



Department for  
Energy Security  
& Net Zero



## **Low Carbon Contracts Company Ltd**

### **Framework Document**

This framework document was originally drawn up by the Department of Energy and Climate Change in consultation with the Low Carbon Contracts Company Ltd (LCCC) and has now been subsequently revised by the Department for Energy Security & Net Zero (DESNZ) in consultation with the LCCC. It sets out the relationship between the LCCC and its sole shareholder, the Secretary of State for Energy Security & Net Zero, and the broad framework within which the LCCC will operate.

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# Introduction and Background

## 1. Purpose of document

- 1.1. This Framework Document (the “**Framework Document**”) has been agreed between the Secretary of State for Energy Security & Net Zero, in his or her role as sole Shareholder (“**the Shareholder**”), and the Low Carbon Contracts Company Ltd (“**Company**”) in accordance with HM Treasury’s handbook Managing Public Money (“**MPM**”) (as updated from time to time) and has been approved by HM Treasury.
- 1.2. The Framework Document sets out the broad governance framework within which the Company and the Shareholder operate. It sets out the company’s core responsibilities; describes the governance and accountability framework that applies between the roles of the Shareholder and the Company; and sets out how the day-to-day relationship works in practice, including in relation to governance and financial matters.
- 1.3. The document does not convey any legal powers or responsibilities but both parties agree to operate within its terms.
- 1.4. References to the Company include all its subsidiaries and joint ventures that are classified to the public sector and central Government for national accounts purposes. If the Company establishes a subsidiary or joint venture, there shall be a document setting out the arrangements between it and the Company agreed with the Shareholder. Such subsidiaries should only be established in line with appropriate delegations.
- 1.5. Copies of the document and any subsequent amendments have been placed in the Libraries of both Houses of Parliament and made available to members of the public on the Company website.
- 1.6. This Framework document should be reviewed and updated at least every 3 years unless there are exceptional reasons that render this inappropriate that have been agreed with HM Treasury and the Principal Accounting Officer of the Shareholder’s Department. The latest date for review and updating of this document is 30 April 2026.

## 2. Objectives

- 2.1. The Shareholder and the Company share the common objective of delivering the Contracts for Difference (CfD) scheme<sup>1</sup>. To achieve this the Company and the Shareholder will work together in recognition of each other’s roles and areas of expertise, providing an effective environment for the Company to achieve its objectives through the promotion of partnership and trust and ensuring that the Company also supports the strategic aims and objectives of the Shareholder and wider Government as a whole, providing these do not conflict with its ability to fulfil its purpose with appropriate operational independence as outlined in 2.2. and 2.3.
- 2.2. This Framework Document describes:

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<sup>1</sup> CfD throughout the Framework Document means the CfD agreement and CfD terms and conditions.

- A. certain activities which the Company is required to perform and the guiding principle with which the Company is expected to comply in performing those activities;
  - B. certain aspects of the relationship between the Shareholder and the Company, and the manner in which it is expected that the Shareholder and the Company will interact with each other; and
  - C. the intention of the Shareholder to allow day-to-day operational independence of the Company subject to certain limited exceptions provided for in this Framework Document, legislation, and the Company's constitutional documents.
- 2.3. A key principle in developing this Framework Document has been the creation of a framework within which the Company can fulfil its purpose with appropriate operational independence. There will be certain limitations on the independence which are either (i) common to Government-owned entities and necessary to satisfy Government and Parliamentary budgeting and accountability requirements, or (ii) specific to the controls the Shareholder requires over policy implementation that the Company has been mandated to execute. In particular:
- A. it is recognised that the Company is a separate corporate entity and that governance, and decision-making processes, of the Company flow through its Board, with the executives reporting to that Board; and
  - B. this framework is not intended to replace or duplicate the Company's own internal corporate governance structure. It is intended to enable an effective and clearly defined and aligned Company-shareholder relationship, appropriate to a Government-owned company, including facilitating the necessary information and reporting flows and efficient dialogue.
- 2.4. The overall responsibility for ensuring that the intentions of the Framework Document are carried out in practice lies ultimately with the Chairperson and the Secretary of State acting in his or her capacity as Shareholder. The Chairperson or relevant Company representatives will maintain regular contact with the Shareholder or an official nominated by the Shareholder.

### **3. Classification and Ownership**

- 3.1. The Company has been classified as a central Government organisation by the Office for National Statistics/HM Treasury Classifications team. It is wholly owned by the Shareholder.
- 3.2. The Company will be required to be compliant with all the relevant administrative and other requirements, principles or guidance that apply to Government-owned companies, except where:
- 3.2.1. this would prevent the Company's ability to operate independently as a private law company under the Companies Acts or its Articles of Association (which prevail at all times); and
  - 3.2.2. the Shareholder, on behalf of the Company, has obtained any delegations from relevant controls.

3.3. The Company is a company wholly-owned by Government and also has obligations under the Energy Act and related Regulations. It will undertake its activities in accordance with:

- A. its objects as specified in its Articles of Association;
- B. the terms of any relevant subsidy control approvals;
- C. all applicable laws and regulations;
- D. principles, rules, guidance and advice in MPM which apply to arm's length bodies owned by Government (noting the process outlined in section 15 below for managing any conflicts between the Company's activities and MPM);
- E. the Guiding Principle as defined in section 6 below; and
- F. the Shareholder Consent Matters as defined in section 8 below.

# Purposes Aims and Duties

## 4. Purposes

4.1. The Company was established on 18 December 2013 and has been incorporated under the Companies Act 2006 as a private company limited by shares. The Shareholder has designated the Company as the CfD Counterparty pursuant to its powers under the Energy Act 2013 and related Regulations (the “**Regulations**”) (together the “**EA Legislation**”). The Company’s purposes are set out in the Articles of Association of the Company and reflected below:

- A. to act as the counterparty to CfDs and Investment Contracts<sup>2</sup> and, in such capacity, to perform the functions, comply with the duties and obligations and exercise the rights, powers and discretions which are set out in, arise out of or in connection with or are provided for pursuant to the EA Legislation;
- B. to comply with any direction given by the Shareholder or the national system operator<sup>3</sup> by virtue of the EA Legislation;
- C. to enter into CfDs and become party to Investment Contracts as transferee of the Shareholder and administer CfDs and Investment Contracts in the capacity of a CfD counterparty;
- D. to perform all obligations, and satisfy all liabilities, of a CfD counterparty under, or arising out of or in connection with CfDs and Investment Contracts;
- E. to exercise all rights, powers and discretions of a CfD counterparty under, or arising out of or in connection with, CfDs or Investment Contracts;
- F. to enter into any agreement, deed, document or other arrangement under, contemplated by, provided for in or arising out of or in connection with, any and all CfDs and Investment Contracts;
- G. (without prejudice to the generality of paragraph A.) to administer and manage the operational and supplier obligation levy arrangements in accordance with the EA Legislation<sup>4</sup>;
- H. to undertake such other activities in relation to the Electricity Market Reform programme as the Board considers to be consistent with the Company’s functions, duties and obligations which are set out in, arise out of or in connection with or are provided for pursuant to the EA Legislation;
- I. to undertake work for and provide resources to the Electricity Settlements Company in return for payment<sup>5</sup>;

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<sup>2</sup> Investment Contract throughout the Framework Document means Investment Contracts and any related provisions or agreements that have been agreed by Government.

