



JOINTLY OWNED BY



# Northumberland County Council Review of Governance Arrangements for Wholly Owned Council Companies

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# 1 Northumberland County Council wholly owned companies governance review

## 1.1 Scope of the review


This review is focused on how Advance Northumberland (AN) is governed and overseen by Northumberland County Council (the council). The recommendations apply to this existing council company, but equally to the governance of any future council companies.

Over the past two years, significant improvements have been made regarding how the council oversees the company. There have been improvements to governance structures, reporting, and communication between the council and company. The recommendations made in this report are intended to build on the positive changes already made, noting that improvements are continually taking place. The structure of the report reflects this and the focus of recommendations, namely to:

- Clarify the purpose of the company so its role is clearly set out by the council as shareholder and understood by the company directors as well as members, other stakeholders and the council's residents
- Continue to develop the main building blocks of good governance by using the existing structures and building on the skills of the Shareholder Committee, company board and Overview and Scrutiny Committee
- Continue to develop the Business Planning process in line with the emerging Operating Agreement – setting out how the council will feed into this process and measure the success of the company
- Have in place clear policies for conflicts of interest

The scope of work for this review is based on the council report that was approved by the Cabinet Shareholder Committee on 9<sup>th</sup> July 2024. This comprises the following list, drawn from the Local Partnerships LATCO Governance Guidance:

- Governance aims
- The Council's shareholder role
- Council oversight, scrutiny and governance framework
- Business Case for AN
- Agreements with AN
- How conflicts of interest are managed
- Council appointments to the Board
- Articles of association
- Business Planning

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- Role and behaviours of the Board
  - Role and behaviours of company directors
  - Company board composition
  - The Board and risk management
  - Board members' skills and development
  - Role of executive and non-executive directors
  - Role of the board chair
  - Financial management

This report is accompanied by a governance checklist which compares current performance against good practice in the above categories and provides greater detail to support further improvements. The council should use the recommendations agreed as a result of this review to develop a generic set of rules and procedures to apply to all council owned companies.

## 1.2 Background to the company

The company was established in 2018 as successor to Arch Corporate Holdings Ltd, incorporated in January 2011. The group currently comprises the following subsidiaries:

- AN Limited – holding company
- AN (Housing) Limited – private landlord
- AN (Commercial) Limited – commercial landlord and investments
- AN (Developments) Limited – house builder and regeneration projects
- AN (Projects) Limited - project management

In this report “company” refers to the group. The four subsidiary companies are referred to as company “subsidiaries”.

All members of the group board sit on the board of each of the subsidiary companies. Both the group and subsidiary boards meet at the same time, with the subsidiary boards being specifically convened at the appropriate point, to make any subsidiary company decisions.

As of the 31<sup>st</sup> March 2024 the group had assets of £307.401m with outstanding loans to the council of £274.572m. Whilst at a group level, the outstanding loans can be covered by the asset values, this is not the case at individual company level, with the commercial and development companies having loan to asset values of 108% and 120% respectively.



The draft 5-year Business Plan for the period 2025 - 2030 suggests that the company establishment will increase from 155 at March 2025 to 232 by 2030. The largest growth is proposed for AN (Development) Ltd, and this reflects the proposed scaling up and growth aspiration of the housebuilding part of the business.

The activities of the group are quite clearly defined by the group subsidiaries. The rationale for the council setting up and continuing to invest in the company is a response to both commercial opportunities and market failure. The company has to operate in a commercially sustainable way delivering:

- Regeneration projects
- Housing and other development in areas where the private sector is less able / willing to operate
- Related social and economic benefit, in line with the council's corporate priorities.

In response to the Caller report recommendations (see below) the rationale for the company was reviewed in November 2022 in a strategic Business Case reported to the council's cabinet. This reiterated the purpose and value of the council continuing to deliver some of its activities through the company.

The council provides some services to the company (e.g. legal and procurement support) and the company, in addition to delivering regeneration and development projects on behalf of NCC, provides some services to the council such as project management. The economic development function of the council was until recently provided by the company. This has now been taken back in house by the council.

