
# PAPER

MC 15/2012

# Report to the Meeting of the Members’ Council

**8 May 2012**

**Update Report from Council Sub-Groups**

At the meeting in November 2011, it was agreed that the Council would establish sub-groups (in addition to the existing Nomination and Remuneration Committee, and Auditor Re-appointment group). The sub-groups would be task orientated and seek to undertake work on areas of interest to the Council, reporting back on progress and full meetings of the Council.

Set out below are updates from each sub-group. Where appropriate, Governors/Executive/Non-Executive directors will provide further updates at the Council meeting.

**1) Audit Sub-group**

**Governor Members:**

Heather Mintern, Neil Oldfield and Liz Turvey.

**Executive/Non-Executive Members:**

Cedric Scroggs, Non-Executive Director and Vice-Chair of the Trust who chairs the Trust’s Audit Committee and Mike McEnaney, Director of Finance.

**Purpose:**

As a result of the Audit Commission ceasing the provision of external audit services for the financial year ending 31 March 2013 onwards, the immediate task of the Audit Sub-group is to review potential audit service providers and make a recommendation for the appointment of replacement external auditors to the Council.

The Council has not approved formal terms of reference for this Sub-group.

**Key Activity since Last Council Meeting:**

The Sub-group has met twice since the last meeting and, having been able to successfully conclude the procurement process, is able to recommend replacement external auditors to the Council

**Summary of the process:**

* Having considered the procurement options (including full competitive tender and existing national framework agreements) for re-establishing an external audit services contract to replace the existing agreement with the Audit Commission, it was decided to use the Government Procurement Service framework agreement for ‘Management Consultancy and Accounting Services’.
* The first stage of the process was to run a ‘Capability Assessment’ which invites all the suppliers listed on the framework to declare themselves ‘capable’ of providing the required services.
* Four potential suppliers declared themselves capable. They were: Deloitte & Touche LLP, Grant Thornton UK LLP, PricewaterhouseCoopers LLP and RSM Tenon.
* A team, consisting of representatives from Purchasing & Supplies, Finance and the Members Council Audit Sub-Group, was assembled to determine the award criteria, undertake the evaluation of the offers and to interview the various candidates.
* The setting of appropriate criteria, associated weightings and scoring methodology on which the quality/cost evaluation processes were to be based was appropriately discussed, recorded and applied.
* Appropriate scoring documentation was created on which to record scores/comments during evaluation and interview in recognition of the requirement to provide feedback of results to unsuccessful bidders and to meet any future challenges.
* Invitations to quote were sent to the four capable suppliers but only three chose to respond. They were: Deloitte & Touche LLP, Grant Thornton UK LLP and PricewaterhouseCoopers LLP. The offers were evaluated by the team and, following presentations and interviews during which the three offers were clarified, preferred bidder status was awarded to the firm which scored the highest number of marks according to the pre-determined scoring criteria.
* On 27/03/12 The Trust advised all the bidders of their results and the relative advantages of the winning bid and declared a voluntary ten day standstill period, ending on 10/04/12, to facilitate the debrief of unsuccessful bidders. There being no challenges to the procurement process, the Trust is now free to enter into a contract with the preferred bidder which is Deloitte & Touche LLP.

Deloitte & Touche LLP

Due to the nature of this procurement project, it was anticipated that all of the organisations bidding for the requirement would be professionally capable of delivering the specification to a good standard. When establishing the award criteria, therefore, the team agreed that extra marks would be awarded to those organisations which demonstrated added value over and above simply ‘meeting the requirement’ of the specification.

Deloitte & Touche were judged to be offering added value in the following areas:-