<sup>3</sup> As defined in the Energy Act 2013.

<sup>4</sup> Further detail of the Supplier Obligation is set out in *Implementing Electricity Market Reform*:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/324176/Implementing\\_Electricity\\_Market\\_Reform.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/324176/Implementing_Electricity_Market_Reform.pdf)

<sup>5</sup> Electricity Settlements Company is the body responsible for providing settlement services for the capacity market schemes.

- J. to provide advice and information to the Shareholders Department about certain aspects of the workings of Electricity Market Reform, functioning of the EA Legislation and, where the Company and the Shareholder agree it would be appropriate, advice as requested by Government regarding any new low carbon related legislation, policy or market developments;
  - K. to undertake such other additional work or activities in relation to the foregoing that the Company may formally agree with the Shareholder (including in relation to receipt of payment or reimbursement therefor); and
  - L. to do all other things which the Board considers ancillary, incidental or conducive to the attainment or fulfilment by the Company of the foregoing objects (including in preparation for the coming into force of draft regulations relating to the CfD scheme and/or the EA Legislation).
- 4.2. Fulfilling its purpose as defined under J, K and L above will include the Company acting as Implementation Coordinator for the CfD scheme and preparing to implement any new responsibilities the Shareholder intends to confer on the Company via legislation. As Implementation Coordinator for the CfD scheme, the Company will be responsible for:
- i. co-ordinating the development of systems and processes of the different organisations responsible for CfD implementation, including co-ordinating the building and integration testing of systems and processes by multiple suppliers (where required, e.g. for the collection of the supplier obligation levy); managing dependencies and identifying issues from an implementation point of view; and identifying risks and coordinating management of them; and
  - ii. working closely with industry participants to give them the best opportunity to understand what is expected of them and by when to enable successful implementation of CfDs.

## 5. Powers and Duties

- 5.1. The Company's powers and duties in relation to the CfD scheme stem from the EA Legislation and the terms and conditions of the CfDs and Investment Contracts to which it is party.
- 5.2. The Company's principal role is to perform the functions, comply with the duties and obligations and exercise the rights, powers and discretions of the CfD Counterparty under the EA Legislation, including to:
- act in accordance with:
    - any direction given by the Shareholder by virtue of Chapter 2 of the Energy Act 2013; and
    - any provision of the Regulations;
  - exercise the functions conferred by the EA Legislation to ensure that the Company can meet its liabilities under any CfD to which it is party;
  - calculate, notify and collect the amounts that electricity suppliers are required to pay to the Company for the purpose of enabling the Company to make payments under CfDs in accordance with the EA Legislation;

- calculate, notify and collect the amounts that electricity suppliers are required to pay to the Company for the purpose of enabling the Company to cover its costs in connection with the performance of its functions under the EA Legislation;
- calculate, notify, collect and hold any financial collateral that may be required from electricity suppliers under and in accordance with the EA Legislation;
- calculate and apply interest on any amounts due from electricity suppliers and unpaid and take appropriate enforcement action as may be required to recover such amounts in accordance with the EA Legislation;
- offer to contract with eligible generators as directed by the Shareholder or as notified by the national system operator pursuant to a CfD notification;
- act as the counterparty to Investment Contracts in accordance with any designation and the EA Legislation;
- modify the CfD standard terms in accordance with the process set out in the EA Legislation;
- calculate and pay any amounts payable to electricity suppliers or electricity generators under and in accordance with the EA Legislation; and
- provide advice and information to the Secretary of State or any other person as specified in the EA Legislation.

5.3. The Shareholder intends that the Company should: i) operate as a commercially responsive and responsible company, which will include operating efficiently in a commercial timeframe, ensuring it has appropriate resources and personnel to do so; and ii) in carrying out its purpose under section 4.1 G be as open as is reasonably possible, subject to considerations of proprietary or commercially sensitive information and the cost and practicality of doing so.

5.4. The CfD and Investment Contracts reflect Government's policy intent and accordingly Government expects the Company to enforce contracts entered into by it in accordance with their respective terms.

## 6. Aims and guiding principle

6.1. In carrying out activities under and associated with the Company's purpose as set out in section 4 (Purpose) and within the operational parameters set out in this Framework Document, the Company shall seek to maintain investor confidence in the CfD scheme and minimise costs to consumers (the "**Guiding Principle**").

6.2. The Company's strategic aims and objectives are set out in its Annual Report<sup>6</sup>.

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<sup>6</sup> The Company's strategic aims, including details on how they are delivering on these each year, are set out in the Company's Annual Reports, which are available on the Company website at: <https://www.lowcarboncontracts.uk/annual-reports>

# Role of the Department as Shareholder

## 7. The Responsible Minister

- 7.1. The Shareholder will account for the Company on all matters concerning the Company in Parliament.
- 7.2. The Shareholder's statutory powers in respect of the Company are set out in the Energy Act 2013.

These are:

- to designate a company or a public authority, with their consent, to act as the counterparty for CfDs;
- to designate (by order) a company or public authority, with their consent, to act as the counterparty for an investment contract;
- to direct the CfD counterparty to enter into a CfD with an eligible generator in accordance with provisions set out in regulations;
- to make provision conferring power on the Shareholder to make rules about how CfDs are to be allocated, including the period within which CfDs are to be allocated and the allocation framework that may apply in respect of different allocation rounds;
- to issue and, from time to time, revised standard terms for the CfD;
- to make provision regarding matters about how and within what timescale the CfD counterparty is to apply or complete standard terms in response to a notification from the System Operator to offer a CfD contract and how the eligible generator to whom the offer is made may enter into a CfD as a result; and
- to make provision for the CfD counterparty to provide advice and information necessary for making decisions about the running of the CfD scheme.

- 7.3. Through the exercise of these powers the Shareholder:

- is responsible for the policy framework within which the Company operates;
- provides guidance and direction to ensure the strategic aims and objectives of the Company are consistent with those of the Department and Government;
- approves the Company three year Business Plan (setting out the operational delivery plan including capital costs), which will be updated by the Company annually; and
- has a power of appointment in relation to the appointment of the Company's Chairperson, Senior Independent Director and shall appoint up to two suitably qualified persons as its representative directors (the "**Shareholder Representative Directors**"), and any other directors to the Company Board in accordance with the Articles of Association;
- has a power of approval in relation to non-executives in line with the Governance Code on Public Appointments.

