Heart of the South West Local Enterprise Partnership

Finance & Resources Committee

2nd August 2022

Agenda item X

Report theme: Local Assurance Framework Update

Author: Eifion Jones

Contact: eifion.jones@heartofswlep.co.uk

Summary and Recommendations

A revised Assurance Framework was circulated to F&R members on the 1st July 2022 providing a summary of changes that had been made in the latest update.

Comments/amendments were requested by the 15th July and proposed amendments received have been summarised in Appendix A and mostly incorporated. One suggestions – that the LEP consider adoption of the corporate good governance code – has not and this is set out for discussion here.

It is recommended that F&R

1. Approve the updated Local Assurance Framework. (Appendix A)
2. With regard to the corporate good governance code:
   a) that the code continues to shape the annual Board effectiveness review
   b) that the 2023 review contains a broader consideration of whether the LEP should adopt the code on the assumption that there will be greater certainty over the longer term future of the LEP by that point

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Background

LEPs are required to follow the National Local Growth Assurance Framework[1] which in Annex E contains a checklist for items needed to be detailed in the complimentary Local Assurance Framework (LAF). The updated LAF in Annex A follows this checklist and incorporates feedback received from F&R members.

One exception related to a suggestion that the LEP consider adopting the UK corporate governance code. This is set out by the Financial Reporting Council[2] and all companies with a Premium Listing of equity shares in the UK are required to report on how they have applied the code; the question has been raised as to whether the LEP should adhere to the code as part of corporate governance best practice and a summary is provided in Annex B.

The Board effectiveness review conducted in spring 2020 referenced the code and the annual effectiveness reviews undertaken since then are directly drawn from the code.

The existing National Assurance Framework implements the recommendations of the 2018 reviews of LEPs and recommendations from the Public Accounts Committee and the LEP is required to submit annual confirmation from the accountable body's S151 officer that there are no concerns over governance and transparency in the LEP. Given this existing level of

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[1] National local growth assurance framework (publishing.service.gov.uk)
[2] UK Corporate Governance Code | Financial Reporting Council (frc.org.uk)

assurance, with the longer term future of the LEP still undetermined and with the 2022 annual board effectiveness review just having completed, it is recommended that

a) that the code continues to shape the annual Board effectiveness review

b) that the 2023 review contains a broader consideration of whether the LEP should adopt the code on the assumption that there will be greater certainty over the longer term future of the LEP by that point.

Appendix A – Local Assurance Framework amendments summary

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Assurance Framewo

Amendments

The document does not say that the CIC is non trading.

- Section 1.2 has been updated with to highlight that the CIC is dormant with monies passing through SCC as accountable body.

A couple of the key links do not work so it is not possible to see if there is consistency in the documents. The SIP terms of reference and the leadership groups terms of reference, links do not work.

- Links have been tested throughout the document and appear to be working correctly. One issue was noted on the leadership groups where all links were directing readers to the Business page, this has now been corrected.

Growth hub and Careers Hub funding is not mentioned

- Section 1.1 has been updated to reflect that delivery of the plan is supported by investments through funding received by the LEP such as Getting Building Fund, and programmes the LEP delivers on behalf of Government, such as the Growth Hub and Careers Hub .

I could not understand the hierarchy which seemed to have been allocated to the build back better themes and didn't understand where Maritime SW fitted in.

- No amendments made as the description of each programme board is lifted directly out of the Build Back Better Plan for consistency and clarity.

There is no mention of the Freeport at all.

- Freeport has not been included within the AF as it is not a direct LEP investment and the LAF doesn't specifically mention other things the LEP is directly involved in like Gravity, projects in the investment portfolio, etc.

Page 10- talks about corporate governance best practice and I wonder whether we do or whether we should state that we will adopt the UK corporate governance code?

- Would suggest this is one for the Board effectiveness review to consider as many of the Principles in the code apply to how the board operates.

Page 13- is the SIP just receiving reports on financial progress, programme and outputs and preparing monitoring reports for government. Should there not be a more proactive role that reports are not just received but impacts are evaluated and recommendations of actions needed either taken themselves or referred to the board?

- Section 2.1.2 has been updated to state the following under SIP's main purposes: "Receiving reports on financial progress, programme and outputs, preparing monitoring reports for government and taking action as needed through this monitoring"

Page 21- risk management is operationally manged by the LEP team, overseen by F&R but then it says escalated to the board as required. Ownership of risk cannot be delegated and is the responsibility of the board and I believe that this section should reflect that rather than the board only considering risks when they are escalated that they are the owners of risk.

- Section 3.5 has been updated to reflect that risk is owned by the LEP Board with oversight of the risks, issues and mitigations is undertaken by the Finance and Resources Committee on behalf of the Board. They are operationally managed by the LEP Management Team.

