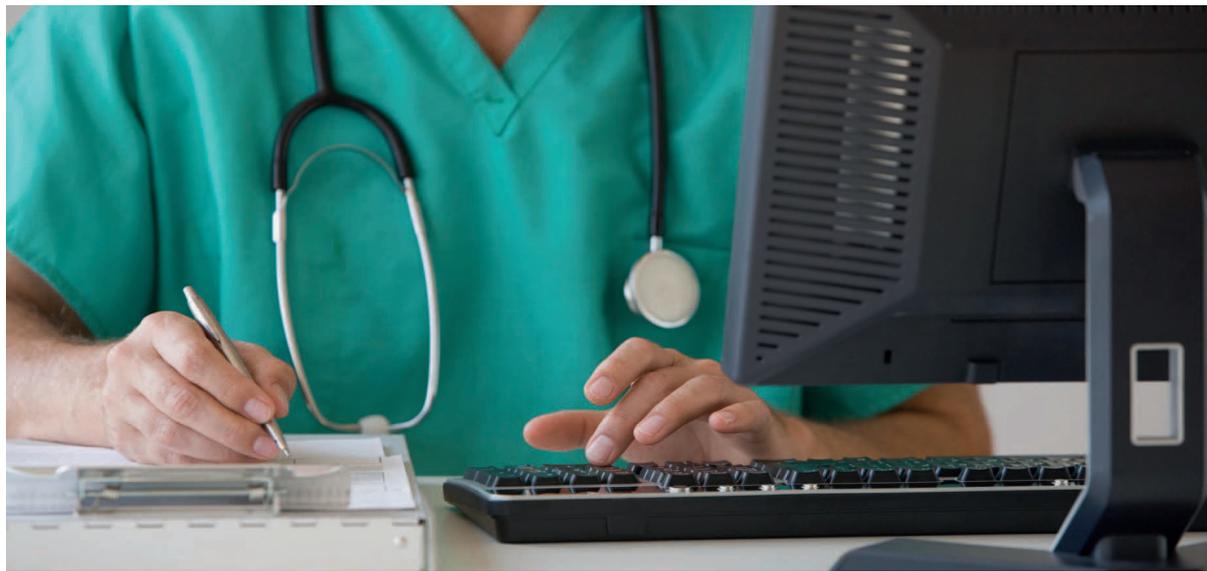


NHS Briefing

What makes an effective Board?



Practical lessons from board governance reviews

1. Introduction

In response to the increasing emphasis on NHS board capabilities, the Department of Health developed, with the support of Deloitte, the Board Governance Assurance Framework (BGAF). This is designed to assist trusts in preparation for foundation trust authorisation and to give assurance to their stakeholders that a coherent and standard approach is being taken by the NHS towards board development.

Most authorised foundation trusts have not been subject to assessment against this framework. On-going regulatory developments by Monitor continue to drive forward the board governance agenda and have established a pressing need to disseminate governance and leadership learning and good practice amongst all NHS organisations.

We have a comprehensive understanding of the requirements of board governance as we were engaged by the Department of Health to help develop the BGAF. In addition we have carried out a significant number of reviews of foundation trust and aspirant foundation trust board governance arrangements as part of BGAF or as a result of significant breach or turnaround. Using our experience, we have developed this briefing to explain some of the key governance challenges faced by NHS boards and have identified lessons from the BGAF that will assist foundation trusts.

Monitor requires boards to provide a Corporate Governance Statement in their forward plans and to support these with in-year assurance which includes coverage of governance.

2. Background

The BGAF has been designed to ensure that boards of aspirant foundation trusts achieve foundation trust status. The BGAF distinguishes a number of *essential* elements of governance, namely:

- How the board is **composed**, including the balance of its collective skills, knowledge and experience.
- How the board uses **evaluation** and learning to develop and improve.
- How the board gains **insight and foresight** through using and communicating information effectively.
- How the board **engages and involves** others.

The relevance of the BGAF is not, however, limited to aspirant foundation trusts. There is an on-going and increasing need for all trust boards to develop their capability and skills and to review the effectiveness of their board governance, underlined by regulatory developments.

Taking responsibility and ownership for effective governance is at the heart of Monitor's **Regulatory Regime**. Although the final Risk Assessment Framework has not yet been published. Monitor already requires boards to provide a Corporate Governance Statement in their forward plans and to support these with in-year assurance which includes coverage of governance. The **Provider Licence** reflects these expectations for ensuring effective governance by requiring trusts to have, for example, effective board and committee structures, a clear responsibility and accountability framework (including appropriate levels of challenge), reporting lines and performance and risk management systems.

