Support for chairs, chief executives and directors in challenging roles needs particular attention. It should be clear to board members during the appointment process, if the posts are deemed challenging. Experienced directors should be appointed to these roles, and additional development support clearly agreed and put in place at an early stage.

Appointment and remuneration of board members

[122] Formal, rigorous and transparent procedures for both the appointment and the remuneration of directors must be in place. This should include effective processes for checking whether the prospective executive director is appointable.

[123] The appointments process must ensure that all appointments are made on merit and against objective criteria. Appointments panels for executives should always include an independent external assessor. Responsibilities for these appointments are summarised in the following table.

Role	In FTs is appointed by	In other organisations is appointed by
Chair	Governors, at a general meeting, informed by the nominations committee and/or governors working group, after taking account of advice of board of directors	Appointments Commission
Chief executive	Committee of the chair and NEDs, approved by the governors	Committee of the chair and NEDs with an independent external assessor, approved by the board
NEDs	Governors, at a general meeting, informed by the nominations committee and/or governors working group, after taking account of advice of board of directors	Appointments Commission
EDs	Committee of the chair, chief executive and NEDs	Committee of the chair, chief executive and NEDs with an independent external assessor

[124] Likewise, the responsibilities for setting remuneration are shown in the following table.

Role	In FTs remuneration is decided by	In other organisations remuneration is decided by
Chair	Governors' at a general meeting, informed by the Nominations Committee or a governors working group	Secretary of State
Chief executive	Remuneration committee of at least three independent non-executive directors	Remuneration Committee of at least three non-executive directors
NEDs	Governors' at a general meeting, informed by the Nominations Committee or a governors working group	Secretary of State
EDs	Remuneration Committee of at least three independent non-executive directors	Remuneration Committee of at least three non-executive directors

[125] The Remuneration Committee has delegated responsibility for setting not only remuneration for the chief executive and all executive directors, but also including pension rights and compensation payments. This committee also recommends and monitors the level and structure of remuneration for senior management.

[126] Remuneration Committees are expected to consult with external professionals to market test remuneration levels at least every three years or, where appropriate, apply Government guidance on pay awards.

Enabling corporate accountability and good social processes

[127] In unitary NHS boards, all directors are collectively and corporately accountable for organisational performance.

[128] A key strength of unitary boards is the opportunity provided for the exchange of views between executives and NEDs, drawing on and pooling their experience and capabilities.

[129] Boards are 'social systems'. The most effective boards invest time and energy in the development of mature relationships and ways of working.

[130] Some techniques and practices that support and hinder the effectiveness of these social systems are summarised in the following table.

Ways of working that support good social processes	Ways of working that obstruct good social processes
Building a crystal clear understanding of the roles of the board and individual board members	Board members behaving in a way that suggests a 'master-servant' relationship between non-executive and executive
Actively working to develop and protect a climate of trust and candour	Executive Directors only contributing in their functional leadership area rather than actively participating across the breadth of the board agenda
Building cohesion by taking steps to know and understand each other's backgrounds, skills and perspectives	Demonstrating an unwillingness to consider points of view that are different from individual directors' starting positions
Encouraging all board members to offer constructive challenges	Challenge primarily coming from non-executive directors, rather than all directors feeling empowered to challenge one another in board meetings
Sharing corporate responsibility and collective decision-making	Challenging in a way that is unnecessarily antagonistic and not appropriately balanced with appreciation, encouragement and support
Ensuring that neither chair nor chief executive power and dominance act to stifle appropriate participation in board debate	Working in ways that don't demonstrate overall confidence in the executive and that feed individual anxiety and insecurity about capability

"It's not rules and regulations, its the way people work together."

Prof. Jeffrey Sonnenfeld[20]

Embedding board disciplines

[131] Competent, systematic board disciplines form the bedrock of good board functioning. These disciplines include:

- **Giving thoughtful attention to board agenda planning and management:** The chair is central in this process and needs to be vigilant in ensuring that board agendas maintain a complex range of 'balances' between:

  - strategy and performance management.

  - activity, finance and quality.

  - organisational priorities and the demands of regulators.

  - information sharing (presentation) by executives and whole board discussion.

