

Governing Body (public) meeting

DATE: 21 May 2015

Title	Self-Assessment of compliance with the UK Corporate Governance code issued by the Financial Reporting Council	
Recommended action for the Governing Body	That the Governing Body: APPROVE the CCG's compliance with the UK Corporate Governance code as laid out in the attached report.	
Executive summary	<p>The report examines how the CCG compares with the corporate governance code and the prospect of continued success in the long term.</p> <p>The code is part of a framework of legislation, regulation and best practice standards which aims to deliver high quality corporate governance. It provides scope for improvement, making sure it is always relevant.</p> <p>One of the essential elements of the code is dialogue, constructive challenges and debate. It is also about establishing a culture, values and ethics of the organisation, setting the tone from the top.</p> <p>There is emphasis in the code on risks and how this affects long term viability. The Chair is encouraged to report personally in the annual report and accounts on the code and how it relates to the effectiveness of the governing body.</p>	
Which objective does this paper support?	Patients: Improve the health and wellbeing of people in Bexley in partnership with our key stakeholders	✓
	People: Empower our staff to make NHS Bexley CCG the most successful CCG in (south) London	✓
	Pounds: Delivering on all of our statutory duties and become an effective, efficient and economical organisation	✓
	Process: Commission safe, sustainable and equitable services in line with the operating framework and which improves outcomes and patient experience	✓

Clinical Commissioning Group

Organisational implications	Key risks <small>(corporate and/or clinical)</small>	Failure by the CCG to adhere to the UK corporate governance code.
	Equality and diversity	None identified in this report.
	Patient impact	Failure by the CCG to adhere to the UK corporate governance code may impact on patient care and service delivery.
	Financial	Failure by the CCG to adhere to the UK corporate governance code may impact on service delivery and the CCG's finances.
	Legal issues	None identified in this report.
	NHS constitution	Failure by the CCG to adhere to the UK corporate governance code may result in a breach of the NHS constitution.
Consultation (public, member or other)	Not applicable	
Audit (considered/approved by other committees/groups)	Not applicable	
Communications plan	None identified	
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Date	8 May 2015	

Self-Assessment of compliance with the UK Corporate Governance Code issued by the Financial Reporting Council

Introduction

The purpose of this report is to undertake a self-assessment of compliance of the CCG with the UK corporate governance code from the Financial Reporting Council. The code states that the purpose of corporate governance is to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the company. As a result the report examines how Bexley CCG compares with the code and the prospects of continued success in the long term.

The first version of the UK Corporate Governance Code (the Code) was produced in 1992 by the Cadbury Committee. Its paragraph 2.5 is still the classic definition of the context of the Code:

'Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The board's actions are subject to laws, regulations and the shareholders in general meeting'.

Corporate governance is therefore about what the board of a company does and how it sets the values of the company. It is to be distinguished from the day to day operational management of the company by full-time executives.

The Code

The Code is a guide to a number of key components of effective governing body practice. It is based on the underlying principles of all good governance: accountability, transparency, probity and focus on the sustainable success of an entity over the longer term. Over two decades of constructive usage of the Code have contributed to improved corporate governance in the UK

It is part of a framework of legislation, regulation and best practice standards which aims to deliver high quality corporate governance with in-built flexibility for companies to adapt their practices to take into account their particular circumstances. Similarly, investors (patients and the public) must take the opportunity to consider carefully how companies (including CCGs) have decided to implement the code. There is always scope for improvement, both in terms of making sure that the code remains relevant and improving the quality of reporting.

As a result CCG governing bodies (Boards) must continue to think comprehensively about their overall tasks and the implications of these for the roles of their individual members. Absolutely key in these endeavours are the leadership of the CCG Chair, the support given to and by the Chief Officer, and the frankness and openness of mind with which issues are discussed and tackled by all governing body members.

Essential to the effective functioning of any governing body is dialogue which is both constructive and challenging. One of the ways in which constructive debate can be encouraged is through having sufficient diversity on the governing body. This includes, but is not limited to, gender and race. Diverse governing bodies' composition in these respects is not on its own a guarantee. Diversity is as much about differences of approach and experience and it is very important in ensuring effective engagement with key stakeholders and in order to deliver the business strategy.

One of the key roles for the governing body includes establishing the culture, values and ethics of the organisation. It is important that the governing body sets the correct 'tone from the top'. The governing body members should lead by example and ensure that good standards of behaviour permeate throughout all levels of the CCG. This will help prevent misconduct, unethical practices and support the delivery of long-term success.

