

# Lancashire County Council Owned Companies Governance Checklist 2023-24



## Background

The county council has over a number of years established several arms-length companies in order to provide services or operate in ways that could not be achieved within an in-house setting or through a purely contractual relationship. This arrangement facilitates:

- An enhanced ability to trade or deliver services.
- The opportunity to bring more commercial skills and expertise to the management and operation of the companies, improving efficiency and effectiveness.
- The flexibility to act differently from the Council, adapting the way they operate to better reflect the needs of the sector they work in
- The ability to lever investment from partners or wider government initiatives that may not be available to public sector bodies.

In view of the county council's interest as shareholder and financial support provided, it is important that the above benefits are delivered, and the sustainable success of each company achieved, within a governance framework that supports the county council's objectives and strategic priorities, and, ensures public funds are safeguarded and used appropriately.

## Definition of Corporate Governance

The purpose of corporate governance is to facilitate effective management of any organisation in order to deliver long-term success.

Further to several high-profile corporate failings in the 1980s corporate governance was defined by the Cadbury Committee in 1992 as *‘the system by which companies are directed and controlled’*. It further stated that *“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 satisfy themselves that an appropriate governance structure is in place.”*

In local government terms, governance is about how organisations ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. It comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.

The county council companies’ corporate governance is determined by the activities of the board and the values they set. This document provides guidance on the components of effective board practice and ensuring appropriate governance arrangements are in place. The guidance draws on the best practice advice of the Financial Reporting Council, issued in April 2016 (The UK Corporate Governance Code) as well as the Institute of Director’s Corporate Guidance and Principles for Unlisted Companies where applicable and compliance with the Companies Act 2006. The guidance is based on the underlying principles of good governance, which are



accountability, transparency and probity as well as a focus on the sustainable success of the company over the long term.

## Governance Checklist (Appendix 'A')

The governance checklist attached sets out the key expectations for good governance and indicates the type of documents that should be available to demonstrate its effective operation. However, it is not an exhaustive list and there may be additional or alternative evidence instead.

Internal or External Audit may at any time decide to carry out an audit of the company, and may ask to see evidence of the documents held to demonstrate good governance. Therefore it is recommended that all documents are retained in an easily accessible format so that they can be produced when requested.

There may be some requirements which are not applicable to the company, particularly if the county council is a minority shareholder or member. Where it is considered that a requirement is not applicable this can be noted on the checklist with an explanation in the “evidence” column.

The checklist should be completed for each of the county council’s strategic companies and reviewed at least annually to ensure ongoing compliance and that the company continues to deliver its intended outcomes. Where areas for development are noted the Board should agree an action plan with action owner and timescale to address the issue (s) identified with regular progress updates provided.

The company board should be required to provide an opinion on its compliance with the best practice governance checklist as part of its annual report, which in turn can be used to support the county council’s Annual Governance Statement.



## Governance Checklist for county council owned Companies – Appendix 'A'

	Requirement	Source documents / good practice / other means that may be used to demonstrate compliance	Evidence/ Comments
	<b>Governance Framework</b>		
1.	<p>There is an established, overarching governance framework that sets out the decision-making processes including:</p> <ul style="list-style-type: none"> <li>• Decisions to be taken by the board</li> <li>• Responsibilities and rights of the county council and other Shareholders / Members including reserved matters</li> <li>• Relationships between the company and Shareholders / Members</li> <li>• Conflict resolution arrangements</li> </ul>	<ul style="list-style-type: none"> <li>• Constitution</li> <li>• Articles of Association</li> <li>• Shareholder resolutions / agreements</li> <li>• Conflict resolution procedure</li> </ul>	
	<b>Effectiveness of the Board</b>		
2.	There is an established board of Directors in place that provides effective leadership to the company. It has clearly defined decision-making	<ul style="list-style-type: none"> <li>• Terms of reference for board / Committees</li> </ul>	



