



Report to Shareholder Committee

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| Date: | 18 October 2023 |
| Title: | Best Practice Review - Governance |
| Relevant councillor(s): | All |
| Author and/or contact officer: | Nick Graham, Service Director, Legal and Democratic Richard Ambrose, Director – Major Projects Contact officer: Glenn Watson, Principal Governance Officer. |
| Ward(s) affected: | All |

Recommendations:

- 1) to consider and note the best practice review of company governance (Annex 1)
- 2) to incorporate actions marked 'Amber' and 'Red' into the Committee's action programme for further review.

Reason for decision:

Since 2021, a body of best practice has developed for local authority company governance. This followed Government inspections at some local authorities. A resulting toolkit, *Local Authority Company Review Guidance* sets out a checklist for evidencing good governance for councils' commercial entities. This report assesses the Council's entity arrangements against this checklist highlighting compliance and areas for further action.

1. Background:

1.1 Ensuring good governance of the Council's commercial entities by both the Council and the entities themselves is a key part of the Committee's role. The Committee's action plan therefore included a review of these arrangements in the light of emerging best practice. This report takes the checklist within *Local Authority Company Review*

Guidance (2021) and assesses the degree of compliance. The Annex to this report summarises the outcomes for the Council (in the sections marked 'C') and the entities (E).

- 1.2 The importance of this exercise was recognised by the Lead Inspector for HM Government, Max Caller, who said in the forward to the guidance: "In the report of the rapid review of Nottingham City Council, which I led in 2020, it was recommended that guidance was commissioned to aid local authorities in this area. Following the approach set out in this guidance and toolkit will help us all avoid the obvious traps."

2. The scope of the review

- 2.1 The best practice checklist within *Local Authority Company Review Guidance* is comprehensive and covers the following:

The Council

- 1) Governance aims – culture, proportionality
- 2) The shareholder's role – clarity, training
- 3) Oversight, scrutiny and governance framework – performance, risk and audit
- 4) Business case for the entity – objectives
- 5) Agreements with the entity – documented
- 6) Avoiding/managing conflicts of interest
- 7) Appointments to the Board – process

The entities

- 8) Articles of Association – documented
- 9) Business planning – up to date
- 10) Role and behaviours of the Board – meetings structure, culture
- 11) Role and behaviours of the Directors – skills, culture of compliance
- 12) Company board composition – diverse skills and membership
- 13) Risk management – Board's approach
- 14) Skills and development - Board members
- 15) Role of executive and non-executive Directors – clearly defined
- 16) Role of Board chair – quality of leadership
- 17) Financial management – business planning monitors financial performance

3. Key themes and outcomes

Themes

- 3.1 The creation and conduct of the Shareholder Committee since 2022 has greatly improved the Council's governance of its entities. Annex 1 clearly shows the extent of current compliance with best practice. This includes areas such as proactively reviewing company business plans, developing conflicts of interest guidance, arranging core training, and establishing processes for the appointment of directors. The scope of the Best Practice Checklist has been discussed with the Head of Business Assurance. An Internal Audit of entity governance is scheduled for Quarter 3. This will include many of the checklist points, enabling additional evidence to be collected and an opportunity for further review of our entities' compliance. The outcome and recommendations of the Quarter 3 audit review will be brought to the Committee for further consideration.
- 3.2 Each of the 17 areas above is assessed in Annex 1 via a RAG rating (Red, Amber, Green). Amber and Red indicate areas where the Committee can usefully target further work. Green indicates that the arrangements are currently deemed compliant. It is suggested that the Amber and Red items are included on the Committee's Action Plan with progress reports made at each subsequent meeting.
- 3.3 The areas for improvement can be grouped into several themes:
- a) **Purpose and efficacy of the entity:** the need, periodically, to check that the companies/entities are in alignment with Buckinghamshire Council's strategic objectives; and to evidence that they are still necessary and fit for purpose
 - b) **Sufficiency of key governance:** periodic checks on the quality and currency of the Council's agreements with entities; their articles of association
 - c) **Entities' culture, performance and behaviours:** evidence that the entities have, and are delivering upon, Key Performance Indicators and Risk Registers; reviewing the viability and health of the entities' internal workings and culture
 - d) **Embedding governance:** raising further awareness of the entities – and the shareholder role - within the Council, including: regularly reporting to the Cabinet; review of governance by the Audit & Governance Committee; appropriate Select Committee work programme; and ensuring that reviewing company governance also features in the work programmes of the Council's Business Assurance Team (e.g. internal audit and risk).