The current code has focussed on the provision by companies (including CCGs), information on risks which affect long term viability. In doing so the information needs of investors (the public) has been balanced against setting appropriate reporting requirements. Companies including CCGs will now need to present information to give a clearer and broader view of solvency, liquidity, risk management and viability. For their part the public and other stakeholders in the CCGs will need to assess these statements thoroughly and engage accordingly.

The code points out that to run a CCG governing body successfully should not be underrated. It recognised that constraints on time and knowledge combine with the need to maintain mutual respect and openness between a cast of strong, able and busy GB members dealing with each other across the different demands of their roles and that to achieve good governance requires continuing and high quality effort.

The Chair is encouraged to report personally in the annual statements how the principles relate to the role and effectiveness of the governing body has been applied. Not only will this give stakeholders and the public a clearer picture of the steps taken by the governing body to operate effectively but also by providing fuller context, it may make the public more willing to accept explanations when a CCG chooses to explain rather than to comply with one or more provisions.

Compliance with the main principles of the code

Item	Corporate Governance Code Provision	NHS Bexley CCG compliance
1.0	<p>Leadership Every CCG should be headed by an effective governing body which is collectively responsible for the long-term success of the CCG.</p> <ul style="list-style-type: none"> • The GB should meet regularly to discharge its duties effectively. There should be a formal schedule of matters specifically reserved for its decision. • The annual report should include a statement of how the GB operates, including a high level statement of which types of decisions are to be taken by the GB and which are to be delegated to management. • The annual report should identify the chair, the deputy chairman (where there is one), the chief officer, GB members and the chair and members of committees. It should also set out the number of meetings of the GB and those committees and individual attendance by members. • The CCG should arrange appropriate insurance cover in respect of legal action against its GB members and executives of the organisation. <p>There should be a clear division of responsibilities at the head of the CCG between the running of the GB and the executive responsibility for the running of the CCG's business. No one individual should have unfettered powers of decision.</p> <ul style="list-style-type: none"> • The roles of chair and chief officer should not be exercised by the same individual. The division of responsibilities between the chair and chief officer should be clearly established, set out in writing and agreed by the GB. 	<p>NHS Bexley CCG fulfils its obligations under Leadership. The CCG is headed by an effective governing body with a Chair and the full complement of all positions on the governing body.</p> <p>GB meetings are held every other month in public to consider agenda items and make decisions. Members of the public attend and have the opportunity to ask questions and raise issues with the Chair and the governing body members.</p> <p>The 2014-15 annual report and accounts included statements on how the GB operated and continue to operate. This included partnership working</p> <p>The 2014-15 annual report as required identified the CCG's Chair who also wrote a welcome on behalf of the CCG. The members' report identified all officers, members and chairs of committees of the CCG, together with attendances at committee meetings.</p> <p>The CCG has an insurance cover from NHS Litigation Authority. The cover provides for any legal action against GB members and executives while performing CCG duties.</p> <p>There is a clear responsibility between the head of the CCG (the Chair of the Governing Body) who is responsible for the strategic management of the CCG and the Accountable officer who is responsible for the operational management of the business.</p>

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	<p>The chair is responsible for leadership of the GB and ensuring its effectiveness on all aspects of its role.</p> <ul style="list-style-type: none"> The chair should prior to election meet the criteria set out in the CCG's constitution. A chief officer should not go on to be chair of the same CCG. If exceptionally a GB decides that a chief officer should become chair, the GB should consult the membership and NHS England in advance and should set out its reasons to membership at the time of the election and appointment and in the next annual report. <p>As part of their role as members of the CCG's unitary GB, lay members and non-elected GB members should constructively challenge and help develop proposals on strategy.</p> <ul style="list-style-type: none"> The GB should appoint one of the independent lay members to be the senior independent member of the GB to provide a sounding board for the chair and to serve as an intermediary for the other GB members when necessary. The senior independent Lay member should be available to the membership if they have concerns which contact through the normal channels of chair, chief officer or other executive directors has failed to resolve or for which such contact is inappropriate. The chair should hold meetings with the lay members and GB members without the executives present. Led by the senior independent lay member, GB members should meet without the chair present at least annually to appraise the chair's performance and on such other occasions as are deemed appropriate. Where GB member have concerns which cannot be resolved about the running of the organisation or a proposed action, 	<p>The Chair of the CCG is separate from the Accountable Officer.</p> <p>The Chair of the CCG is appointed through a three stage process of nomination, interviews and election by the membership. The process enables the CCG to ensure that only those who meet the criteria are put before the membership for election.</p> <p>The CCG's constitution stipulates who can become the Chair of the CCG. Currently the Chief Office cannot go on to become the Chair. Should the CCG decide in future that the Chief Officer should go on to become the Chair, clearance will have to be sought from NHS England.</p> <p>The Lay member on the GB for Finance and Audit is the senior independent lay member. He is available and may be contacted by the membership and other GB members.</p> <p>The chair has held meetings with the appointed and elected members of the GB without the executives during the year.</p> <p>The GB members have not yet met and appraised the performance of the Chair however this will be implemented from next year with the election of a new Chair and GP Leads in September 2015.</p>