Monitor's recent Risk Assurance Framework

proposals suggest that the current governance provisions will be reinforced by a requirement for a regular external review of governance. The detailed scope is still to be developed, but the indication is that it will include assessment of the board's capability and processes, board effectiveness, and the effectiveness of risk assurance processes.

The present regulations and licence conditions support the key tenet that trusts should be autonomous and be allowed to decide how they will ensure compliance. We have set out some guidance to boards on 'what does good look like?'

3. Key challenges

Deloitte have a unique insight into how effectively NHS boards deliver against the core elements of governance. from our work in the development of the BGAF and from reviews of foundation trust and aspirant foundation trust governance arrangements. We have examined the significant elements of board governance and leadership in turn to draw out the key themes and findings that have arisen from these reviews.

Board composition and skills

Positions and size

Numerically small NHS boards faced with guiding and improving large and diverse organisations will always face an uphill challenge. This challenge is made all the more difficult if the size and the structure of the board is insufficient even when compared to peers. The size of the board needs to be appropriate for the requirements of the business and this should be actively considered by the board. Many boards have evolved their structures and composition over a period of time and this make-up goes unchallenged. Consequently, structures are allowed to dictate requirements instead of the other way round.

Although Trust constitutions constrain board positions and the numbers of voting directors that they must have, we have found very few boards that have actively considered the size of and positions on their board against the current needs of the organisation and against a peer group. As an example of this, despite workforce management and staff engagement being amongst the most pressing challenges for boards, the role of Director of Human Resources is often not an Executive appointment due, often, to there not being a suitable vacant place on the board.

Balance

Turnover within a board is inevitable over time; and is often desirable: boards that are too stable are liable to stagnate. But in a rapidly changing health landscape, some boards are being subject to increased turnover as competition, regulation and scrutiny take a toll. We have begun to see this level of turnover having a negative impact on organisations as a whole. Indeed, organisational issues are often attributed not to an event but to the departure of a senior member of the board. When we speak to staff within organisations that have suffered high levels of board turnover, there are three key areas of impact:

- perception of effective leadership;
- continuity of messages and culture; and
- momentum in delivery of change and improvement.

The initial impact on continuity, organisational memory and knowledge can be partially mitigated through a clear continuity and succession planning process. The use of high calibre deputies instead of interim appointments can ensure that the impact on staff and portfolios is minimised. Boards need to view these plans in the context of the organisation's strategic direction: some members of the board and positions on the board will have a disproportionate impact on the direction of the trust and, consequently, the morale of staff.

Challenge and scrutiny

Many boards and board members struggle to distinguish constructive 'challenge and healthy debate' from 'dissent and an absence of collective responsibility'. Whilst some boards and, in particular, some Chairs find it relatively easy to encourage a culture of debate and challenge, we have found that the nature and structure of some boards does not support this. There are three principal issues that we have observed:

- Poor quality information and analysis: This results in too much time being given to understanding board papers than is given to strategic questioning and debate.
- Insufficient focus on Board development: Boards need to review their programme of activities to ensure there is sufficient time for informal debate and relationship building.
- Inappropriate use of private sessions: Many boards include within their private sessions too many matters that are merely included because members feel more comfortable and less scrutinised in that environment.

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Evaluation, development and learning.

Board-level evaluation

Our assessments have highlighted that many boards do not give enough consideration to how effective they are. In an environment that is seeing increased turnover at board level, there is a real need for trusts to put in place formal, regular and independent evaluations of the effectiveness of their boards. Most of the boards that were assessed as part of BGAF have endeavoured to carry out some degree of evaluation. However, we have identified some core deficiencies in many of these evaluations:

- Evaluations need to incorporate an element of **independence** to allow boards to take on and understand the important and difficult messages. Many evaluations of board effectiveness that are being carried out are designed to comply with the process, not the principle.
- To avoid the risk of trust boards being 'isolated' from the health economy, boards should be encouraged to consider the perspectives of both internal and external **stakeholders** in assessments of effectiveness. Few boards we observed actively encouraged input from staff, commissioners and patients.
- The assessment of '**softer**' dimensions of effectiveness, such as skills, experience, relationships, and levels and effectiveness of challenge is often not addressed. Partially this is because the evaluation of these areas may require more skilled and independent expertise, but also the identified areas of improvement can be more challenging to address
- The failure to address the **dynamics** of the board. It is very common in NHS organisations that are struggling to improve or facing failure to discover that there is a board that has not gelled as a team. Not surprisingly, this results in the failure of a group of individuals to behave collectively and this is typically reflected in ineffective decision-making processes.