- Chairs face the challenge of attending to the full breadth of the board's role while ensuring that board meetings do not descend into a gruelling test of board member endurance.

» International research demonstrates the value of placing quality and safety as a standing item on the board agenda.

» Placing quality at the top of the agenda can increase the attention given to the subject across the organisation.

» Dedicating significant board time to quality (at least 20%) is associated with improved quality outcomes.[3,6]

- **Board and committee year planners and annual programmes of work:** the board and its committees should be supported by an annual plan that sets out a coherent overall programme for formal board meetings, board seminars and away-days and committee meetings. It needs to take account of the organisational and system-wide planning cycle including key 'watershed events' such as contract negotiations, budget setting, regulatory returns and so on. It is good practice for the work of every committee of the board to be shaped by an annual plan.

- **Board papers:** The effectiveness of the board is predicated on the timely availability of board papers. Core disciplines for board papers include:

  - **Timeliness:** papers provided ideally a week ahead of meetings

  - **Cover sheets:** including, for each paper, the name of the author, a brief summary of the issue, the organisational forums where the paper has been considered, the strategic objective or regulatory requirement to which it relates, and an explicit indication of what is required of the board

  - **Executive summaries:** Succinct executive summaries that direct the readers' attention to the most important aspects.

- **Action logs:** Boards and committees can be helped to keep track of actions agreed by maintaining and monitoring a log. The log should show all actions agreed by the board, and for each action the 'ownership,' due dates, and status.

- **Declaration of interests and resolution of conflicts[20]:** Probity requires that the board maintains an up to date register of board members' interests. Board agendas should include an opportunity for board members to declare conflicts of interest that may relate to specific agenda items so that these can be managed appropriately.

- **Transparency and openness:** There is an important obligation on public services to ensure that they operate in an open and transparent manner. For many NHS organisations this is partially achieved by holding formal board meetings in public and the publication of papers[20]. The default position ought to be that business is conducted in the public board meeting. However, when a compelling case can be made for an item to be considered in private (for example a matter that involves individual confidentiality or commercial sensitivity), there is provision for attending to it in private. Some boards follow the principles in The Freedom of Information Act[21] for which items are considered in private.

132 Foundation Trust boards are not obliged to hold board meetings in public although some choose to do so. Foundation trusts remain a part of the public service, and thus retain the obligation to ensure openness and transparency to the public. Foundation Trust governors are required to meet in public.

133 Public board meetings alone are not a guarantee of transparency, and boards need to ensure that there is a wide range of ways for the public to access information about the way in which public resources are deployed. These include clear, informative, jargon-free annual reports, regular updating of an easily navigable website, the availability of key information in a range of appropriate languages and in forms that are accessible to those with disabilities.

Delegating appropriately

134 The formal powers of an NHS organisation are vested in the board but the NHS Code of Accountability[22] allows the board to delegate some of its business to board committees and to the executive. The board approach to delegation should be set out in:

- Standing orders which specify how the organisation conducts its business.

- Standing financial instructions which detail the financial responsibilities, policies and procedures adopted.

- The scheme of reservation and delegation. This sets out which responsibilities and accountabilities remain at board level and which have been delegated to committees and to the executive, together with the appropriate reporting arrangements that ensure the board has oversight.

135 Approaches and schemes of delegation must be subject to regular board review to ensure that the distribution of functions and accountabilities is accurately and appropriately described, and remains appropriate despite changes in the organisation.

136 A range of approaches to the configuration of board committees and options is set out in the compendium. The following table lists some tests that a board should take into account when considering its committee structure.

Boards may wish to apply the following tests before establishing a new committee:
Are the proposed functions of the committee really board functions or are they executive functions?
Is a standing committee really required – or can the task be undertaken by a short life group?
Are there good reasons why the proposed functions cannot be carried out by the whole board?
Is the committee being established because of one major incident or issue – is it a proportionate response?
Does the creation of the committee reduce clarity of role or create lack of alignment between other committees of the board and the board itself?

Exercising judgment

[137] This section recognises that at the heart of good governance is healthy debate about a spectrum of dilemmas that are not amenable to uniform guidance. Resolution of these dilemmas requires good judgment and acumen on the part of the board.