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	<p>they should ensure that their concerns are recorded in the GB minutes. On resignation, a Lay member and other Non-elected members of the GB should provide a written statement to the chair, for circulation to the GB, if they have any such concerns.</p>	<p>This aspect of the code will be implemented where an independent lay member or the other Non-elected members resign from the GB.</p>
2.0	<p>Effectiveness</p> <p>The GB and its committees should have the appropriate balance of skills, experience, independence and knowledge of the CCG to enable them to discharge their respective duties and responsibilities effectively.</p> <p>The GB should identify in the annual report each GB member it considers to be independent. The GB should determine whether the GB member is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the GB member's judgement. The GB should state its reasons if it determines that a GB member is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination, including if the director:</p> <ul style="list-style-type: none"> • has been an employee of the CCG within the last five years; • has, or has had within the last three years, a material business relationship with the CCG either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with the CCG; • has received or receives additional remuneration from the CCG apart from a GB member's fee, participates in a performance related pay scheme, or is a member of the NHS's pension scheme; • has close family ties with any of the CCG's advisers, directors or senior employees; • holds cross-GB memberships or has significant links with other GB members and directors through involvement in 	<p>The CCG's GB and its committees are made up of elected clinicians, appointed clinicians and lay members with appropriate skills and knowledge required for the performance of their duties and responsibilities effectively.</p> <p>The CCG's 2014-15 annual report under the GB membership has identified not only lay members but all members of the CCG's GB with their profiles. The profiles identify independent members. The following have been noted:</p> <ul style="list-style-type: none"> • None of the independent members have been employees of the CCG in the last five years • None of the independent members has had within the last three years, a material business relationship with the CCG either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with the CCG; • None has received or receives additional remuneration from the CCG apart from GB member's fee, do not participate in a performance related pay scheme, or is a member of the NHS's pension scheme through the CCG; • None has close family ties with any of the CCG's advisers, directors or senior employees; • Those GB members who hold cross-GB memberships or has significant links with other GB members and directors through involvement in other companies or bodies have declared this relationship in their declaration of interests; • None has served on the GB for more than nine years from

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	<p>other companies or bodies;</p> <ul style="list-style-type: none"> has served on the GB for more than nine years from the date of their first election. <p>There should be a formal, rigorous and transparent procedure for the appointment of new governing body members.</p> <ul style="list-style-type: none"> There should be a nomination committee which should lead the process for GB member appointments and make recommendations to the GB. A majority of members of the nomination committee should be independent lay members and non-elected members. The chair should be an independent lay member of the committee, but the chair should not chair the nomination committee when it is dealing with the appointment of a successor to the chair ship. The nomination committee should make available its terms of reference, explaining its role and the authority delegated to it by the governing body. A separate section of the annual report should describe the work of the nomination committee including the process it has used in relation to GB members appointments. This section should include a description of the GB's policy on diversity, including gender, any measurable objectives that it has set for implementing the policy and progress on achieving the objectives. An explanation should be given if neither an external search consultancy nor open advertising has been used in the appointment of a chairman or a member of the GB. Where an external search consultancy has been used, it should be identified in the annual report and a statement made as to whether it has any other connection with the CCG. 	<p>the date of their first election.</p> <p>The CCG's constitution stipulates the process for the appointment of new governing body members. There are two categories of members on the GB. The elected members and non-elected members who are appointed.</p> <p>The constitution provides for a three stage process for the appointment of those elected and also the non-elected. The chair of the Remuneration Committee is an independent lay member on the GB. The Remuneration Committee's terms of reference is available for inspection and on the CCG's intranet.</p> <p>The CCG's Remuneration Committee performs the function of the Nomination Committee in oversight of the election process.</p> <p>The Remuneration Committee has followed the process of appointment laid down in the constitution. Appointments of all categories of GB members are undertaken in-house.</p> <p>All GB members prior to appointment are made aware of the time commitments required from them.</p> <p>Job descriptions and person specifications have been prepared</p>