## 8. Other Shareholder consent matters

- 8.1. The Shareholder will review and, if in agreement, give prior written approval to the following "Shareholder Consent Matters":

- Corporate Business Plan (as defined in section 24 below) (following development and updating by the Board, the Shareholder will review and approve this annually);
  - matters regarding spending approvals acquisitions, disposals and joint ventures in line with delegations as set out in the relevant delegation letter; and
  - and such other matters as set out in **Annex 1** ("Matters requiring Shareholder Consent").
- 8.2. At the reasonable request of the Shareholder, and in addition to the regular cycle of meetings between the Company and the Shareholder's Department outlined in Annex 2, the Directors shall:
- meet the Shareholder or its representatives to discuss the affairs of the Company; and
  - provide such information in relation to the affairs of the Company as the Shareholder may reasonably require for the purpose of carrying out its role as shareholder.
- 8.3. The Shareholder is committed to giving the Board the freedom to operate the Company in line with the spirit of this Framework Document. The Shareholder intends that the Company should have operational independence from Government to the extent that decisions on the day-to-day management of the Company will be taken by the Board in accordance with their statutory, regulatory, common law and fiduciary duties. However, certain decisions, as set in Annex 1, will require the prior written consent of the Shareholder.

## 9. The Principal Accounting Officer (PAO)

- 9.1. The Principal Accounting Officer is the Permanent Secretary of the Shareholder's Department or any relevant successor.

### Shareholder Department's accounting officer's specific accountabilities and responsibilities as Principal Accounting Officer (PAO)

- 9.2. The Principal Accounting Officer (PAO) of the Shareholder's Department designates the Chief Executive as the Company's accounting officer (AO) and ensures that he / she is fully aware of his or her responsibilities. The PAO issues a letter appointing the Accounting Officer, setting out his or her responsibilities and delegated authorities.
- 9.3. The respective responsibilities of the PAO and Accounting Officers for the Company are set out in Chapter 3 of MPM.
- 9.4. The PAO is accountable to parliament for the issue of any grant-in-aid to the Company.
- 9.5. The PAO is also responsible for advising the responsible minister on:
- an appropriate framework of objectives and targets for the Company in the light of the Shareholder Department's wider strategic aims and priorities;
  - an appropriate budget for the Company in the light of the Shareholder Department's overall public expenditure priorities;
  - how well the Company is achieving its strategic objectives and whether it is delivering value for money; and

- via the Shareholder team, the exercise of the ministers' statutory responsibilities concerning the Company as outlined above.

9.6. The PAO, via the Shareholder team, is also responsible for ensuring arrangements are in place in order to:

- monitor the Company's activities and performance;
- address significant problems in the Company, making such interventions as are judged necessary;
- periodically carry out an assessment of the risks both to the Department and the Company's objectives and activities in line with the wider Departmental risk assessment process;
- inform the Company of relevant Government policy in a timely manner; and
- bring Ministerial or Departmental concerns about the activities of the Company to the full (Company) Board, and, as appropriate to the Departmental Board requiring explanations and assurances that appropriate action has been taken.

## 10. The role of the Shareholder team

10.1. The LCCC/ESC Shareholder team in the Shareholder's Department is the primary contact for the Company. The responsible Senior Civil Servant for this relationship is the Director for Renewable Electricity. They are the main source of advice to the responsible minister on the discharge of his or her responsibilities in respect of the Company. They also support the PAO on his or her responsibilities toward the Company.

10.2. Officials of the LCCC/ESC Shareholder team in the Shareholder's Department will liaise regularly with Company officials to review performance against plans, achievement against targets and expenditure against its DEL and AME allocations. The team will also take the opportunity to explain wider policy developments that might have an impact on the Company.

## 11. The role of the Shareholder Representative Directors

11.1. The Shareholder Representative Directors are responsible for discharging the responsibilities of the Shareholder and will seek regular input from the Shareholder.

11.2. The Shareholder Representative Directors shall:

- establish and maintain appropriate and effective corporate governance foundations which govern the Shareholder, Shareholder Representative Directors and the Company's relationship;
- promote effective objectives, business planning and performance against the Corporate Plan;
- promote the organisational capability of the Company to deliver against the Corporate Plan;
- promote effective leadership (high quality Boards and senior management);
- promote effective relationships between the Shareholder, Shareholder Representative Directors and the Company; and

- support and supplement the activities outlined above by providing experienced Non-Executive Directors on the Board of the Company.

## **12. Resolution of disputes between the Company and Shareholder**

12.1. Any disputes between the Department and the Company will be resolved in as timely a manner as possible. The Department and the Company will seek to resolve any disputes through an informal process in the first instance. If this is not possible, then a formal process, overseen by the Senior Sponsor, will be used to resolve the issue. Failing this, the Senior Sponsor will ask the relevant policy Director General to oversee the dispute. They may then choose to ask the Permanent Secretary to nominate a non-executive member of the Department's Board to review the dispute, mediate with both sides and reach an outcome, in consultation with the Secretary of State.

## **13. Freedom of Information requests**

13.1. Where a request for information is received by either party under the Freedom of Information Act 2000, Environmental Information Regulations 2004 or the Data Protection Act 1998 or 2018, the party receiving the request will consult with the other party prior to any disclosure of information that may affect the other party's responsibilities.

# Company Governance and Structure

## 14. Governance and Accountability

14.1. The Company shall operate corporate governance arrangements that, so far as practicable and in the light of the other provisions of this Framework Document or as otherwise may be mutually agreed, accord with good corporate governance practice and applicable regulatory requirements and expectations.

14.2. In particular (but without limitation), the Company should:

- comply with the principles and provisions of the Financial Reporting Council's UK Corporate Governance Code (as amended and updated from time to time) to the extent appropriate to the Company or specify and explain any non-compliance in its annual report;
- comply, with the principles and provisions of the Corporate Governance in Central Government Departments Code of Good Practice to the extent appropriate to the Company;
- comply with the relevant requirements set out in MPM; and
- in line with MPM have regard to the relevant Functional Standards<sup>7</sup> as appropriate and in particular those concerning Finance, Commercial and Counter Fraud.

14.3. In line with MPM Annex 3.1 the Company shall provide an account of corporate governance in its annual governance statement including the Board's assessment of its compliance with the Code with explanations of any material departures. To the extent that the Company does intend to materially depart from the Code, the Shareholder should be notified in advance and their agreement sought to this approach.

## 15. The Chief Executive

### Appointment

15.1. The Chief Executive of the Company is appointed by the Board in accordance with the Company's Articles of Association. The Shareholder must endorse the Company's preferred candidate.