Outcomes and actions

- 3.4 These are the outcomes recommended for further action for the Shareholder Committee. The responsible person/body is indicated below – and owners for all actions are in Annex 1. The Committee will receive an action update at each meeting.

| Red Rating | |
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| C8 | Establish clear Key Performance Indicators (KPIs) – to enable measurement of the entities’ alignment to the Council’s strategic objectives (Owner: Shareholder Committee, Company Directors) |
| C9 | Undertake a review of each entity’s internal structure and performance mechanisms (Shareholder Committee, Company Directors) |
| Amber Rating | |
| C3 & C15 | Potential for the Committee, as part of its annual review of each entity, to consider “whether the entity provides the most effective vehicle to deliver the outcomes it requires and whether there are suitable alternatives” (Cabinet, Shareholder Committee) |
| C4 | Annual review of its own terms of reference. Annual report to Cabinet on terms of reference; and on entities’ health and alignment to Council’s strategic objectives. (Cabinet, Shareholder Committee) |
| C5 | Further training arranged in October 2023 for the current director who missed the previous training and for potential future directors of companies. (Cabinet) |
| C7 | Connections with the work programmes for the Audit & Governance Committee; and Select Committee. (Director of Legal and Democratic Services) |
| C10 | Review of performance quality (including KPIs) to be reported (alongside financial performance). (Shareholder Committee) |
| C11 & C14 | Further review of risks relating to both Consilio and Aylesbury Vale Estates to come to the next meeting and then on a six-monthly basis. (Shareholder Committee, Audit & Governance Committee, Chief Internal Auditor). Review updated business case for Consilio that is due to come to the next Shareholder Committee meeting. (Cabinet, Shareholder Committee) |
| C13 | Review audit findings following internal audit review of subsidiary bodies in Q3 2023/24. (Shareholder Committee, Audit & Governance Committee, Chief Internal Auditor). |
| E3 | Review the internal governance and decision-making mechanisms of each company/entity (via internal audit review in Q3). (Shareholder Committee, Chief Internal Auditor). Request each entity to complete answers to questions E3 to E7 for consideration by the Committee. (Entities) |
| E10 | Committee to ask for information on the entity’s scheme of delegation and the extent of authorities under it. (Shareholder Committee) |
| E13 E14 E15 E19 E24 | In the internal audit review in Q3, review the entities’ own means of: a) assessing and managing risk b) assessing skills in practice c) identifying, delivering, reviewing and recording training and the scope |

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| | <p>d) role of the Chair of each Board</p> <p>e) financial procedures</p> <p>f) internal controls</p> <p>(Shareholder Committee, Chief Internal Auditor)</p> |
| E19 E20 | <p>Authorise a Shareholder Committee representative to observe a meeting(s) of each entity's board to view the role in practice (re: culture and conduct of meetings. (Shareholder Committee)</p> <p>Undertake occasional review of Board reports (content, quality, topic). (Shareholder Committee)</p> |

4. Next steps

4.1 It is recommended that the actions summarised under paragraph 3.4 are adopted into the Committee's ongoing work programme. These will then be timetabled for action and reporting, mindful of the priorities.

5. Legal and financial implications

5.1 The Council has shareholding interests and responsibilities in the Council's commercial entities. Cabinet has delegated this specific responsibility to the Shareholder Committee. The discretion to apply the actions recommended in this report lies with the Committee.

5.2 There are no financial implications arising from the recommendations in the report; their implementation would not, themselves, require additional resource.