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	<p>All GB members should be able to allocate sufficient time to the CCG to discharge their responsibilities effectively.</p> <ul style="list-style-type: none"> • For the appointment of the CCG chair, the nomination committee should prepare a job specification, including an assessment of the time commitment expected, recognising the need for availability in the event of crises. A chair's other significant commitments should be disclosed to the GB before appointment and included in the annual report. Changes to such commitments should be reported to the GB as they arise and their impact explained in the next annual report. • The terms and conditions of appointment of independent lay members should be made available for inspection. The letter of appointment should set out the expected time commitment. The lay members should undertake that they will have sufficient time to meet what is expected of them. Their other significant commitments should be disclosed to the GB before appointment, with a broad indication of the time involved and the GB should be informed of subsequent changes. <p>The GB should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.</p> <ul style="list-style-type: none"> • The GB should ensure that directors, especially lay members have access to independent professional advice at the company's expense where they judge it necessary to discharge their responsibilities. Committees should be provided with sufficient resources to undertake their duties. • All GB members should have access to the advice and services of the CCG's Director of Governance and Quality who is responsible to the GB for ensuring that GB procedures are complied with. 	<p>and are available for all candidates who wish to contest for the Chair's position.</p> <p>The CCG Chair has declared his interests and this is included with those of the other GB members. The declaration of interests is presented to the GB at each meeting and is published on the CCG's website.</p> <p>The terms and conditions of appointment of independent lay members are available for inspection. The terms of their appointments are set out together with the expected time commitment. Prior to appointment the lay members commit to the time expected of them.</p> <p>The GB meets once every other month and in between these meetings the GB members attend either seminars or think tanks to consider strategy, new legislation and DH/central government policy and direction. Information in a number of formats and the required quality are provided to the GB members in a timely manner.</p> <p>All GB members in carrying out their duties have access to professional and legal advice. In addition the GB members have access to the Director of Governance and Quality who has responsibility for ensuring that GB procedures are complied with.</p> <p>The process of undertaking a formal and rigorous evaluation of the GB's own performance and that of its committees will be</p>

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	<p>The GB should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.</p> <ul style="list-style-type: none"> • The GB should state in the annual report how performance evaluation of the GB, its committees and its individual members has been conducted. • The lay members led by the senior, should be responsible for performance evaluation of the chair, taking into account the views of executive directors. <p>All GB members should be submitted for re-election at regular intervals, subject to continued satisfactory performance.</p>	<p>undertaken once a new Chair is elected in September 2015.</p> <p>The CCG's constitution provides for members of the GB to be elected/appointed for a three-year tenure but eligible to be elected/appointed for a further two terms totalling 9 years in total.</p>
3.0	<p>Accountability</p> <p>The GB should present a fair, balanced and understandable assessment of the CCG.</p> <ul style="list-style-type: none"> • The GB should explain in the annual report their responsibility for preparing the annual report and accounts, and state that they consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for stakeholders to assess the CCG's position and performance, business model and strategy. There should be a statement by the auditor about their reporting responsibilities. • The GB should include in the annual report an explanation of the basis on which the CCG generates or preserves value over the longer term (the business model) and the strategy for delivering the objectives of the CCG. • In the annual report the GB should state whether they 	<p>The GB in the 2014-15 annual report outlined its responsibility and the assurance of a fair and balanced annual report with information necessary for the membership and other stakeholders. The information provided in the report should enable stakeholders assess the CCG's position and performance, business model and strategy. There was also an auditor's statement on their reporting responsibilities.</p> <p>The CCG in the annual report included an explanation of the basis on which the CCG generated or preserved value over the longer term and the strategy for delivering the objectives of the CCG.</p>