### Responsibilities of the Company's Chief Executive as accounting officer

15.2. The Chief Executive as accounting officer is personally responsible for safeguarding the public funds for which they have charge; for ensuring propriety, regularity, value for money and feasibility in the handling of those public funds; and for the day-to-day operations and management of the Company. In addition, they should ensure that the Company as a whole is run on the basis of the standards, in terms of governance, decision-making and financial management that are set out in Box 3.1 of MPM. These responsibilities include

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<sup>7</sup> <https://www.gov.uk/government/collections/functional-standards>

the below and those that are set in the Accounting Officer appointment letter issued by the Principal Accounting Officer of the Shareholder Department.

## **Responsibilities for accounting to parliament**

15.3. The accountabilities include:

- signing the accounts and ensuring that proper records are kept relating to the accounts and that the accounts are properly prepared in accordance with International Financial Reporting Standards (IFRS) and presented in accordance with any directions issued by the Shareholder;
- preparing and signing a Governance Statement covering corporate governance, risk management and oversight of any local responsibilities, for inclusion in the annual report and accounts;
- ensuring that effective procedures for handling complaints about the Company are established and made widely known within the Company;
- acting in accordance with the terms of MPM and other instructions and guidance issued from time to time by the Shareholder's Department, HM Treasury and the Cabinet Office;
- ensuring that as part of the above compliance they are familiar with and act in accordance with:
  - their fiduciary duties under the Companies Act,
  - any governing legislation
  - this Framework Document
  - the requirements of any delegation letter issued to the Company in respect of those matters covered by the delegation letter
  - any elements of any settlement letter issued to the Shareholder Department that is relevant to the operation of the Company; and
  - any separate settlement letter that is issued to the Company from the Shareholder Department.
- ensuring they have appropriate internal mechanisms for the monitoring, governance and external reporting regarding compliance any conditions arising from the above documents;
- giving evidence, normally with the PAO, when summoned before the PAC on the Company's stewardship of public funds.

## **Responsibilities to the Shareholder's Department**

15.4. Responsibilities to the Shareholder's Department include:

- establishing, in agreement with the Department, the Company's corporate and business plans in the light of the Department's wider strategic aims and agreed priorities;
- informing the Department of progress in helping to achieve the Department's policy objectives and in demonstrating how resources are being used to achieve those objectives; and
- ensuring that timely forecasts and monitoring information on performance and finance are provided to the Department; that the Department is notified promptly if over or under spends are likely and that corrective action is taken; and that any significant problems whether financial or otherwise, and whether detected by internal audit or by other means, are notified to the Department in a timely fashion.

## Responsibilities to the Board

15.5. The Chief Executive is responsible for:

- advising the Board on the discharge of the Company Board's responsibilities as set out in this document, in the founding legislation and in any other relevant instructions and guidance that may be issued from time to time;
- advising the Board on the Company's performance compared with its guiding principle, aims and objectives;
- ensuring that financial considerations are taken fully into account by the Board at all stages in reaching and executing its decisions, and that financial appraisal techniques are followed.

## Managing conflicts

15.6. The Chief Executive should follow the advice and direction of the Board, except in very exceptional circumstances with a clear cut and transparent rationale for not doing so.

15.7. The Company's accounting officer must take care that his or her personal legal responsibilities do not conflict with his or her duties as a Board member. In particular, the accounting officer should vote against any proposal which appears to cause such a conflict; it is not sufficient to abstain.

15.8. If the Chairperson or Board of the Company is minded to instruct its accounting officer to carry out a course inconsistent with their duties as accounting officer, then the accounting officer should make his or her reservations clear, preferably in writing. If the Board is still minded to proceed, the Company accounting officer should then:

- ask the accounting officer of the Shareholder's Department to consider intervening to resolve the difference of view, preferably in writing;
- if the Board's decision stands, seek its written direction to carry it out, asking the Shareholder's Department to inform HM Treasury;
- proceed to implement the direction without delay; and
- follow the process in paragraph 3.4.5 of MPM.

## 16. The Chairperson and Board

### Composition of the Board

16.1. The Company will have a Board in line with good standards of Corporate Governance and as set out in its Articles of Association. The role of the Board shall be to run the Company, and to deliver the Company's objectives, in accordance with the purposes as set out above, their statutory, regulatory, common law duties and their responsibilities under this Framework Document. Remuneration of the Board will be disclosed in line with the UK Corporate Governance Code.

16.2. It is agreed that:

- A. the business of the Company will be directed by a Chairperson, together with the Chief Executive and Chief Financial Officer, who will have an appropriate balance of skills and experience to perform this task effectively;

- B. the Company Board is to consist of no fewer than two and no more than twelve directors. The Board collectively should have experience of the energy sector, settlement systems, operational delivery, corporate services such as HR, low carbon technologies, communications and performance management. This will include as an executive and voting Board member an appropriately qualified finance director as described in Annex 4.1 of MPM;
- C. the senior independent non-executive director and independent non-executive directors are to constitute at least half of the Company Board to ensure that executive members are supported and constructively challenged in their role;
- D. the Shareholder shall appoint the Company's Chairperson and Senior Independent Director<sup>8</sup> and shall appoint up to two suitably qualified persons as its representative directors (the "**Shareholder Representative Directors**"), and any other directors to the Company Board in accordance with the Articles;
- E. subject to the prior written consent of the Shareholder in accordance with the Articles, the Company Board shall appoint the other directors according to the recommendations of the Nominations Committee;
- F. the Company Board shall regularly ensure that suitably rigorous appraisals are made of the effectiveness of the Chairperson and members of the company Board; and
- G. the Company Board shall have due regard to the UK Corporate Governance Code's principle that the search for Board candidates should be conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the Board, including gender.

## Board Committees

16.3. The Board may set up such committees as necessary for it to fulfil its functions. As is detailed below, at a minimum this will include the following committees chaired by an independent and appropriately qualified non-executive member of the Board:

- i. Audit and Risk Committee;
- ii. Remuneration Committee; and
- iii. Nominations Committee.

16.4. The Company Board will ensure that one Shareholder Representative Director may always be a member of the Remuneration Committee and of the Audit and Risk Committee.

16.5. While the Board may make use of committees to assist its consideration of appointments, succession, audit, risk and remuneration it retains responsibility for, and endorses, final decisions in all of these areas. The Chairperson should ensure that sufficient time is

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<sup>8</sup> The Chairperson and Senior Independent Director appointments shall be made by the Shareholder in line with the Office of Commissioner of Public Appointments principles.

allowed at the Board for committees to report on the nature and content of discussion, on recommendations, and on actions to be taken.