[138] Some of the dilemmas that present themselves to boards are set out in the remainder of this section. They are illustrative, not an exhaustive list. The optimal board responses to these issues cannot sensibly be mandated in guidance. Rather, boards are encouraged to set aside the necessary time to debate and explore these issues as part of their developmental journey.

Who is governance for?

[139] This dilemma identifies the complex question of who governance is for. It asks how the effective board might balance its responsibility to protect and safeguard the interests of the organisation with a duty to take a wider system and community perspective looking at 'the greater good'. Some of the issues to explore include:

- The core purpose of governance in the NHS is to build public and stakeholder confidence. But NHS boards – and particularly the boards of Foundation Trusts – also have a duty to act in the best interests of the organisation. How do boards respond if they believe that the public interest is best served by service and whole system changes that are uncomfortable for individual institutions?

- To what extent does the board role need to extend beyond the boundaries of the organisation or even the local health economy to reflect a 'system governance' approach?

Board effectiveness when things get tough

[140] Good governance is not judged by 'nothing going wrong'. Even in the best boards and organisations bad things happen and board effectiveness is demonstrated by the appropriateness of the response when there is difficulty. Some of the questions to explore here include:

- How does the board build resilience and capability to respond?

- What are the good foundations that are likely to allow boards to work effectively in good and bad times?

- How do chairs make the best judgments about supporting the chief executive and executive team when there are major organisational performance issues, or where there is significant external pressure to take particular action?

The place of regulatory assurance in ensuring accountability

[141] Boards and organisations devote a great deal of time and resource to responding to the demands and expectations of regulators. Clearly regulatory assurance must be an important component of overall board assurance processes. Some of the dilemmas for board members include:

- To what extent should board members rely on assessments from key regulators in undertaking their accountability role?

- How do board members avoid being lulled into a false sense of security by regulator assurance that inevitably offers a more partial picture than that which the board requires?

Where is power and authority really vested in the NHS system?

[142] Formally, NHS boards are both sovereign and accountable; the reality is inevitably less tidy. The Department of Health at central and regional level, major regulators and NHS boards share accountability, power and authority. And the balance of power ebbs and flows over time and in response to circumstances. In this context:

- How does the NHS board remain self-directed and retain an internal locus of control?

- How do board members retain a sense of their purpose and value in a context that may, at times, feel highly constrained?

Achieving a balance between managing risk and encouraging innovation

[143] A systematic approach to the management of risk is one way that boards build public confidence. However, it is also clear that the future sustainability of the NHS and its founding values will require creative and innovative solutions. Some of the questions boards may wish to debate include:

- How do we ensure that risk and innovation aren't seen as mutually exclusive?

- How do boards ensure that individuals and teams within the organisation take full and active responsibility for the management of risk without creating a straightjacket of anxiety that stifles creativity?

- Does your board know about and act on best practice emerging from the literature on encouraging innovation?

Hearing the 'lone voice in the wilderness'

[144] Reviews of significant governance failure frequently highlight individuals who raised ongoing concerns that were not heard but later turn out to have been early warning signs of impending difficulties. Some of the issues to explore here may include:

- What options are open to directors if they have concerns about board effectiveness and feel that their concerns are not getting a response?

- How do directors continue to express genuine concerns without becoming the proverbial 'dog with a bone'?

- When is it appropriate to let go of concerns that are not shared by others?

Building board engagement without blurring the boundaries

[145] In this guide, board members are encouraged to develop a 'textured' understanding of the staff and patient experience through direct processes of engagement. This approach is seen as a significant contributor to a board with the knowledge and skills effectively to safeguard quality and patient safety. But this approach also brings challenges and questions such as:

- How do we ensure that this approach allows boards to derive the benefits of wide engagement without the risk of being drawn into operational management?

- How do we ensure that the insight gained by individual board members is systematically and actively used in the board process.

- How do we ensure that the engagement by board members does not feel like 'scrutiny' and create unhelpful anxiety amongst staff?