### **1.3 Background to the review**

This governance review follows two previously commissioned reviews:

#### **The Caller Review**

- In 2022 the council commissioned an independent governance review from 'Solace in business' led by Max Caller (Caller report). The review was undertaken based on a Best Value Governance Inspection. The report contained a range of fundamental recommendations on the operation and governance of the council. As a company wholly owned by the council, many of the recommendations are relevant to AN. There were also two recommendations that were specifically relevant to the council's companies and AN. Specifically, that the council should:

- *“10.2.6 Establish a rationale for the establishment or continuation of any company established under the provisions of the Localism Act 2011.*
- *10.2.7 Establish a specific governance framework by which, for those companies wholly or partly owned by NCC, their Directors are appointed, report on performance are presented to a Cabinet Sub-Committee, conflicts of interest are dealt with and risk and how shareholder agreements are ratified, by both the company and NCC.”*
- Since the publication of the report the council has made significant progress in implementing the specific recommendations (see section 1.5 below). This has included the preparation of a strategic Business Case (specifically responding to recommendation 10.2.6) which was reported to the council cabinet in November 2022.

#### Local Partnerships Governance Review

- In 2024, in response to the company experiencing short term cashflow difficulties, the council commissioned Local Partnerships to undertake a financial assurance review of the company. This report, completed in August 2024, made further recommendations on the financial management of the company and the financial oversight of the company by the council. It covered increasing the financial capacity and capability of the company, improving policies and processes for both the company and council and improving the communication and reporting arrangements between the two organisations and their finance teams.
- Annex 3 of this report contains an action plan reported to the company board on 8<sup>th</sup> November 2024. It identifies the 11 main recommendations made in the financial assurance review and the progress being made by the company and council in implementing these recommendations.

#### 1.4 Progress made to date

Since the publication of the Caller report, significant progress has been made in meeting the report’s recommendations and improving the governance of the companies. This progress has required leadership and engagement by both the council and company. Important milestones have included the following:

- Council-Owned Company Framework adopted (December 2022)
- Establishment of a Cabinet Shareholder Committee to provide oversight of Council owned companies (the Committee has now met on four occasions as of November 2024)
- Adoption of terms of reference for the Shareholder Committee

- Transitioning of the AN Board from one dominated by council members to one including
  - Independent non-executive Directors (making up at least half of the Board)
  - one elected member
  - one Council Officer Director.
- The recruitment and appointment of four new Independent Non-Executive Directors (April 2023).
- The appointment of a new chair for the company Board
- The development of a new set of Articles, reflecting the most up to date practice (approved by the Shareholder Committee in April 2024)
- Starting work on the preparation of a new shareholder agreement and Operating Agreement (currently being drafted but awaiting this review before finalisation)

The work undertaken by both the company and council to implement the recommendations included in the financial review (see annex 3 which includes 8th November Board report setting out progress) has been similarly important and the journey to strengthen the governance continues with this report intended to provide guidance regarding next steps.

## 1.5 Approach

To carry out the review, Local Partnerships has been given access to key documents produced by the council and company. It has also interviewed senior council and company officers, cabinet members, back bench council members, along with members of the company board. A list of those who were interviewed is included in annex 2.

The range of documents that have been reviewed includes the following;

- The 2022 Caller report
- Financial Assurance review carried out by Local Partnerships in August 2024
- Strategic Business Case and other documents prepared following on from the Caller report
- Papers and minutes for the company board, and council shareholder, audit and scrutiny Committees
- Key company documents including the previous Operating Agreement and draft shareholder agreement
- Terms of reference of shareholder and company board meetings
- The emerging 2024 – 2029 company Business Plan

Local Partnerships also observed the company board meeting held on 8<sup>th</sup> November 2024.

## 2 Findings and Recommendations

We have set out below key areas for consideration to strengthen governance arrangements beyond those already made.

### 2.1 Purpose of the Company

Although the rationale for the company is well-rehearsed, this should be communicated to all stakeholders.

	Finding	Recommendation
1	<p>There remains a lack of clarity among some stakeholders about the company, including:</p> <ul style="list-style-type: none"> <li>• Is it intended to provide market intervention of last resort or to act purely commercially by holding commercial assets?</li> <li>• It operates with close supervision from the council at the moment because of historical issues but should this remain the case?</li> </ul>	<p>A short document should be produced for communication to all stakeholders, including:</p> <ul style="list-style-type: none"> <li>• What the council expects from the company</li> <li>• Why it was set up</li> <li>• Why it remains relevant and is being invested in</li> <li>• How arm's length it should be</li> <li>• Key outputs</li> <li>• KPIs</li> </ul> <p>It should link to the Business Plan.</p>
2	<p>The Business Case has not been updated regularly to reflect the ongoing rationale for the company.</p>	<p>The Business Case should be updated at least every five years, or more frequently if there are significant changes to the company. It should consider:</p> <ul style="list-style-type: none"> <li>• The role that the company plays in holding commercial assets (along with the cost of alternative arrangements and the quality of the outputs)</li> <li>• The commercial return set for the company compared to that available from partnerships with the private sector as well as the cost of delivering in areas of market failure</li> </ul>





		<ul style="list-style-type: none"> <li>The difference between the company being purely commercial and acting where there is market failure e.g. delivering homes and regeneration</li> </ul>
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## 2.2 Building blocks of good governance

The Council already has in place good governance structures to build upon.