	<b>Requirement</b>	<b>Source documents / good practice / other means that may be used to demonstrate compliance</b>	<b>Evidence/ Comments</b>
	<p>responsibilities aimed at ensuring the long-term success of the company including:</p> <ul style="list-style-type: none"> <li>• Setting the company's strategic objectives, vision, standards and risk profile; approving the budget; monitoring and evaluating performance; and ensuring compliance with legal, regulatory and internal policy requirements.</li> <li>• Clearly documented arrangements for delegation of specified decisions to management and committees where appropriate (e.g. audit committee)</li> </ul>	<ul style="list-style-type: none"> <li>• Scheme of delegation / scheme of financial delegation / business controls manuals</li> <li>• Business Plan</li> <li>• Performance Reports</li> <li>• Annual Report</li> <li>• Risk Management Policy / Procedure</li> <li>• Minutes of meetings</li> </ul>	
3.	<p>The company vision is supported by a business plan prepared by management and agreed by the board. The plan:</p> <ul style="list-style-type: none"> <li>• Sets out agreed objectives and outcomes for at least the next 12 months</li> <li>• Includes SMART (Specific, Measurable, Achievable, Relevant, Time limited)</li> </ul>	<ul style="list-style-type: none"> <li>• Business Plan</li> <li>• Minutes of meetings where the plan is reviewed / updated</li> <li>• Annual Report</li> </ul>	



	Requirement	Source documents / good practice / other means that may be used to demonstrate compliance	Evidence/ Comments
	<p>Targets</p> <ul style="list-style-type: none"> <li>• And delivery against it is subject to at least annual review by the board</li> <li>• Is subject to agreement by the Council</li> </ul>		
4.	<p>There is a clear division of responsibility between the running of the board and the running of the company:</p> <ul style="list-style-type: none"> <li>• The board has clearly defined roles and responsibilities, subject to annual review</li> <li>• The board has an appointed chairman responsible for the leadership of the board and communication with shareholders / members</li> <li>• The roles of chairman and Chief Executive for the company are not exercised by the same person</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of roles and responsibilities agreed by the board</li> <li>• Chairman / Chief Exec job descriptions</li> <li>• Annual Report</li> </ul>	
5.	<p>The board has determined an appropriate committee structure to allow more effective discharge of its duties. In particular,</p>	<ul style="list-style-type: none"> <li>• Minutes of meetings where committee structure is reviewed</li> </ul>	



	<b>Requirement</b>	<b>Source documents / good practice / other means that may be used to demonstrate compliance</b>	<b>Evidence/ Comments</b>
	<p>consideration has been given to the need for:</p> <ul style="list-style-type: none"> <li>• Audit committee</li> <li>• Remuneration committee</li> <li>• Other committees as appropriate</li> </ul> <p>These arrangements are subject to regular review. Where established, there are agreed terms of reference; members have relevant knowledge / experience; and there is a mechanism for reporting decisions / recommendations to the board</p>	<ul style="list-style-type: none"> <li>• Terms of reference for committees</li> <li>• Committee reports to the board</li> </ul>	
6.	<p>The board has the appropriate structure, size and composition to fulfil its role:</p> <ul style="list-style-type: none"> <li>• There are sufficient members with the appropriate authority for the decisions to be taken but not so large as to become cumbersome and prohibit efficient decision making</li> <li>• The board comprises an appropriate mix of skills, experience and knowledge to fulfil their roles and deliver the company</li> </ul>	<ul style="list-style-type: none"> <li>• Profiles of members of the board (Skills Matrix)</li> <li>• Minutes of meetings</li> <li>• Regular review of board member skills</li> <li>• Training plan in place to fill identified skill gaps</li> </ul>	



	<b>Requirement</b>	<b>Source documents / good practice / other means that may be used to demonstrate compliance</b>	<b>Evidence/ Comments</b>
	<p>outcomes</p> <ul style="list-style-type: none"> <li>• board membership is diverse, including with regard to race / gender</li> <li>• There are at least two independent non-executive directors on the board to provide constructive challenge</li> <li>• The costs of company governance are commensurate with company outcomes</li> </ul>		
7.	<p>The board meets sufficiently regularly and is provided with appropriate support to discharge its duties effectively.</p> <ul style="list-style-type: none"> <li>• Supplied with timely, appropriate and useful information to discharge its duties</li> <li>• Diarised meetings with agenda papers circulated in advance</li> <li>• Directors have access to the advice and services of the company secretary</li> </ul>	<ul style="list-style-type: none"> <li>• board meeting timetable</li> <li>• Agendas / minutes of meetings and supporting papers, including action log for directors</li> <li>• Company secretary job description</li> <li>• Individual company action logs and master log for company secretary work for all companies</li> </ul>	