Enabling effective financial stewardship

[146] The whole board is charged with ensuring that there is effective financial stewardship. This means that all board members share accountability for the financial health of the organisation. But board agendas are often crowded and proper financial stewardship and scrutiny takes time. In exploring their options boards may wish to consider:

- Is there a role for a Finance Committee of the board as well as the Audit Committee?

- Does the existence of a Finance Committee tempt board members to abdicate – 'I don't need to be concerned because the finance committee has looked at this?'

What is the board's role in effective clinical engagement?

[147] This dilemma explores the approach that boards need to take to clinical engagement as distinct from that of the executive leadership. Boards need to give thought to:

- How to make the best use of clinical advice? How to engage but remain strategic?

- How to ensure that boards make the best use of the scarce resource of clinical leaders' time?

How does the board play a role in developing executive leaders fit for the future?

[148] A challenge facing boards is the need to develop leaders that have the knowledge, skills and experience to operate in an increasingly challenging environment. But individual organisations may not have the scale to tackle this challenge. Boards may wish to explore:

- Where is the locus for effective talent management/ succession planning – is it at board or regional level?

- How might boards and organisations within a system collaborate to tackle this challenge?

Meeting in Public

[149] Many boards will conduct formal, decision-making meetings in public. While board members may be wholly committed to the transparency and public accountability that this offers, they are aware of the respects in which public board meetings can begin to feel a little like 'theatre'. The dilemmas for boards include:

- The balance of what goes onto the public versus private board agenda.

- The need to ensure that boards are able to reflect freely on a wide spectrum of strategic options without fuelling unnecessary public anxiety and 'setting hares running.'

Avoiding 'the curse of recentness'

[150] The NHS has never been short of new ideas and while this renewal and innovation is a real strength, the latest big idea can also exercise a form of tyranny over board and organisational agendas.

- How do boards ensure that they recognise and respond to valuable new ideas while simultaneously ensuring that longer-standing ideas and programmes are given the time and attention they need?

5 Roles of board members

The distinct roles of members of NHS boards are outlined in this section.

"It is sometimes said that the board needs to be on the bridge of the ship and not in the engine room. I think it is sometimes important to go into the engine room – because how else will you know how it works? The important thing is to remember that its not your job to play with the instruments!"

NHS chair

151 **All** board members share corporate responsibility for formulating strategy, ensuring accountability and shaping culture. They also share responsibility for ensuring that the board operates as effectively as possible.

152 The chair and chief executive have complementary roles in board leadership. These are set out in more detail at the end of this section, but it is helpful to identify the essence of these two roles, which are:

- The chair leads the board and ensures the effectiveness of the board.

- For Foundation Trusts, the chair also chairs the council of governors.

- The chief executive leads the executive and the organisation.

153 However there are also distinct roles for different members of the board, and indeed there are distinct roles depending on the type of NHS organisation. The compendium sets these out in more detail.

154 These distinct roles are set out in the table below, showing how they are aligned to the role of the board. The following abbreviations are used:

- **CE:** chief executive

- **NED:** non-executive director

- **ED:** executive director

- **FT:** Foundation Trust.