* In describing how the auditors would determine the audit strategy and audit plan, they offered access to broad range of expertise e.g. property specialists for clients involved in construction projects. Also they use data experts to advise on the quality of data, thereby helping the Trust to identify any significant trends and point to any underlying root cause of data quality issues. Their audit plan would focus on eight key areas based on publicly available information.
* In describing how the auditors would address matters of scope and materiality and identify and respond to critical audit issues, they identified a number of potential risks for Trust and put forward the following proposals to mitigate those risks
	+ Need for robust processes in place to capture all patient activity to recover income from commissioners
	+ Recoverability of receivables
	+ Property, plant and equipment valuation and expenditure recording
	+ Deliverability of cost improvement programmes
	+ Management override – retrospective review of management’s judgements and assumptions e.g. provisions testing, unfunded pensions provision and reasonableness of management judgements on PFI scheme.
	+ Impact of regulatory work and reports.
* In describing how the auditors would control and co‐ordinate the audit process, they demonstrated how their team would use a range of technologies to deliver the audit service as efficiently as possible.
* In describing how the auditors would deal with any transitional requirements, they showed that, as a result of substantial experience of taking on new audits, they have become experts in managing transition arrangements.
* In describing how their overall approach to quality assurance would be applied to the Trust’s audit programme, they offered a professional standards review and a review by an independent partner.
* They were asked to submit summary CV details of the people who would be responsible for the management of the proposed audit team (Partner and/or Managing/Lead Consultant) and of each key member of the audit team. From these submissions, they showed that the lead partner would bring experience of corporate and other sectors and has proven ability to use lessons learned in one sector to benefit another. Furthermore, they would make available an advisory partner, who currently leads on all due diligence assignments of FTs on behalf of Monitor.
* In describing their policies for rotation, succession planning and continuity of the audit team, they were able to commit a dedicated partner/manager for the term of the contract and would allow a year’s lead in time, should a new partner be introduced, to ensure continuity and transfer of knowledge.
* In describing the processes they would put in place for maintaining confidentiality and the training which would be given to staff with regard to data protection and confidentiality, they have ISO 27001 accreditation and described how they regularly work with confidential information and consequently have systems in place to handle classified and secret information for government departments including HM Treasury.
* In describing the ‘Value For Money’ review they would provide for the Trust, they showed that they have access to a wide range of experts within the firm e.g. property, tax and consulting and identified the following areas where a focused review might be of value: the Trust’s management of cost improvement plan, a review of arrangements for ensuring data quality, water & energy management, capital projects and estates management, staffing structures and governance arrangements.

In addition to the quality aspects of the various submissions, the team also took the cost of the proposals into account, in the proportion of 70% for quality and 30% for cost - this proportion having been determined by the terms of the applicable framework agreement. Deloitte & Touche were not the cheapest offer, nor were they the most expensive. The advantages offered by the cheapest bid, however, were insufficient in the scoring calculations, to overcome the quality advantages of Deloitte & Touche who are, therefore, recommended as the preferred bidders. It should be noted that the proposed cost of Deloitte & Touche represents a significant saving over the existing arrangements.

**Action Required by Council:**

* ***The Members’ Council is asked to approve the appointment of Deloitte & Touche LLP as the Trust’s external auditors.***

**2) Nominations & Remuneration Committee**

**Governor Members:**

Lynda Atkins, Julia Besooijen, Liz Turvey, Karen Campbell and Stewart George.

**Executive/Non-Executive Members:**

Chair of the Trust.

The Chief Executive, Director of Human Resources and Trust Secretary attend meetings where appropriate.

**Purpose:**

The Committee oversees the development, implementation and review of the composition of Non-Executive Directors. The Committee makes recommendations to the Council on the appointment of the Chair and Non-Executive Directors. The Committee also makes recommendations to the Council on the terms and conditions, including remuneration and allowances, of the Chair and Non-Executive Directors.

The Council has approved formal terms of reference for this Committee (last reviewed July 2010).

**Key Activity since Last Council Meeting:**

The Nominations and Remuneration Committee met on the 22 March to consider the following:

1. Recommendations on the remuneration of Chair and Non-Executive Director pay
2. Appointment process for the recruitment of Chair and Non-Executive Directors
3. Update on the appointment process for the recruitment to the Chief Executive Officer post

This brief update provides the main details of the discussion and agreement of the committee.

1. **Recommendations on the remuneration of Chair and Non-Executive Director pay**

This item will be considered in the private part of the meeting.

1. **Appointment process for the recruitment of Chair and Non-Executive Directors**

The Committee was presented with a short paper outlining the process to be adopted for the appointment of the Chair and Non-Executive Directors (NEDs) in the future. The report highlighted the dates when the current NEDs term of office comes to an end and indicated that within the next 12 months there will need to be a process in place for the replacement of one NED and the potential re-appointment of the Chair.