- 16.6. Where there is disagreement between the relevant committee and the Board, adequate time should be made available for discussion of the issue with a view to resolving the disagreement. Where any such disagreement cannot be resolved, the committee concerned should have the right to report the issue to the Shareholder team, Principal Accounting Officer and responsible minister. They may also seek to ensure the disagreement or concern is reflected as part of the report on its activities in the annual report.
- 16.7. The Chairperson should ensure Board committees are properly structured with appropriate terms of reference. The terms of each committee should set out its responsibilities and the authority delegated to it by the Board. The Chairperson should ensure that committee membership is periodically refreshed and that individual independent non-executive directors are not over-burdened when deciding the chairs and membership of committees.

## Appointments to the Board

- 16.8. The Chairperson and Senior Independent Director are appointed by the Shareholder in accordance with the Articles of Association.
- 16.9. Up to two Non-executive Members can be appointed by the Shareholder under the Articles of Association. The period of these appointment is not fixed. As ex officio Board members, these roles don't receive any additional remuneration.
- 16.10. Up to 6 Non-executive Members can be appointed by the Board in accordance with the Articles of Association.
- 16.11. All such appointments should have regard to the principle that appointments should reflect the diversity of the society in which we live, and appointments should be made taking account of the need to appoint Boards which include a balance of skills and backgrounds.

## Duties of the Board

- 16.12. The Board is specifically responsible for:
- establishing and taking forward the strategic aims and objectives of the Company consistent with its overall strategic direction and within the policy and resources framework determined by the Shareholder;
  - providing effective leadership of the Company within a framework of prudent and effective controls which enables risk to be assessed and managed;
  - ensuring the financial and human resources are in place for the Company to meet its objectives;
  - reviewing management performance;
  - ensuring that the Board receives and reviews regular financial and management information concerning the management of the Company;
  - ensuring that it is kept informed of any changes which are likely to impact on the strategic direction of the Company Board or on the attainability of its targets, and determining the steps needed to deal with such changes and where appropriate

- bringing such matters to the attention of the responsible minister and Principal Accounting Officer via the executive team, Shareholder team or directly;
- ensuring that any statutory or administrative requirements for the use of public funds are complied with; that the Board operates within the limits of its statutory authority and any delegated authority agreed with the Shareholder’s Department, and in accordance with any other conditions relating to the use of public funds; and that, in reaching decisions, the Board takes into account guidance issued by the Shareholder’s Department;
- ensuring that as part of the above compliance they are familiar with:
  - this Framework Document;
  - the requirements of any delegation letter issued to the Company;
  - any elements of any settlement letter issued to the Shareholder’s Department that is relevant to the operation of the Company;
  - any separate settlement letter that is issued to the Company from the Shareholder’s Department; and
  - that they have appropriate internal mechanisms for the monitoring, governance and external reporting regarding any conditions arising from the above documents and ensure that the Chief Executive and Company as a whole act in accordance with their obligations under the above documents.
- demonstrating high standards of corporate governance at all times, including by using the independent audit committee to help the Board to address key financial and other risks;
- appointing, with the responsible minister’s approval, a Chief Executive;
- in consultation with the Department, set remuneration for the Chief Executive;
- set performance objectives and remuneration terms linked to these objectives for the Chief Executive which give due weight to the proper management and use and utilization of public resources, taking into account appropriate consideration of any views expressed by the Shareholder Representative Director who sits on the Remuneration Committee.
- putting in place mechanisms for independent appraisal and annual evaluation of the performance of the Chairperson by the independent non-executives, taking into account the views of relevant stakeholders. A summary of the outcome of that evaluation should be made available to the Shareholder; and
- determining all such other things which the Board considers ancillary or conducive to the attainment or fulfilment by the Company of its Objectives.

16.13. The Board should ensure that effective arrangements are in place to provide assurance on risk management, governance and internal control.

16.14. The Board should make a strategic choice about the style, shape and quality of risk management and should lead the assessment and management of opportunity and risk. The Board should ensure that effective arrangements are in place to provide assurance over the design and operation of risk management, governance and internal control in line with the *Management of Risk – Principles and Concepts (The Orange Book)*. The Board must set up an Audit and Risk Assurance Committee chaired by an independent and appropriately qualified non-executive member to provide independent advice and ensure that the Department’s Audit and Risk Assurance Committee are provided with routine assurances with escalation of any significant limitations or concerns. The Board is expected to assure itself of the adequacy and effectiveness of the risk management framework and the operation of internal control.

## The Chairperson's role and responsibilities

16.15. The Chairperson is responsible for leading the Board in the delivery of its responsibilities. Such responsibility should be exercised in the light of their duties and responsibilities as set out in the Chairperson's contract of employment, the statutory authority governing the Company, this document and the documents and guidance referred to within this document.

16.16. Communications between the Company's Board and the Shareholder should normally be through the Chairperson.

16.17. The Chairperson is bound by the Code of Conduct for Board Members of Public Bodies<sup>9</sup>, which covers conduct in the role and includes the Nolan Principles of Public Life.<sup>10</sup>

16.18. In addition, the Chairperson is responsible for:

- Ensuring including by monitoring and engaging with appropriate governance arrangements that the Company's affairs are conducted with probity.
- Ensuring that policies and actions support the responsible ministers', and where relevant other ministers, wider strategic policies and where appropriate, these policies and actions should be clearly communicated and disseminated throughout the Company.
- In addition, the Chairperson has the following leadership responsibilities:
  - formulating the Board's strategy;
  - ensuring that the Board, in reaching decisions, takes proper account of guidance provided by the responsible minister or the Shareholder's Department;
  - promoting the efficient and effective use of staff and other resources;
  - delivering high standards of regularity and propriety; and
  - representing the views of the Board to the general public.

16.19. The Chairperson also has an obligation to ensure that:

- the work of the Board and its members are reviewed and are working effectively including ongoing assessment of the performance of individual Board members with a formal annual evaluation and more in-depth assessments of the performance of individual Board members when being considered for re-appointment;
- that in conducting assessments that the view of relevant stakeholders including employees and the Shareholder team are sought and considered;
- that the Board has a balance of skills appropriate to directing the Company's business, and that all directors including the Chairperson and Chief Executive continually update their skills, knowledge and familiarity with the Company to fulfil their role both on the Board and committees. This will include but not be limited to skills and training in relation to financial management and reporting requirements, risk management and the requirements of Board membership within the public sector;
- Board members are fully briefed on terms of appointment, duties, rights and responsibilities;
- they, together with the other Board members, receive appropriate training on financial management and reporting requirements and on any differences that may exist between private and public sector practice;

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<sup>9</sup> <https://www.gov.uk/government/publications/code-of-conduct-for-Board-members-of-public-bodies>

<sup>10</sup> <https://www.gov.uk/government/publications/the-7-principles-of-public-life>

- the responsible minister is advised of the Company’s needs when Board vacancies arise;
- there is a Board Operating Framework in place setting out the role and responsibilities of the Board consistent with the Government Code of Good Practice for Corporate Governance; and
- there is a code of practice for Board members in place, consistent with the Cabinet Office Code of Conduct for Board Members of Public Bodies.