Board development

Given the absence of board evaluation, it is not surprising to discover that many boards do not have a board development programme. More surprisingly, where they do, their programme of work is often not aligned to the outcomes of the board evaluation. A very significant number of those have fundamentally struggled to demonstrate how they have learnt messages from the process and how they have applied these to their behaviours, both as a board and as individuals. Following evaluation, whilst the results of the evaluation are fresh in the minds of those involved, boards need to actively identify and act on areas for improvement as a matter of urgency, if benefits of the evaluation are not to be lost.

Across board members there is often an absence of direct consideration of the views of their peers on the quality of their individual contribution. It is telling that the same trusts that are likely to have inadequate processes for setting and appraising board member objectives are likely to be the same ones that struggle to link the objectives and performance of staff to the strategic goals of the organisation. A disturbingly high number of Non-Executive Directors do not have in place meaningful objectives against which they are assessed.

Insight and foresight

Board performance reporting

Effective management of performance is a key success measure for all organisations in today's NHS. Better clinical outcomes, service delivery and efficiency depend on it. A key role of NHS trust boards is to set the trust's strategic aims, ensure the financial and human resources are in place to meet its objectives, and review management performance. Yet few of the boards we see receive a performance report which includes a fully integrated performance dashboard. This would assist the board to consider and triangulate the performance of the trust against a range of metrics including quality, performance, activity, workforce and finance.

The majority of interviews that we conduct with board members described information within the NHS as "data-rich but information poor" with little context or commentary to support data. Non-Executive Directors in particular are inclined to feel that they are provided with a significant amount of data but without a clear idea as to why it is being provided, what the key issues are that are being demonstrated, and what decision needs to be made. Boards need to independently assess the quality of their performance reporting.

Strategic focus

Most trust boards review lessons learned and the specific impact upon the organisation such as consideration of the Francis Inquiry. However, we have found that many boards have a weaker focus on clearly understanding the nature of the risks to achieving their objectives and the severity of the risks. Often there is no time specifically set aside for the board to consider more medium to long-term strategic risks. In relation to risks in particular, there is often infrequent or ineffective use of the Board Assurance Framework to actively monitor the strategic risks to the trust and drive the board's agenda.

We have found that for many trusts there is a failure to ensure that the trust's strategic objectives are aligned to those of commissioners, or that a coherent strategic approach is clearly communicated to staff. Discussion with stakeholders, including staff, frequently indicates dissatisfaction with their lack of involvement in the development of the trust's strategy. Divisional clinical strategic engagement and leadership are often ineffective, and this is inevitably reflected by a lack of ownership or knowledge of the trust's agenda amongst the very staff that are expected to deliver against it.

Board engagement and involvement

Staff involvement

There is a much greater pressure now than before on NHS boards and clinical leaders to take account of the views of others that are involved with trusts, such as patients and commissioners. However, we find the most significant challenge is frequently staff engagement.

An engaged and motivated workforce is key to a trust's ability to deliver its objectives and to improve services and quality of care. Few trusts are able to demonstrate that they are effectively listening to staff. Engagement is a two way process and trusts need to be wary of putting too much emphasis on the process of staff engagement without giving due consideration to the impact of the engagement process and encouraging their active involvement.

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One of the challenges faced by any large organisation is the potential remoteness of the senior management of the organisation from the frontline staff. We have noted that many trusts are trying much harder to get Executive and Non-Executive Directors out to service lines. Whilst this is to be applauded, in organisations with thousands of employees it can only have a limited impact. Trusts should put equal emphasis on ensuring that the critical middle managers are actively engaging with staff and are escalating and cascading both strategic and operational messages between the board and the services. In the worst cases, we have come across trusts where heads of service and frontline staff have almost no awareness or visibility of the trust board.

4. Key questions

All NHS boards need to consider carefully the questions raised by the Board Governance Assurance Framework and the steps that they will take locally to address them. It is clear that the establishment and maintenance of principles of good board governance represent a challenge. This is not a 'tick box' exercise but requires meaningful preparatory work to ensure that arrangements are embedded and have an impact. The key questions that you should consider are:

- Do you understand how you can both implement and demonstrate effective arrangements for board governance in your organisation?
- Have you assessed the balance of your board's collective skills, knowledge and experience?

- Has your board engaged in a meaningful evaluation of its effectiveness that can demonstrate improvement?
- Are you satisfied with the quality and the appropriateness of performance reporting that is received by the Board?
- Are you effectively engaging with frontline staff to ensure that they can help the trust deliver on its priorities?

If you believe that there are gaps or concerns from answering the above questions, we suggest you should be looking to give this greater priority over the coming months, so that you can use good practice to develop a high-class board. If you would like to know more, then please phone or email your local Deloitte contact who will gladly discuss how our Healthcare Governance Practice can provide support.

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