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	<p>considered it appropriate to adopt the going concern basis of accounting in preparing them and identify any material uncertainties to the CCG's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.</p> <p>The GB is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The GB should maintain sound risk management and internal control systems.</p> <ul style="list-style-type: none"> • The GB should confirm in the annual report that they have carried out a robust assessment of the principal risks facing the CCG, including those that would threaten its business model, future performance, solvency or liquidity. The GB members should describe those risks and explain how they are being managed or mitigated. • Taking account of the CCG's current position and principal risks, the GB members should explain in the annual report how they have assessed the prospects of the CCG over what period they have done so and why they consider that period to be appropriate. The GB should state whether they have a reasonable expectation that the CCG will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary. • The CCG should monitor the CCG's risk management and internal control systems and at least annually, carry out a review of their effectiveness, and report on that review in the annual report. The monitoring and review should cover all material controls, including financial, operational and compliance controls. 	<p>The annual report and accounts were prepared on the basis of a going concern with no material uncertainties of the CCG's ability to continue operating over the next twelve months</p> <p>The CCG maintains a corporate risk register where both strategic and operational risks where identified are logged and managed. The CCG's GB at each meeting receives and considers high level risks.</p> <p>The CCG in the annual report listed the principal risks facing the organisation. The risks were reviewed by the GB at each meeting during the year.</p> <p>The GB believes the CCG will continue to operate and meet its liabilities as they fall due. This follows a positive audit of the CCG's risks on the risk register.</p> <p>The CCG regularly monitors the risk management and internal control system. It also carries out the review of their effectiveness and this was reported in the annual report.</p>

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	<p>The GB should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the CCG’s auditors.</p> <ul style="list-style-type: none"> • The GB should establish an audit committee of at least three members. The Chair of the CCG may be a member but may not chair the committee. The CCG should satisfy itself that at least one member of the audit committee has recent and relevant financial experience. • The main role and responsibilities of the audit committee should be set out in its terms of reference. The terms of reference should include its role and authority delegated it by the GB. • A separate section of the annual report should describe the work of the committee in discharging its responsibilities. 	<p>NHS Bexley CCG has an audit committee known as the Audit and Integrated Assurance Committee. The Chair of the Audit Committee is the lay member responsible for Audit and Finance</p> <p>The role and powers of the audit committee is set out in the terms of reference and included in the annual report.</p> <p>A section of the annual report has described the work of the audit committee and how it discharges its responsibilities.</p>
4.0	<p>Remuneration</p> <p>GB and Executive Directors’ remuneration should be designed to promote the long-term success of the CCG. Performance-related elements should be transparent, stretching and rigorously applied.</p> <p>The remuneration committee should judge where to position the CCG relative to other CCGs. But they should use such comparisons with caution, in view of the risk of an upward ratchet of remuneration levels with no corresponding improvement in corporate and individual performance and should avoid paying more than is necessary.</p> <p>They should also be sensitive to pay and employment conditions elsewhere within the CCGG, especially when determining annual salary increases.</p>	<p>The CCG’s Remuneration Committee is responsible for setting the setting of the remuneration of directors and GB members. The CCG does not award performance related pay to GB members or directors.</p> <p>The Remuneration Committee’s pay awards are determined by DH and NHS England guidelines and what is awarded to similar positions across SE and London in general.</p> <p>Pay awards are determined by DH and NHS England guidelines and as a result the Remuneration Committee is guided by these.</p>

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	<p>There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.</p>	<p>The procedure and fixing of executive remuneration is determined by NHS England guidelines, comparative remuneration in SE and London in general. The policy and procedure on conflicts of interests prevents directors from being involved in determining their own remuneration.</p>
5.0	<p>Relations with Stakeholders</p> <p>There should be a dialogue with the public and other stakeholders based on the mutual understanding of objectives. The GB as a whole has responsibility for ensuring that a satisfactory dialogue with stakeholders takes place. The GB should keep in touch with stakeholder opinion in whatever ways are most practical and efficient.</p> <ul style="list-style-type: none"> • The GB should state in the annual report the steps they have taken to ensure that GB members develop an understanding of the views of major stakeholders about the CCG, for example through direct face-to-face contact and surveys of stakeholder opinion. <p>The GB should use general meetings to communicate with the membership and to encourage their participation.</p> <ul style="list-style-type: none"> • At the annual general meeting, the CCG should propose a separate resolution on each substantially separate issue and should in particular propose a resolution at the AGM relating to the annual report and accounts. • The CCG Chair should arrange for the chairs of the audit and remuneration committees to be available to answer questions at the AGM and for all GB members and executive directors to attend. 	<p>The CCG holds regular meetings and briefing sessions for the membership through its locality and borough-wide GP forums in addition to the annual general meetings.</p> <p>Engagement with the public and other stakeholders also takes place through patients groups, partners and the local authority.</p> <p>In the 2013-14 annual report the CCG reported on partnership working with community groups, voluntary sector organisations and patient groups by regular engagements and updating them on developments and progress being made by the CCG.</p> <p>At the 2014 annual general meeting of the membership, the GB presented the annual report and accounts and appointment of auditors.</p> <p>At the 2015 annual general meeting, the Chair will have available the chairs of the audit and remuneration committees available to answer questions from the membership.</p>