## Individual Board members’ responsibilities

16.20. Individual Board members should:

- comply at all times with the Code of Conduct for Board Members of Public Bodies, which covers conduct in the role and includes the Nolan Principles of Public Life as well as rules relating to the use of public funds and to conflicts of interest;
- demonstrate adherence to the 12 Principles of Governance for Public Body Non-Executive Directors as appropriate and not misuse information gained in the course of their public service for personal gain or for political profit, nor seek to use the opportunity of public service to promote their private interests or those of connected persons or organisations;
- comply with the Board’s rules on the acceptance of gifts and hospitality, and of business appointments;
- act in good faith and in the best interests of the Company; and
- ensuring they are familiar with any applicable guidance on the role of Public Sector non-executive directors and Boards that may be issued from time to time by the Cabinet Office, HM Treasury or wider Government.

# Management and financial responsibilities and controls

## 17. Delegated authorities

- 17.1. This Framework Document sets out the controls and requirements relating to the management of expenditure by the Company funded by the operational cost levies collected by the Company. The Company's delegated authorities with regards to this expenditure are set out in the delegation letter attached to this Framework Document. This delegation letter may be updated and superseded by later versions, which may be issued by the Shareholder in agreement with HM Treasury.
- 17.2. Should the Company receive a separate resource delegation for any new scheme or activity not funded by the operational cost levies, any such resource delegation will be subject to any specific financial reporting and other requirements set out in the separate delegation letter, which will also be published alongside this Framework Document.
- 17.3. In line with MPM Annex 2.2 these delegations will be reviewed on an annual basis.
- 17.4. The Company shall obtain the Shareholder's and where appropriate HM Treasury's prior written approval before:
- entering into any undertaking to incur any expenditure that falls outside the delegations or which is not provided for in the Company's annual budget as approved by the Shareholder;
  - incurring expenditure for any purpose that is or might be considered novel or contentious, or which has or could have significant future cost implications;
  - making any significant change in the scale of operation or funding of any initiative or particular scheme previously approved by the Shareholder;
  - making any change of policy or practice which has wider financial implications that might prove repercussive or which might significantly affect the future level or resources required; and
  - carrying out policies that go against the principles, rules, guidance and advice in MPM.

## 18. Spending authority

- 18.1. The Company Board will prepare and maintain an operational budget ("the **budget**") which is appropriate to ensure the fulfilment by the Company of its purpose as described in section 4, and compliance with its associated obligations as described in this Framework Document.
- 18.2. Every two or three years, or annually if a multi-year budget is deemed inappropriate in light of circumstances at the time, the Company will submit to the Shareholder its proposed operational budget (relating to the financial years set out in the context of the most recent Business Plan (as defined in section 24), in order to ensure the Shareholder's Department can comply with its obligation to consult on the operating costs of the Company and amend the levy rate in regulations. This must be provided in an agreed format with sufficient time

and information to enable the Shareholder to approve it prior to consultation on the operational cost levy rate.

- 18.3. The Shareholder will have regard to the responses from the consultation before final approval of the budget. The Company and the Shareholder's Department shall make best efforts to carry out their respective responsibilities to ensure that the consultation and fixing of the operational cost levy rate in regulations is completed in sufficient time to ensure that the Company is able to raise the levy rate at the times anticipated in order to meet its operating costs. This would apply to any in-year adjustment to the budget.
- 18.4. Any in-year adjustment to the budget will follow the process set out in 18.2 and 18.3 above.
- 18.5. Notwithstanding section 18.1 to 18.4 above, the Company's Accounting Officer is accountable for ensuring that the budget is prepared and spent in accordance with MPM as appropriate in accordance with their responsibilities set out in section 9 of this document.
- 18.6. Once the budget has been approved by the Shareholder's Department, and subject to any restrictions imposed by statute, the Company shall have authority to incur expenditure approved in the budget without further reference to the Shareholder's Department, on the following conditions:
- the Company shall comply with MPM regarding novel, contentious or repercussive proposals; and
  - the Company shall provide the Shareholder's Department with such information about its operations, performance, individual projects or other expenditure as the Shareholder's Department may reasonably require.

## **19. Banking and Managing Cash**

- 19.1. The Company must maximise the use of publicly procured banking services (accounts with central Government commercial banks managed centrally by Government Banking).
- 19.2. The Company should only hold money outside Government Banking Service accounts where a good business case can be made for doing so and HM Treasury consent is required for each account to be established. Only commercial banks which are members of relevant UK clearing bodies may be considered for this purpose.
- 19.3. Commercial Accounts where approved should be operated in line with the principles as set out in MPM.
- 19.4. The Accounting Officer is responsible for ensuring Company has a Banking Policy as set out in MPM and ensuring that policy is complied with.

## **20. Procurement**

- 20.1. The Company shall ensure that its procurement policies are aligned with and comply with any relevant UK or other international procurement rules and in particular the Public Contracts Regulations 2015.
- 20.2. The Company shall establish its procurement policies and document these in a Procurement Policy and Procedures Manual.

- 20.3. In procurement cases where the Company is likely to exceed its delegated authority limit, procurement strategy approval for the specific planned purchase must be sought from the Shareholder Department's Shareholder team.
- 20.4. Goods, services, and works should be acquired by competition. Proposals for single-tender or restricted contracts shall be limited and exceptional, and a quarterly report explaining those exceptions should be sent to the Shareholder's Department.
- 20.5. Procurement by the Company of works, equipment, goods, and services shall be based on, a full option appraisal and value for money (VfM), i.e. the optimum combination and whole life costs and quality (fitness for purpose).
- 20.6. The Company shall a) engage fully with the Shareholder's Department and Government wide procurement initiatives that seek to achieve VfM from collaborative projects, b) comply with all relevant Procurement Policy Notes issued by Cabinet Office. And c) co-operate fully with initiatives to improve the availability of procurement data to facilitate the achievement of VfM.
- 20.7. The Company shall comply with the Commercial<sup>11</sup> and Grants Standards<sup>12</sup>. These standards apply to the planning, delivery, and management of Government commercial activity, including management of grants in all departments and arm's length bodies, regardless of commercial approach used and form part of a suit of functional standards that set expectations for management within Government.

## 21. Risk management

- 21.1. The Company shall ensure that, except as expressly agreed with the Shareholder, the risks that it faces are dealt with in an appropriate manner, in accordance with relevant aspects of best practice in corporate governance, and develop a risk management strategy, in accordance with the HM Treasury guidance Management of Risk: Principles and Concepts<sup>13</sup>.