	Finding	Recommendation
3	<p>The Shareholder Committee is a sub-Committee of the Cabinet and comprises three elected members who have suitable business backgrounds and can provide effective challenge for the company.</p> <p>Three members of the Committee (leader plus two others) will work well when all three are in attendance. However, with a quorate of two, if one member is absent there is a risk that the role will rely on too narrow a range of skills or perspectives.</p>	<p>The Shareholder Committee should be increased to four members to allow for absences and sufficient oversight.</p>
4	<p>Some matters for the Shareholder Committee are discussed before the meeting rather than at the meeting itself.</p>	<p>Consider enabling more detailed discussion at meetings for greater transparency.</p>
5	<p>The Overview and Scrutiny Committee now has access to the necessary officers and information to carry out its function on behalf of the council.</p>	<p>To fully carry out this function the Committee needs to be able to scrutinise the decisions of the council's leadership and how it oversees the performance of its companies.</p>



		To achieve this, the revised Operating Agreement and 2025-30 Business Plan should provide the necessary framework, together with briefings from officers regarding the ongoing activities of the company.
6	The company board has improved significantly in the past two years with the appointment of a number of experienced non-executive directors. As a relatively new board, it is in the process of establishing itself.	Continue to work closely together to embed the working of the board.  Review the skills required of the board in on an ongoing basis as changes take place to the Business Plan, to ensure that the skills remain appropriately balanced and reflect the skills needed to oversee the activities that the company undertakes.
7	The chair is an elected member of the council which goes against best practice as this constitutes a conflict of interest.  A new chair will be appointed in 2025 when the existing chair retires.	Any future chair of the board should have the following attributes: <ul style="list-style-type: none"><li>• Be independent of the council and have experience in a main area of company activity e.g. with experience of working on real estate programmes</li><li>• Have strong leadership and interpersonal skills to steer the board</li><li>• Be able to act as an ambassador for the company externally</li></ul>
8	The five subsidiary companies are separate entities but with a single board. In certain circumstances decisions need to be taken relating to the group, but others for specific subsidiaries.  This is particularly important in relation to the use of Teckal companies as they need to be monitored separately to ensure compliance with the regulations.	The board should be clear about which company they are acting for when taking decisions, dealing with each one separately within single board meetings.
9	The company has reviewed its approach to risk management and decided that the current group structure represents the best approach. Although there is no evidence of unrecorded	The council, in conjunction with the company, will need to ensure that the company's risk management approach and reporting to the council provides a full picture on the risks associated with individual loans and the cumulative financial position of the five subsidiary companies.



	<p>risks, this means that individual company level risks may not be very transparent.</p>	<p>There should be a clear line of sight between risks in subsidiaries, group risks and council risks.</p> <p>The company should be clear about this process as loans, assets (and specific risks) rest with individual companies, not just the group. When providing loans or grant funding to the company, the council needs to have a clear understanding of and control where it will be used, and where any assets acquired or developed using the funding will sit.</p>
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### 2.3 Embedding the Business Planning Process

The documentation supporting the Business Planning process has been strengthened and will need to be embedded going forward.

	Finding	Recommendation
10	<p>A substantial amount of work has been undertaken over the past year to update the Operating Agreement. It will bring together in one place documented arrangements for approval, drawdown and management of loans to the company, including security over company assets, as well as requirements relating to the payment of dividends and delivery of non-financial outputs.</p>	<p>As the Operating Agreement is central to the working of the company, it should be seen as a key document by both council and company with no optional elements. See Annex 1.</p>
	<p>Significant progress has been made towards embedding a formal Business Planning process over the past two years, overcoming a challenging start. However, the Business Plan is now fully developed. The 2024 version was approved by the AN board and the Cabinet Shareholder Committee in April 2024 and a 5-year Business Plan covering the period</p>	<p>Preparation of the Business Plan and its annual review should continue on a formal basis with a detailed programme of how the board and council will be involved in future years. The council (with the company) should continue to ensure that the plan meets the council's objectives for the company and the company retains clarity of purpose.</p>



	2025 to 2030 was approved by the AN board on 2 January 2025.	A programme for the council feeding into the Business Planning process and the information needed to be provided by the company is set out at Annex 1.
11	The company and council have made significant steps to meeting the recommendations contained in the financial review.	Any remaining recommendations should be addressed. Strengthened finance resource and modelling should evidence that this requirement is being met.