	<b>Requirement</b>	<b>Source documents / good practice / other means that may be used to demonstrate compliance</b>	<b>Evidence/ Comments</b>
8.	<p>board decisions are transparent and recorded in such a way as to ensure appropriate safeguards for Directors</p> <ul style="list-style-type: none"> <li>All board meetings are minuted, decisions recorded and give an overview of the main topics discussed and to be filed with the company books in hard and electronic copy</li> <li>Declarations of interest are recorded at each meeting and a register of interests is maintained, with Directors absenting themselves from discussions in which they have an interest</li> </ul>	<ul style="list-style-type: none"> <li>Minutes of meetings</li> <li>Register of interests reviewed and updated annually</li> </ul>	
9.	<p>Board members understand their responsibilities and maintain and update their skills and knowledge</p> <ul style="list-style-type: none"> <li>All those on the board understand their legal duties under company law</li> <li>Guidance is provided on the management of potential conflicts of interest to any</li> </ul>	<ul style="list-style-type: none"> <li>Details of induction training</li> <li>Guidance provided to board members</li> <li>Records of continuing professional development</li> </ul>	



	<b>Requirement</b>	<b>Source documents / good practice / other means that may be used to demonstrate compliance</b>	<b>Evidence/ Comments</b>
	<p>directors who also have roles within the Council or other outside positions</p> <ul style="list-style-type: none"> <li>• Directors are provided with an induction on joining the board</li> <li>• Directors are required to engage in continuing professional development as part of their role</li> </ul>		
10.	<p>There is a formal, rigorous and transparent process for appointing new directors to the board</p> <ul style="list-style-type: none"> <li>• Appointments to the board are made against objective criteria and with due regard to diversity</li> <li>• Plans are in place for the orderly succession for appointments to the board and senior management to ensure an appropriate balance of skills and experience is maintained</li> <li>• Due regard is made to the period of appointment for directors, with non-</li> </ul>	<ul style="list-style-type: none"> <li>• Appointment policy / procedure</li> <li>• Details of appointment terms</li> </ul>	



	<b>Requirement</b>	<b>Source documents / good practice / other means that may be used to demonstrate compliance</b>	<b>Evidence/ Comments</b>
	executive directors appointed for specified terms		
11.	<p>The board undertakes a formal and rigorous annual evaluation of its own performance and that of its directors</p> <ul style="list-style-type: none"> <li>• The evaluation includes consideration of how the board works as a unit as well as the adequacy of the balance of skills, diversity etc that may impact on its effectiveness</li> <li>• The evaluation also considers the contribution of the directors to their roles</li> </ul>	<ul style="list-style-type: none"> <li>• Annual report</li> <li>• Minutes of meetings</li> </ul>	
	<b>Ensuring professional and ethical conduct and regulatory compliance</b>		
12.	<p>Arrangements are in place to ensure the Company's compliance with all financial, legal and regulatory requirements. These arrangements are documented and have been</p>	<ul style="list-style-type: none"> <li>• Documented procedures</li> <li>• Job descriptions.</li> </ul>	



	<b>Requirement</b>	<b>Source documents / good practice / other means that may be used to demonstrate compliance</b>	<b>Evidence/ Comments</b>
	<p>clearly communicated, and allocated to a company secretary and / or individual(s) with the appropriate experience / skill. They include but are not limited to the following:</p> <ul style="list-style-type: none"> <li>• Preparation / submission of financial statements</li> <li>• Payment of tax</li> <li>• Banking facilities</li> <li>• Health and Safety compliance</li> <li>• Insurance cover in respect of premises, legal action against the company, directors etc</li> <li>• Data Protection safeguards</li> </ul>		
13.	<p>The board has established and promoted the culture, values and ethics of the company, which adhere to those of the Council:</p> <ul style="list-style-type: none"> <li>• Agreed and clearly defined values and vision.</li> </ul>	<ul style="list-style-type: none"> <li>• Business Plan</li> <li>• Relevant Policies / Procedures / Guidance / Training and process of dissemination</li> </ul>	