## 22. Counter Fraud and Theft

- 22.1. The Company should adopt and implement policies and practices to safeguard itself against fraud and theft.
- 22.2. The Company should act in line with guidance as issued by the Counter Fraud Function and in compliance with the procedures and considerations as set in in MPM Annex 4.9. It should also take all reasonable steps to appraise the financial standing of any firm or other organisation with which it intends to enter into a contract, noting that for CfDs most of these checks are carried out post-signing in accordance with the statutory process for entering into CfDs.
- 22.3. The Company should keep records of fraud and theft suffered by the Company and notify the Shareholder's Department of any unusual or major incidents as soon as possible. The Company should also report identified loss from fraud, bribery, corruption and error, alongside associated recoveries and prevented losses, to the counter fraud centre of

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<sup>11</sup> <https://www.gov.uk/government/publications/commercial-operating-standards-for-government>

<sup>12</sup> <https://www.gov.uk/government/publications/grants-standards>

<sup>13</sup> [http://www.hm-treasury.gov.uk/orange\\_book.htm](http://www.hm-treasury.gov.uk/orange_book.htm)

expertise in line with the agreed Government definitions as set out in Counter Fraud Functional Standard.<sup>14</sup>

## 23. Staff

### Broad responsibilities for staff

- 23.1. Within the arrangements approved by the responsible minister and HM Treasury the Company will have responsibility for the recruitment, retention and motivation of its staff. The broad responsibilities toward its staff are to ensure that:
- the rules for recruitment and management of staff create an inclusive culture in which diversity is fully valued; appointment and advancement is based on merit: there is no discrimination on grounds of gender, marital status, sexual orientation, race, colour, ethnic or national origin, religion, disability, community background or age;
  - the level and structure of its staffing, including grading and staff numbers, are appropriate to its functions and the requirements of economy, efficiency and effectiveness;
  - the performance of its staff at all levels is satisfactorily appraised and the Company performance measurement systems are reviewed from time to time;
  - its staff are encouraged to acquire the appropriate professional, management and other expertise necessary to achieve the Company's objectives;
  - proper consultation with staff takes place on key issues affecting them;
  - adequate grievance and disciplinary procedures are in place;
  - whistle-blowing procedures consistent with the Public Interest Disclosure Act are in place; and
  - a code of conduct for staff is in place taking due regard of the Cabinet Office's *Model Code for Staff of Executive Non-departmental Public Bodies*<sup>15</sup> as applicable.

### Pay and conditions of service

- 23.2. The Shareholder expects remuneration arrangements for directors and senior management (including any performance related remuneration) to be recommended to the Company Board, having due regard to the public sector status of the Company as well as taking account of appropriate benchmarks within the private and public sectors.
- 23.3. However, the prior written consent of the Shareholder in accordance with the Articles of Association will be required for:

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<sup>14</sup><https://www.gov.uk/government/publications/government-functional-standard-govs-013-counter-fraud>

<sup>15</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/690948/Public\\_Bodies\\_-\\_a\\_guide\\_for\\_departments\\_-\\_chapter\\_5.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/690948/Public_Bodies_-_a_guide_for_departments_-_chapter_5.pdf)

- A. the approval of or agreement to (or material variation or amendment of) the remuneration, the terms and conditions on which such remuneration is to be paid or granted or the terms of employment or engagement of any director or the remuneration of any executive officer or other employee that is equal to or higher than the threshold outlined in HM Treasury's guidance for approval of senior pay<sup>16</sup> (or equivalent pro-rata amount). This consent will apply to any new appointment or reappointment to a role regardless of whether this is at the same level as has been previously consented to by the Shareholder; or
- B. any pay rise for any director or employee of the Company whose fees or salary has been approved under section 23.3 (A), which are material, where a 'material pay rise' is that which is considered to be above the current rate of the Consumer Price Index (CPI).

23.4. The Company was granted an exemption from the Civil Service Pay Guidance and Pay Remit by HM Treasury and Cabinet Office on 24 February 2014. The need for this exemption will be kept under review.

## Pensions, redundancy and compensation

23.5. Compensation scheme rules and pension scheme rules should reflect legislative and HM Treasury guidance requirements regarding exit payments.

23.6. Company staff shall normally be eligible for a pension provided by its own scheme. Staff may opt out of the occupational pension scheme provided by the Company, but that employers' contribution to any personal pension arrangement, including stakeholder pension shall normally be limited to the national insurance rebate level.

23.7. The Company will notify the Shareholder Department of any proposal by the Company to move from the existing pension arrangements, or to pay any redundancy or compensation for loss of office. Proposals on severance must comply with the rules in chapter 4 of MPM.

# Strategy, Business Plan, Financial Reporting and Management Information

## 24. Strategy and Business Plan

24.1. The Company shall maintain a long-term Strategy setting out the vision and mission of the company, which will be reviewed annually. Prior to being agreed by the Board, this Strategy will be shared with the Shareholder for formal approval in order to ensure the vision and mission of the Company approved by the Board is aligned to the achievement of the Shareholder's Departmental and wider Government objectives. The Board will be responsible for ensuring performance against these objectives.

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<sup>16</sup> The thresholds are currently (as of 1 January 2018) £150,000 for salaries and £17,500 for bonuses per annum. The calculation of whether a salary is equal to or higher than the £150,000 threshold must include any bonus amount that is above £17,500.

- 24.2. By 30 July the Company shall submit annually to the Shareholder's Department a draft of the Business Plan covering three years ahead. The Company shall agree with the Department the issues to be addressed in the plan and the timetable for its preparation. The plan shall reflect the Company's statutory and/or other duties and, within those duties, the priorities set from time to time by the responsible minister (including decisions taken on policy and resources in the light of wider public expenditure decisions).
- 24.3. The Company Board will prepare and maintain a three-year Business Plan (setting out the operational delivery plan including capital costs) to be updated annually and agreed with the Shareholder. The Business Plan shall be updated to include key targets and milestones for each year and shall be linked to budgeting information so that resources allocated to achieve specific objectives can readily be identified by the Shareholder's Department. Subject to any commercial considerations, details of the corporate Business Plan will be published by the Shareholder's Department as part of the consultation process set out in paragraphs 18.2 and 18.3 and separately be made available to staff.
- 24.4. The following key matters should be included in the plan:
- key objectives and associated key performance targets for the forward years, and the strategy for achieving those objectives;
  - key non-financial performance targets;
  - a review of performance in the preceding financial year, together with comparable outturns for the previous 2-5 years, and an estimate of performance in the current year;
  - alternative scenarios and an assessment of the risk factors that may significantly affect the execution of the plan but that cannot be accurately forecast; and
  - other matters as agreed between the Shareholder's Department and the Company.