Roles of board members

155 While all board members share corporate responsibilities, their distinctive roles are set out opposite.

	Chair	Chief executive	Non-executive director	Executive director
Formulate Strategy	Ensures board develops vision, strategies and clear objectives to deliver organisational purpose	Leads strategy development process	Brings independence, external skills and perspectives, and challenge to strategy development	Takes lead role in developing strategic proposals – drawing on professional and clinical expertise (where relevant)
Ensure Accountability	Holds CE to account for delivery of strategy Ensures board committees that support accountability are properly constituted	Leads the organisation in the delivery of strategy Establishes effective performance management arrangements and controls Acts as Accountable Officer	Holds the executive to account for the delivery of strategy Offers purposeful, constructive scrutiny and challenge Chairs or participates as member of key committees that support accountability	Leads implementation of strategy within functional areas
Shape Culture	Provides visible leadership in developing a positive culture for the organisation, and ensures that this is reflected and modelled in their own and in the board's behaviour and decision making Board culture: Leads and supports a constructive dynamic within the board, enabling contributions from all directors	Provides visible leadership in developing a positive culture for the organisation, and ensures that this is reflected in their own and the executive's behaviour and decision making	Actively supports and promotes a positive culture for the organisation and reflects this in their own behaviour Provides a safe point of access to the board for whistle-blowers	Actively supports and promotes a positive culture for the organisation and reflects this in their own behaviour
Context	Ensures all board members are well briefed on external context	Ensures all board members are well briefed on external context		
Intelligence	Ensures requirements for accurate, timely & clear information to board/ directors (and governors for FTs) are clear to executive	Ensures provision of accurate, timely & clear information to board/ directors (and governors for FTs)	Satisfies themselves of the integrity of financial and quality intelligence	Takes principal responsibility for providing accurate, timely and clear information to the board
Engagement	Plays key role as an ambassador, and in building strong partnerships with: • Patients and public • Members and governors (FT) • Clinicians and Staff • Key institutional stakeholders • Regulators	Plays key leadership role in effective communication and building strong partnerships with: • Patients and public • Member and governors (FT) • Clinicians and Staff • Key institutional stakeholders • Regulators	Ensures board acts in best interests of the public Senior independent director is available to members and governors if there are unresolved concerns (FTs)	Leads on engagement with specific internal or external stakeholder groups

Board members' roles in building capacity and capability

[156] The preceding table described roles of board members that are related to the role of the board as a whole. Some members have, in addition, specific responsibilities to support board effectiveness. These specific responsibilities relate in particular to building the capacity and capability of the board. They are summarised in the following table, and explained below.

Chair	Chief executive	Non-executive director
Ensures that the board has the right balance and diversity of skills, knowledge and perspective, both NED and ED	Ensures that the executive team has the right balance and diversity of skills, knowledge and perspectives	
For FTs, supports the Nomination committee to undertake its role of appointing NEDs effectively		
With NEDs, appoints and removes the CE		NEDs including the chair, appoint and remove the chief executive.
With the Remuneration Committee, determines appropriate levels of remuneration of EDs		For members of the Remuneration Committee: same as for chair
Has a prime role in appointing, and where necessary removing, executive directors, and in succession planning	With the chair, has a prime role in appointing and where necessary removing executive directors, and in succession planning	As for chair, but a particular responsibility for members of the Remuneration Committee: supports the chair
Ensures that directors (and governors) have a full induction and continually update their skills, knowledge and familiarity with the organisation	With the chair, ensures that development programmes are in place for board members (and governors for FTs)	
Arranges regular evaluation of performance of the board, and its committees and the governors (for FTs). Conducts regular performance reviews of the NEDs, the CE and executive directors in relation to their board contribution. Acts on the results of these evaluations, including supporting personal development planning.	Uses the (board) performance evaluations as the basis for determining individual and collective professional development programmes for executive directors relevant to their duties as board members	For FTs: senior independent director (SID) and NEDs meet annually without the chair present to review the chair's performance. The SID takes soundings from governors.

Chair and chief executive roles and relationship

[157] Clarity of role and an effective working relationship between chair and chief executive are crucial to the effectiveness of the board.

[158] In essence the chair leads the board and non-executive directors, and the chief executive leads the executive and the organisation. In Foundation Trusts, the chair also chairs the council of governors.

[159] The table alongside shows a number of helpful tips and cautionary pointers for chairs and chief executives to support the development of their relationship.[23]

Tips for maintaining a good relationship

» Being honest and open
» Communicating well
» Agreeing clearly defined working styles and roles
» Establishing trust
» Building a personal relationship
» Developing shared values
» Promoting a 'no surprises' culture

Pointers for chairs and chief executives

Chair should NOT…	Chief executives should NOT…
Be too operational, interfere with details of management	Be too controlling or autocratic towards the chair
Exceed part time hours	Get too involved in NED role – e.g. no consultation on shaping board agendas
Take specific strategic decisions alone	Break the fundamental rule of 'no surprises'
Adopt bullying, macho 'hire and fire' culture	Be too entrenched in the organisation

Non-executive directors' time commitment

160 The expected time commitment for non-executive directors on NHS boards is often a hotly debated topic. This guidance does not specify the time expected of non-executive directors, but does set out some principles that may help:

- Chairs, in their board leadership role, have a key responsibility to plan and manage the time commitment required of non-executive directors in line with their role on the board in relation to strategy, accountability and culture.