## 2.4 Conflict management

There is a need for a conflict of interest protocol to implement if required.

	Finding	Recommendation
12	<p>The existence of AN as separate corporate entity creates the potential for conflicts of interest. These relate to where the interest of the company may be different to that of the council and covers the roles of council officers and members.</p> <p>The council lacks a clear protocol on how conflicts of interest are defined and managed in the context of its companies.</p>	<p>The council should develop and communicate a protocol setting out how conflicts of interest will be managed in relation to its companies. It should cover the different roles that members and council officers will be asked to perform. It should set out rules regarding the following:</p> <p>Officers' responsibilities to the council e.g. for specific roles such as the Company Shareholder Representative, it should be clear in their role descriptions that they are acting for the council not the company.</p> <p>Members' responsibilities to the council and company e.g. members should not be on company boards.</p>



## Annex 1: Operating Agreement

The consideration of the Operating Agreement has concentrated on requirements relating to the company Business Plan, the council's role as shareholder and funder and requirements relating to reporting and monitoring.

### Requirements relating to the Business Plan

This section of the Operating Agreement should contain the following:

- A requirement that the company should have a multiyear Business Plan
- A requirement that the Business Plan should be reviewed annually and rebased as appropriate to reflect changes in council strategy, the company operating environment or other significant changes in circumstances
- A requirement that the council is engaged in the preparation of the Business Plan in a timely manner which enables it to input changes to its corporate strategy, policies and financial plans into the Business Plan
- A detailed programme setting out how the council, as shareholder, will be involved in the preparation of the plan
- A decision tree setting out the different decision points in the process and their relationship to the company board approval process
- A clear ask (reviewed each year) of the financial requirements of the company in terms of the loans and grant – identifying how the loans and grant will be used by the group and subsidiary companies. This needs to reflect the companies Treasury Management policy and Financing Strategy
- A list of supporting information required by the council to enable it to consider and then approve the Business Plan including
  - Assumptions underpinning the Business Plan
  - Cashflow modelling
  - Sensitivity testing of the key Business Plan assumptions
  - Statement setting out the key risks relating to the delivery of the Business Plan
- An agreed set of outputs and KPIs that the council will use to judge the success of the company within year and at the end of the year.

The table below illustrates a possible programme - setting out the input required from both the company and council.

Quarter	BP stage and status	Company	Council
1	Performance review	Review of company performance against previous years targets and KPIs	Review of performance against corporate plan



Quarter	BP stage and status	Company	Council
		<p>Chief Executive performance appraisal by chair</p> <p>Initial review of strategic direction – reflecting past performance and any changes to council strategy</p>	<p>Shareholder input into company and chief exec performance appraisal</p> <p>Review company objectives against changes in council strategy / policies</p>
2	High level review of strategic direction	<p>Company shareholder joint strategy discussion</p> <ul style="list-style-type: none"> <li>• Setting expectations</li> <li>• Agreement on strategic direction – reflecting any changes to council priorities</li> <li>• Agreement on the type of outputs and KPIs – to be used in following year</li> </ul>	
3	First iteration of new / revised Business Plan	<p>Draft prepared reflecting strategic discussions. Supporting information for council to include</p> <ul style="list-style-type: none"> <li>• Financing strategy (loans and grants required)</li> <li>• Sensitivity testing of key assumptions</li> <li>• Identification of key areas of activity</li> <li>• Resource plan to deliver activity</li> </ul> <p>Sign off by company board</p>	<p>Review of council's corporate plan and financial planning for following year</p> <p>Input changes to council strategy and financial requirements into company Business Plan</p> <p>Reflect company business requirements in corporate and financial plans</p> <p>Engagement with wider council (non-shareholder role)</p> <p>Alignment of assumptions and key risks with council risk appetite</p>
	Second iteration of the Business Plan	<p>Near complete Business Plan reflecting responses and engagement</p> <ul style="list-style-type: none"> <li>• Detailed supporting information</li> </ul>	<p>Alignment of company Business Plan with corporate plan and MTFP</p> <ul style="list-style-type: none"> <li>• In principle sign off of company financing strategy</li> </ul>



Quarter	BP stage and status	Company	Council
		<ul style="list-style-type: none"><li>• Cashflow modelling</li><li>• Appraisals for key areas of activity</li></ul>	<p>covering loans and grants and any loan repayments (in principle sign off at the company programme level – detailed requirements to draw down loans and grants within year will still be required)</p> <ul style="list-style-type: none"><li>• Sign off KPIs and other performance metrics</li></ul>
4	Final Business Plan	Formal Board sign off	Shareholder Committee sign off

### Council as funder


This section should cover the following points

- How grants will be applied for by the company from the council:
  - Timescale for council and company actions
  - Supporting material required by the council
  - Requirements relating to security of loan
- Where relevant, subsidy control assessment requirements [subsidy control principles assessment template.docx](#)
- Requirements relating to council loans and the need to agree subsidy control compliant interest rates.