	<b>Requirement</b>	<b>Source documents / good practice / other means that may be used to demonstrate compliance</b>	<b>Evidence/ Comments</b>
	<ul style="list-style-type: none"> <li>• Clear expectations communicated of acceptable and unacceptable behaviour</li> <li>• Promotion of ethical culture</li> <li>• Clear accountability/ lines of reporting.</li> <li>• Arrangements in place for supervision, guidance and training to reinforce appropriate behaviours</li> </ul>		
14.	<p>The company has up to date key policies and procedures in place, in compliance with relevant legislation and approved by the board, and disseminated as appropriate, that safeguard the company and Council's interests and reputation. They include, but are not limited to, the following:</p> <ul style="list-style-type: none"> <li>• Anti- Fraud and Corruption</li> <li>• Anti-Bribery</li> <li>• Business Continuity</li> <li>• Code of Conduct</li> </ul>	<ul style="list-style-type: none"> <li>• Relevant policies and procedures</li> </ul>	



	<b>Requirement</b>	<b>Source documents / good practice / other means that may be used to demonstrate compliance</b>	<b>Evidence/ Comments</b>
	<ul style="list-style-type: none"> <li>• Complaints</li> <li>• Declarations of interest / gifts and hospitality</li> <li>• Data Protection Act 2018</li> <li>• Dignity at Work / Grievance Procedure</li> <li>• Equal Opportunities / Diversity</li> <li>• Financial / Contractual Regulations</li> <li>• Freedom of Information Requests</li> <li>• Health and Safety</li> <li>• ICT Acceptable Use</li> <li>• Information Security</li> <li>• Remuneration</li> <li>• Performance Management</li> <li>• Risk Management</li> <li>• Scheme of Delegation / Financial</li> </ul>		



	<b>Requirement</b>	<b>Source documents / good practice / other means that may be used to demonstrate compliance</b>	<b>Evidence/ Comments</b>
	<p>Delegation</p> <ul style="list-style-type: none"> <li>• Service Standards</li> <li>• Whistleblowing</li> </ul>		
	<b>Effective communication</b>		
15.	<p>The company has effective arrangements for engagement and communication with the county council (and other shareholders / members as applicable):</p> <ul style="list-style-type: none"> <li>• There are established arrangements for communication and discussion between the board and county council on a mutually agreed and equitable basis. These include: <ul style="list-style-type: none"> <li>○ Arrangements for obtaining county council approval on reserved matters</li> <li>○ The company's strategy / business</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Communication strategy for shareholders</li> <li>• Communication of key documents such as business plan and evidence of approval where appropriate</li> <li>• Early engagement with shareholder for decision on Reserved Matters</li> </ul>	



	<b>Requirement</b>	<b>Source documents / good practice / other means that may be used to demonstrate compliance</b>	<b>Evidence/ Comments</b>
	<p>plan and risk profile</p> <ul style="list-style-type: none"> <li>○ The activities of the company and ensuring they remain fully aligned with the interests of the county council</li> <li>○ Performance of the company</li> </ul>		
	<b>Financial Reporting</b>		
16.	<p>The board presents a fair, balanced and understandable assessment of the company's position and prospects on a regular basis:</p> <ul style="list-style-type: none"> <li>• Reporting arrangements for shareholders are agreed and documented</li> <li>• Reports are provided to the shareholder / member(s) in line with this agreement and provide a clear and up to date picture of the company's solvency, liquidity, and viability as well as risks and opportunities, and management actions to mitigate risks</li> </ul>	<ul style="list-style-type: none"> <li>• Performance indicators agreed</li> <li>• Performance reports / Annual Report</li> <li>• Minutes of meetings</li> </ul>	