Appendix B – Main principles and key provisions of the 2018 UK Corporate Governance Code

Principle	Details
Board leadership and company purpose	Companies should have: • An effective and entrepreneurial board whose role is to promote the long-term success of the company, generating value for shareholders and contributing to wider society. • A purpose, values and strategy, and satisfy itself that these and its culture are aligned. • Effective controls in place to assess and manage risk. • Effective engagement with shareholders and stakeholders. • Workforce policies and practices that are consistent with the company's values and support its long-term success.
Division of responsibilities	The chairperson of the board of the company: • leads the board and is responsible for its overall effectiveness in directing the company; and • should be objective and promote openness and debate. The board should include a combination of executive and non-executive directors. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business (such as the chief executive officer). Non-executive directors should have enough time to meet their responsibilities as board members.
Composition, succession and evaluation	Appointments to the board should be: • made in accordance with a formal and transparent procedure, • part of a succession plan based on merit and objective criteria; and • able to demonstrate the promotion of diversity. The length of service of the board as a whole should be considered and membership of the board should be regularly refreshed
Audit, risk and internal control	The board should make sure that the company has independent internal and external audit functions and should be able to present a fair and balanced assessment of the company's financial position and prospects. The board should establish procedures to manage risk and oversee the internal control framework to enable the company to achieve its long-term strategic goals.
Remuneration	Remuneration policies and practices should: • promote long-term sustainable success; and • be aligned to company purpose and values. Directors should exercise independent judgement and discretion.

Key provisions	Details
Board leadership and company purpose	• Disclosure in annual report of the company's financial model and business risks. • Board to assess and monitor culture. • Regular shareholder engagement – the chair of the board has to make sure the board understands its shareholders' views. • If there is shareholder opposition of more than 20% against a board recommendation for a resolution, the company has to consult with shareholders and, within six months of the vote, publish an update on the views received and actions taken, and the annual report should include a final summary of the impact of the feedback on the board's decisions. • Disclosure in annual report of how the company engages with its workforce and other stakeholders. • A director should be appointed to the board from the workforce, or a formal workforce advisory panel should be set up or a non-executive director should be designated to deal with engagement. If the board has not chosen one of these methods, it should explain any alternative arrangements and why these are considered effective. • The company should have adequate whistleblowing requirements. • Board should identify and manage conflicts of interest. • Unresolved directors' concerns on the company's operation or management should be written in the management meeting minutes.
Division of responsibilities	• Independent chairperson. • No one person to be chairperson and CEO. • CEO not to become chair unless advance shareholder consultation. • Disclosure in annual report to identify the extent to which the non-executive directors are independent. • The majority of the board (including the chairperson) should be independent non-executive directors and the company should have a senior non-executive director to appraise the chairperson's performance. • Non-executive directors should be involved in appointing and removing executive directors. • Responsibilities of the chairperson, CEO, senior independent director and board committees to be clear, written, agreed and publicly available. • Disclosure in annual report of the number of board and committee meetings including individual director attendance. • Directors must make sure that they will have enough time to fulfill their board responsibilities when they are appointed. Full-time executive directors should not take on more than one non-executive directorship in a FTSE 100 company or another similar role. • Disclosure in annual report of the reasons for significant appointments to the company. • Prior board approval required for external executive appointments.

	• Company secretary to advise the whole board, who should collectively be responsible for the company secretary's appointment or removal.
Composition, succession and evaluation	• Nomination committee to be put in place to manage appointments to the company, particularly board and senior management positions, and to lead the company's succession plans. • All directors have to be subject to annual re-election. • Chairperson to be appointed for no more than nine years (subject to a limited extension to facilitate succession planning and diversity of board). • External resources (such as search companies or open advertising) to be used to recruit chairperson and non-executive directors and reported on in annual report. • Performance of the board to be evaluated on a yearly basis and the chairperson is responsible for acting on results of the evaluation. • Disclosure in annual report of recruitment and succession planning policies and procedures in relation to strategic plans of the company.
Audit, risk and internal control	• Audit committee to be set up with a minimum of three independent non-executive directors (or two in the case of smaller companies) with relevant financial experience. The chairperson is not allowed to be a member. • Audit committee to be responsible for monitoring and integrity of financial statements, annual report, business model and strategy, reviewing internal controls, implementing risk management and audit policies, appointing an external auditor and managing external audit process. • Disclosure in annual report of audit committee and its work, including any risks or issues identified and addressed. • Directors to issue a responsibility statement for annual report and company accounts. • Disclosure in annual report of board's assessment and management of emerging and key risks for the company. • Disclosure in annual report of risk management and internal control systems. • Directors to issue a statement annually and half-yearly stating whether the company should adopt a going concern basis of accounting when preparing the accounts. • Directors to issue a statement in the annual report as to the company's prospects.
Remuneration	• A remuneration committee of at least three independent non-executive directors (or two for smaller companies) should be established – the chairperson of the board can only be a member if they are an independent appointment by the company. • Chairperson of the remuneration committee to have served on a remuneration committee for at least 12 months. • Remuneration committee should decide the remuneration policy for executive directors and senior management and review the wider workforce remuneration policies.

	• Non-executive director remuneration determined in accordance with company's articles of association (the rulebook that sets out how the company will be run) or by the board and to be reflect of the time commitments and responsibilities of those directors. • No executive director to receive share options or other performance-related elements. • Disclosure in annual report of any remuneration consultants appointed by the remuneration committee. • Company should encourage long-term shareholdings by executive directors and share award incentive schemes giving workforce actual shares should be released for sale on a phased basis so that not all shares are awarded at the same time, promoting continuous performance over the long-term. • The total period from when a worker is awarded a right to shares and the length of time that the worker must hold those shares for has to be longer than five years. • Remuneration committee to develop policy on post-employment shareholding requirements. • Company must have discretion to recover or withhold shares or sums but should specify where it can do this. • Only the basic salary of employees should be pensionable. • Notice or contract periods should be one year or less. • Disclosure in annual report of the remuneration committee's work.