### Monitoring and reporting

This section should include:

- The level and frequency of engagement with the shareholder representative and Shareholder Committee
- The information required by the Shareholder Committee (say) on a quarterly basis:
  - Performance – against the metrics identified in the Business Planning process

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- debt repayments – against the financing strategy set out in the Business Plan
  - Summary of the company's overall financial position
  - Changes to key risks since the previous meeting





## Annex 2: List of consultees

<b>Name</b>	<b>Role</b>
Councillor David Bawn	Chair of Scrutiny Committee
Councillor Elizabeth Dunn	Deputy Chair of Scrutiny Committee
Kelly Gardner	Service Director of NCC and Board Member of AN
Stephen Gerrard	Monitoring Officer of NCC
Steven Harrison	Chief Executive of AN
Andrew Moffatt	Independent NED of AN
Kevin McDonald	Head of Internal Audit NCC
Simon Neilson	Executive Director for Place and Regeneration
Helen Paterson	Chief Executive of NCC
Councillor Wojciech Ploszaj	Cabinet Member/Member of Shareholder Committee
Councillor Jeff Reid	Opposition Councillor and Chair of AN
William Thompson	Executive Director of Governance - AN
Councillor Richard Wearmouth	Cabinet Member/Member of Shareholder Committee
Jan Willis	S151 Officer of NCC
Round table with all board members who attended 8 <sup>th</sup> November meeting	Board members





## Annex 3: Financial Assurance Review Action Plan

Red: Late  
Amber: In progress  
Green: Complete

Ref	LP Recommendation	LP Priority	Advance Northumberland Action Summary	Advance Northumberland Update	Action	Expected Completion Date. RAG
01	AH needs its own financial controller	High	Recruit Finance business partner for Ascent	Post recruited to.	PR	Completed
02	Financial modelling capability needs to be enhanced – move away from disaggregated spreadsheets.	Medium	New modelling systems to be implemented	Interim FD in place and reviewing process. Business partner to continue process once in post. COINS being implemented, will offer continuity from land to completion.	MC	March 25
03	Development Management Software needs implementing asap	High	COINS software to be implemented	COINS implementation continuing and due to be completed for roll out Q4 24/25	DE	March 25
04	A Treasury Management policy needs produced and implemented	High	Formalise treasury management into a new policy and implement	Policy approved by AN Board Nov 24.	MC	Completed
05	Risk Management – ERMG to review links between Project and Operational RR	Medium	Review and revise policy and practice as required.	Risk policy revised by Head of Business Transformation. Training / awareness sessions for SMT members being held. Focus on project level risks and process /		Completed

				escalation points to Operational and then corporate risk register.		
06	Sustain formal monthly meeting between AN Finance and NCC to address lack of synchronisation.	High	Ensure meetings are programmed and held, with Agenda and meeting notes taken.	In place	AF	Completed
07	Adjust pipeline cashflows to ensure an up-to-date position in respect of development viability.	Urgent	Provide more representative business and project cashflows.	Improved business cashflow forecasting now in place. Revised project viability assessments first being undertaken on Hadston and Longhorsley 8/10/24	MC	Completed
08	Accelerate delivery of units to 3.5-4 per month as part of growth plans	Low	Consider when forming new project programmes and cashflows.	Being undertaken as part of new viability assessments. Need to match against market conditions to avoid any holding costs.		In place - ongoing
09	Consider use of recognised development software to enable sensitivity analysis to be carried out.	Medium	Review use/applicability of project sensitivity software	COINS implementation continuing and due to be completed for roll out Q4 24/25 Sensitivity analysis to be undertaken as part of incoming PM system	DE/PE	March 25
10	Improve processes around loan application, capital budget setting and affordability testing and cashflow impact	High	New Loan Application process to be agreed/implemented. Implement Project Framework process.	Loans to be submitted in new format Oct 24. PM system in trial phase. Any new projects will be tested. System fully in place by Dec 24.	MC/AM	Completed – first 'new' loan approved.
10a			Propose capital project investment plan for next 5 years within Business plan.	Business Plan approved by AN Board January 25	WT	Completed



11	Improve loan management systems	High	Develop and maintain record of all loans and payment dates to include asset security.	Complete and now a standing item on ELT meetings.	MC	Completed
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