	Requirement	Source documents / good practice / other means that may be used to demonstrate compliance	Evidence/ Comments
	<ul style="list-style-type: none"> <li>• An annual report is provided by the board that covers:               <ul style="list-style-type: none"> <li>○ The company's vision and values</li> <li>○ Business strategy and associated risks</li> <li>○ Financial statements</li> <li>○ Review of activities and performance</li> <li>○ Forward looking assessment of the business environment and ongoing viability of the company</li> <li>○ Governance framework / corporate governance principles</li> <li>○ An assessment of the board's own performance, committees and individual directors</li> </ul> </li> </ul>		
17.	Company reports are used as a basis for regular discussions with the Council / other shareholder(s) to drive performance improvement	<ul style="list-style-type: none"> <li>• Minutes of meetings</li> <li>• Action plan(s) recorded to address</li> </ul>	



	<b>Requirement</b>	<b>Source documents / good practice / other means that may be used to demonstrate compliance</b>	<b>Evidence/ Comments</b>
	and take appropriate actions	poor performance	
	<b>Risk Management and Internal Control Arrangements</b>		
18.	<p>The board is responsible for assessing the significant risks faced by the company in achieving its objectives and whether they are being appropriately managed. The board is provided with timely, relevant and reliable information on which to do so. This incorporates the following:</p> <ul style="list-style-type: none"> <li>• Defined risk appetite for the company and clear approach to the management of significant risks</li> <li>• Regular review of reports detailing the main risks faced by the company; reviews of the operation of internal controls and progress by management in terms of taking mitigating actions</li> <li>• board's Annual Report confirms the principal risks faced; how they have been</li> </ul>	<ul style="list-style-type: none"> <li>• Risk management policy / procedure approved by the board.</li> <li>• Risks and mitigations documented in a corporate risk register, including risk scores and an indication on direction of travel.</li> <li>• Operational / Performance reports</li> <li>• Internal / External Audit reports</li> <li>• board minutes showing evidence of review / receipt of reports</li> </ul>	



	<b>Requirement</b>	<b>Source documents / good practice / other means that may be used to demonstrate compliance</b>	<b>Evidence/ Comments</b>
	managed or mitigated and the ongoing viability of the company		
19.	A business continuity plan is in place that sets out how the organisation will continue to function in the event of a major incident / disaster, and is subject to periodic testing to ensure it remains valid. The plan and results of testing are subject to review by the board	<ul style="list-style-type: none"> <li>• Business continuity plans</li> <li>• board minutes showing evidence of review</li> </ul>	
20.	<p>The company's material internal controls are subject to at least annual review to ensure they are operating effectively and that the company / shareholders are not exposed to unnecessary risk</p> <ul style="list-style-type: none"> <li>• There are agreed and documented arrangements for the review and reporting of the effectiveness of the company's material internal controls, including financial, operational and compliance controls</li> <li>• The need for an internal audit function / internal audit support is reviewed by the board on an annual basis and</li> </ul>	<ul style="list-style-type: none"> <li>• Board's Annual Report</li> <li>• Internal/external audit reports</li> <li>• Shareholder / company agreement defining internal / external audit arrangements including rights of access</li> <li>• Contract / agreement with internal / external auditors</li> <li>• Board minutes</li> </ul>	



	<b>Requirement</b>	<b>Source documents / good practice / other means that may be used to demonstrate compliance</b>	<b>Evidence/ Comments</b>
	<p>commissioned as necessary</p> <ul style="list-style-type: none"> <li>• Where commissioned, there is an established process for the agreement of individual audit assignments and the receipt and review of audit reports</li> <li>• Processes are established for the implementation of agreed actions arising from reviews of material controls</li> <li>• Rights of access for the external auditors and the company / Council's internal auditors are documented and agreed</li> <li>• The board's annual report includes the external audit opinion on the financial statements, the internal control environment and compliance with financial reporting standards</li> </ul>		
21.	The board has formal, appropriate and transparent arrangements for reviewing the integrity of the company's financial statements and internal control and risk management systems.	<ul style="list-style-type: none"> <li>• Board / Audit Committee terms of reference</li> <li>• Minutes of meetings</li> </ul>	



	<b>Requirement</b>	<b>Source documents / good practice / other means that may be used to demonstrate compliance</b>	<b>Evidence/ Comments</b>
	<ul style="list-style-type: none"> <li>The board or its Audit Committee has key responsibilities, as set out in its terms of reference, including monitoring the integrity of the company's financial statements; reviewing the internal controls and risk management systems; monitoring the effectiveness of the internal audit / external audit functions</li> </ul>		

