A sound and effective framework of governance is essential – it provides a safe and supportive environment within which high quality healthcare can be delivered and gives an assurance that public money is being used well and for its intended purpose.

Getting governance wrong can have a catastrophic impact on patients, the organisation and overall levels of public confidence in the NHS. The goal must therefore be to develop an effective approach that is not regarded as an unnecessary bureaucratic ‘add-on’ but rather an intrinsic part of the organisation’s DNA, embedded at all levels.

By explaining what governance is and how it works in practice within an NHS organisation, this guide will help your organisation achieve this aim.
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Foreword

This guide has been developed by the HFMA’s Governance and Audit Committee and is designed to provide an easy to read but comprehensive introduction to governance in the NHS. It will be an invaluable reference source to anyone with an interest in this area and will be particularly relevant to those involved in establishing and maintaining effective governance structures.

This guide is an updated version of our 2006 publication and takes account of key policy developments in the governance arena since then. It also looks forward to the coalition government’s programme of reforms which are in the process of being implemented.

Wherever possible we have included practical examples to help bring the theory to life and to encourage NHS organisations to review their own approach in the light of others’ experiences. As in the previous edition, we have retained a summary of ‘learning points’ at the end of each chapter and supplemented this with a list of key questions that organisations may want to think through to test whether or not their approach to governance is working effectively in practice. There is also an appendix that provides board members with a self assessment tool that they can use to review the health of their organisation’s governance framework.

Unfortunately, governance failings continue to emerge in the NHS and elsewhere and these highlight the importance of getting the basics right, whether in terms of sound financial management, effective internal control or adherence to clinical protocols. Development of good governance is the key foundation on which NHS organisations can build so that they are ready to face the challenging times ahead. It is also essential that everyone whatever their role within an organisation understands that they have a part to play in ensuring effective governance – it is not just for the board or leadership team.

Although the guide is based on the governance environment operating in the NHS in England, the underlying principles are common to all, and separate chapters highlight significant differences in Northern Ireland, Scotland and Wales. The text is also structured in such a way that, if readers want to know more about any element of governance, there are pointers to further sources of information.

Committee members have quality assured the guide but inevitably some references will date more quickly than others. There may also be issues that readers feel should be covered in more (or less) detail. As we intend to keep the guide updated on a periodic basis, we would welcome any comments or suggestions to technical.support@hfma.org.uk

John Yarnold,
Chairman,
HFMA Governance and Audit Committee.
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Chapter 1: What is Governance?

Introduction

Governance has become such a well used term that it is in danger of becoming a cliché, used by everyone but understood by very few. However, a clear understanding of what governance is all about and what makes an effective approach to governance in practice is critical to all organisations across the public, private and voluntary sectors – without this, stakeholders cannot be sure that their interests are being safeguarded, that their organisations are being well managed and that their objectives will be met. For example, without sound governance arrangements, the overriding priority of the NHS – to improve the quality of healthcare – will not be achieved.

This chapter defines governance and looks at the reasons why it remains such a high profile issue across the entire economy.

Definition

The dictionary defines governance as ‘the action, manner or system of governing’ but it was the use of the phrase ‘corporate governance’ in the Cadbury Report of 1992, which initiated debate in this area and resulted in a focus on how organisations are run and demonstrate accountability. Corporate governance was defined in the Cadbury Report as ‘the system by which companies are directed and controlled’. This direction and control is essentially concerned with the most senior managers/directors within an organisation and how they seek to achieve its objectives and meet the necessary standards of accountability and probity.

In practice this means that governance is all about how an organisation is run – how it structures itself, how it is led and how it is held to account. Cadbury laid down some key principles which have endured through 20 years of updated guidance and good practice:

- governance is concerned with all that an organisation does – not just its administrative and support functions
- organisational culture is a key factor – the principles of good governance must permeate to all levels from the leadership down
- governance is also concerned with structure – the systems, processes and controls that are in place to provide a sound framework for clear and accountable decision-making by senior managers across an organisation
- in terms of leadership, governance is to do with the responsibilities, behaviour and approach of senior managers and with the organisation’s underlying culture and values
- as far as accountability is concerned, governance is about both how those running the organisation account for their actions to their stakeholders and how stakeholders can hold them to account.

The enduring nature of the Cadbury definition is supported by the Organisation for Economic Co-operation and Development (OECD) – its 2005 glossary refers to corporate governance as the ‘Procedures and processes according to which an organisation is directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities
Chapter 2: How the Elements of Governance fit together in the NHS

Introduction

Good governance underpins all of an organisation’s activities and consists of a number of different elements. It is also reflected in the organisational style, culture and tone – aspects that are often regarded as less important. This chapter looks at why the focus on effective governance is important in the NHS and explains how the different constituent parts fit together to form a cohesive and coherent whole.

Why is good governance important in the NHS?

As well as establishing a safe and supportive environment within which high quality healthcare can be delivered and the organisation’s objectives achieved, good governance provides an assurance to stakeholders that:

- things are running as they should
- public money is being used correctly and well
- accountabilities and responsibilities are clear
- there is a culture of openness
- there are high standards of professional, managerial and personal conduct.

The shortcomings and public inquiries mentioned in chapter 1 make clear why good governance is so important – if an NHS organisation gets it wrong it can have a catastrophic impact on patients and undermine public confidence in the service as a whole. This history of governance breakdowns in the NHS also explains why there is a need for all organisations (both established and newly emerging) to ensure that they have in place an effective and comprehensive approach to governance that is constantly reviewed and improved. In particular, organisations must focus on how they:

- are led and structured
- demonstrate that they are operating in line with the fundamental principles – openness, integrity and accountability
- are going about meeting the statutory objective of providing high quality healthcare
- ensure that they operate economically, efficiently and effectively.

In some organisations there is a tendency to assume that governance will somehow take care of itself or is someone else's responsibility. This view prevailed early on in the development of NHS governance when attention tended to focus disproportionately on putting in place detailed control frameworks rather than looking at the impact of wider, harder to measure elements such as clinical effectiveness, service quality and the importance of good leadership. Whilst this emphasis helped organisations get to grips with governance and to verify and improve their systems, it also tended to confirm the view that governance was essentially a bureaucratic process undertaken for the benefit of others. This is a mistake: good governance is not a discretionary ‘add-on’ or a series of independent tasks that can be ticked off a list and forgotten about. Rather governance must be viewed as a continuous, organisation-wide
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