Attached at Appendix 1 is the process as outlined to the Committee. This process was in the main agreed with the following additional points for inclusion:

* The appointment process should start at least 6 months prior to the expiry date for either the Chair or NED.
* The process should be explicit that it will ensure compliance with the Trusts Constitution.
* The Committee would like to see the inclusion of a 360 degree feedback approach. This will then be fed into the Members’ Council Nominations and Remuneration Committee.
* Summary evidence provided to the committee to include information from the Chair’s appraisal (NED appointments only).

The Committee noted the two appointments to be made in year and asked that the process now agreed be brought into effect for these appointments.

1. **Update on the appointment process for the recruitment to the Chief Executive Officer (CEO) post**

The Committee was informed of the retirement of the current CEO, Julie Waldron, and the arrangements which were being put in place to secure her replacement.

The Director of Human Resources (DHR) explained that an external agency had been appointed to manage the process. The Chairman and the DHR had seen a number of potential companies and had chosen Veredus on the basis of cost and more importantly, experience in the recruiting Board level NHS appointments.

An advert for the role was to be placed in the Sunday Times prior to Easter and the closing date would be the end of April 2012. The indicative timeline for this appointment is as detailed in Appendix 2.

Members of the Nominations and Remuneration Committee are to be kept up to date with progress regarding the appointment and in addition all Governors are to be invited to attend the external focus group session. A representative from the Nominations and Remuneration Committee will be invited to be a member of the appointments panel and in line with Constitutional requirements and in accordance with the responsibilities of the Governors, the appointment will be recommended to the full Members’ Council at its meeting on the 19 June 2012. In the event that an appointment cannot be made, due to a suitable candidate not being found, then the process will begin again and interim arrangements agreed. This may involve either acting up arrangements or the appointment of an interim CEO.

The DHR agreed to provide further updates to Committee members as the appointment progressed.

Finally, since the last Council meeting, Julia Besooijen’s tenure as Governor came to an end and, accordingly, she is no longer a member of the Committee. Therefore, under the Committee’s Terms of Reference, the Council must appoint a new Governor representing Service Users to the Committee.

**Action Required by Council:**

* ***Appoint a new member to the Committee representing Service Users.***
* ***Approve recommendations regarding Chair and Non-Executive Director remuneration (in private session)***.

**3) Staff Survey Sub-group**

**Governor Members:**

Maureen Cundell, Karen Campbell. Soo Yeo, Sarah Gardner, Pam Norton, Gautam Gulati, Moira Gilroy, Jacqui Bourton, Pat Armstrong, Jayne Champion, Neil Oldfield

**Executive/Non-Executive Members:**

Director of Human Resources.

Members of the Trust’s Wellbeing Group

**Purpose:**

To be determined.

The Council has not approved formal terms of reference for this Sub-group (draft ToR are attached to this report).

**Key Activity since Last Council Meeting:**

The Sub-group met on 23 April and reviewed the 2011 Staff Survey results. The Sub-group discussed the draft Terms of Reference and asked that they be presented to Council for approval (see Appendix 3).

**Action Required by Council:**

* ***The Members’ Council is asked to approve the Staff Survey Sub-group Terms of Reference.***

**4) Quality Sub-group**

**Governor Members:**

Lynda Atkins, Sarah Gardner, Karen Campbell and Neil Oldfield.

**Executive/Non-Executive Members:**

Director of Nursing and Clinical Standards and Alyson Coates, Non-Executive Director.

**Purpose:**

To be determined.

The Council has not approved formal terms of reference for this Sub-group.

**Key Activity since Last Council Meeting:**

No update submitted.

**Action Required by Council:**

None.

**5) Council Information Requirements Sub-group**

**Governor Members:**

Neil Oldfield, Lynda Atkins, Paul Rogerson, Rob Michael-Phillips.

**Executive/Non-Executive Members:**

Director of Finance.

**Purpose:**

To be determined.

The Council has not approved formal terms of reference for this Sub-group.

**Key Activity since Last Council Meeting:**

The first meeting of this sub-group is planned for 31 May 2012.

**Action Required by Council:**

None.

**Recommendation**

The Members’ Council is asked to note the report and agree actions where appropriate.

**Author and Title:** Justinian Habner, Trust Secretary

Graeme Armitage, Director of Human Resources

 Mike McEnaney, Director of Finance