- Some tasks that non-executive directors are asked to do can be undertaken by other, appropriately selected and trained lay people (for example chairing appeals panels or exceptional treatment panels).

- Experience has shown that the higher the time commitment expected of non-executive directors, the less likely boards are to attract and retain candidates with a diverse background (such as people who are younger, of black and minority ethnic origin, women).

- There is a balance to be struck between developing a good understanding of the organisation and how it is functioning in its health economy, and getting too involved in operational functions. It is important for non-executive directors to maintain the ability for objectivity and independent scrutiny.

- Newly appointed non-executive directors may find that they need and want to spend more time initially as they learn about the organisation, its people and its context.

- In times of significant organisational or service change, more time may be required of non-executive directors for a limited period.

Role of the company secretary

161 The role of company secretary is well established in Foundation Trusts, and is becoming increasingly prominent in other NHS organisations.

162 The company secretary:

- Is accountable to the chair.

- Ensures good information flows within the board and its committees between senior management and non-executive directors.

- Facilitates induction and assists with professional development[24].

- Is responsible for advising the board through the chair on all governance matters, including ensuring that the organisation complies with the relevant legislation and regulations (and in Foundation Trusts the terms of authorisation).

- Is responsible to the board for ensuring compliance with board procedures, and should be accessible to all directors.

163 For Foundation Trusts, the company secretary has additional responsibilities to support the council of governors.

Appendix 1: Perspectives on governance

164 There are a wide range of different models of governance, drawn from research, guidance and long standing practise.

165 It is understood that board members will bring past experience and favoured models into their current board role. It is important that, in their developmental processes, boards surface and debate the models that board members carry with them. This guide has not sought to settle on a particular definition of good governance. A sound understanding of governance derives from assimilating and blending this range of perspectives. A helpful overall definition of governance can be found in the Good Governance Standard[25]:

166 Another definition, from the Audit Commission[26], builds on this approach and further develops a strong values basis to effective governance.

167 The **'agency'** model[27] has the 'principal-agent' relationship at its centre. In this approach, the focus is on efforts by those in governance roles to ensure that others within the organisation act appropriately on their behalf. The model therefore emphasises monitoring and control systems including performance measures, incentives and sanctions.

168 A rather different view is presented in the **stakeholder** model. It identifies a multiplicity of competing and co-operating interests within organisations. The key aim of governance is to engage with, balance and integrate stakeholder interests ensuring that stakeholders are involved, supportive and are at least 'minimally content'.

169 The **stewardship** model also sees the need to engage with a range of interests but gives priority to the strong link between public bodies and civil society. The key role of those who govern is to create a framework of shared values and then to engage with key stakeholders and a suitably skilled and autonomous workforce, all of whom benefit from helping the organisation to achieve its goals.

170 The **policy governance**[28] model sharply distinguishes between the role of 'owners' (in the public service context, the local public) and 'operators' (those who deliver the service). In this model boards act as 'owner representatives' who set objectives but fully delegate the running of the organisation to operators via the chief executive as the main point of contact. A framework of policies limits the freedom of the management, ensuring that the effectiveness of an activity is not prioritised over its being ethical or prudent.

171 Recently a new approach has emerged from the experience of not-for-profit boards in the United States and is called Governance as Leadership[29] or **generative governance**. It describes three modes in which the board should be effective: fiduciary; strategic and generative. The main contribution of this tri-modal model is to emphasise the role of 'generative thinking' in producing a sense of what knowledge, information and data mean. This requires an active process of dialogue and engagement between the board, staff and service users.

172 Each of these perspectives highlights particular and important elements of the board role. Thus, for example, while good governance clearly flows from a framework of rigorous controls, staff commitment to operating these controls with the necessary consistency may well derive from shared values around patient safety or equality of access. Likewise clearly distinguishing the respective roles of board and management may not necessarily be incompatible with creating opportunities for the board to develop the deep understanding of patient and staff experience that is described within the generative governance model.

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