## 25. Budgeting procedures

- 25.1. The Company shall provide estimates of the fair value of CfDs in accordance with the methodology set out in the Finance and Reporting Letter issued to the Company by the Shareholder's Department.
- 25.2. The capital budget for the year ahead and a provisional baseline will be negotiated and agreed annually in accordance with the Shareholder's Departments business planning process. The capital budget will be set for the 12 months ending 31 March each year. The capital budget will be funded by the Shareholder's Department each financial year and if required will be repaid to the Shareholder's Department in subsequent years through depreciation charged in the operational cost levy.
- 25.3. Each year, in the light of decisions by the Shareholder's Department on the updated draft corporate Business Plan, the Shareholder's Department will send to the Company 31 January:
- a formal statement of the annual budgetary provision allocated by the Department in the light of competing priorities across the Department and of any forecast income approved by the Department; and
  - a statement of any planned change in policies affecting the Company.

25.4. The approved annual Business Plan will take account both of approved funding provision where this applies and any forecast receipts, and will include a budget of estimated payments and receipts together with a profile of expected expenditure and of draw-down of any departmental funding and/or other income over the year. These elements form part of the approved Business Plan for the year in question.

## **26. Grant-in-aid, loans and any ring-fenced grants**

26.1. The Shareholder's Department will provide the Company with a working capital loan facility to support the Company in managing its operational costs and loans and/or grant-in-aid to finance the agreed capital expenditure, the terms of which are set out in separate letters between the Shareholder's Department and the Company.

26.2. Any loans and/or grant-in-aid provided by the Shareholder's Department for the year in question will be voted in the Shareholder's Departments Supply Estimate and be subject to Parliamentary control.

26.3. The grant-in-aid and/or loan will normally be paid as needed on the basis of written applications showing evidence of need. The Company will comply with the general principle, that there is no payment in advance of need. Cash balances accumulated during the course of the year from any grant-in-aid and/or loan or other Exchequer funds shall be kept to a minimum level consistent with the efficient operation of the Company. Loans and or/ grant-in-aid not drawn down by the end of the financial year shall lapse. Subject to approval by Parliament of the relevant Estimates provision, where a loan and/or grant-in-aid is delayed to avoid excess cash balances at the year-end, the Shareholder's Department will make available in the next financial year any such loan or grant-in-aid that is required to meet any liabilities at the year end, such as creditors.

26.4. In the event that the Shareholder's Department provides the Company separate loans or grant-in-aid for specific (ring-fenced) purposes, it would issue the loan or grant-in-aid as and when the Company needed it on the basis of a written request. The Company would provide evidence that the loan or grant-in-aid was used for the purposes authorised by the Shareholder's Department. The Company shall not have uncommitted loan or grant-in-aid funds in hand, nor carry loan or grant-in-aid funds over to another financial year.

## **27. Annual report and accounts**

27.1. The Company Board must publish an annual report of its activities together with its audited accounts after the end of each financial year. Each year, the Company shall provide the Shareholder's Department with the information specified by the Department's Financial Accounting team that is required by the Department for its consolidated accounts. The Company's accounts will be audited and finalised before the Shareholder's Department requires this information for consolidation in its accounts. The accounts should be prepared in accordance with specific accounts direction issued by the Department as well as the relevant statutes and the IFRS as applied in accordance with provisions of the Companies Act 2006.

27.2. The annual report must:

- cover any corporate, subsidiary or joint ventures under its control;

- comply with the IFRS and in particular have regard to the illustrative statements for an NDPB<sup>17</sup>;
- outline main activities and performance during the previous financial year and set out in summary form forward plans.

27.3. Information on performance against key financial targets is included within the annual report and subject to the auditor’s consistency opinion. The report and accounts shall be made available on the Company’s website.

27.4. Sections 381 to 384 of the Companies Act 2006 define the qualifying criteria for the small companies’ regime. Entities meeting these criteria can apply the small companies’ regime only if approved by their shareholder.

## 28. Reporting performance to the Shareholder’s Department

28.1. The Company shall operate management, information and accounting systems that enable it to review in a timely and effective manner its financial and non-financial performance against the budgets and targets set out in the Business Plan.

28.2. The Company shall inform the Shareholder’s Department of any changes that make achievement of objectives more or less difficult. It shall report financial and non-financial performance, including performance in helping to deliver ministers’ policies, and the achievement of key objectives regularly.

28.3. The Company’s performance against the objectives set out in its Strategy and Business Plan is reviewed twice a year by the Board. In parallel, the Shareholder reviews the Boards performance against these objectives, which, as set out in 24.1, are aligned to the objectives of the Shareholder’s Department and wider Government.

28.4. The responsible minister will meet the Chairperson once a year.

28.5. The Principal Accounting officer will meet the Chief Executive and Chairperson at least once a year.

## 29. Information Sharing

29.1. The following mechanism will be used to ensure relevant information flows between the Shareholder and the Company:

- A. a Monthly Financial Report in agreed form. The Shareholder will limit additional reporting requirements on the Company and where possible rely on reports prepared for the Board. The Shareholder’s Department and the Company note the need to avoid and minimise the administrative cost and burden on the Company resulting from duplication of reporting;
- B. quarterly shareholder meetings between the Company and the Shareholder’s Department as outlined in Annex 2 (as “**Quarterly Meetings**”). The purpose of these meetings between relevant Company representatives and senior

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<sup>17</sup> <https://www.gov.uk/government/publications/government-financial-reporting-manual-2020-21>.

representatives of the Shareholder's Department is to provide a forum for information exchange and discussion on key aspects relevant to the Company's activities of mutual interest and to ensure alignment between the Company and the Shareholder's Department;

- C. a regular cycle of meetings between the Company and the Shareholder's Department as outlined in Annex 2 (as "**Strategy Meetings**"). The purpose of these meetings between the relevant Company representatives and senior representatives of the Shareholder's Department is to facilitate strategic discussions which may include topics such as horizon scanning, market evolution, business planning and budget setting, and any other matters that the Company and the Shareholder's Department agree to be relevant for strategic planning for both the Company and the Department.
- D. the Company will promptly and without delay disclose to the Shareholder any information regarding the Company which is likely to have a material adverse effect on the delivery of the Company's purpose as described in section 4, or is likely to result in the Company having insufficient funds to meet its operational costs or its obligations under CfDs or Investment Contracts;
- E. the Company will provide the LCCC/ESC Shareholder team within the Shareholder's Department with access to Board papers, Audit and Risk Committee papers and Remuneration Committee papers within 24 hours of Board members having access (subject to any appropriate redactions for data protection, individual performance information and legal professional privilege);
- F. the Company will promptly and without delay notify the Shareholder of any proposed material change to an Investment Contract or CFD to which the Company is a party, and provide the Shareholder with sufficient details of any proposed change as part of the Shareholder approval process under Annex 1;
- G. the Shareholder will be entitled on reasonable notice to such information in relation to the affairs of the Company as it may reasonably require.

29.2. Any information provided to the Shareholder under section 29.1 above will take into account any BSC<sup>18</sup> related contractual confidentiality provisions and those set out in the CfDs and Investment Contracts.

29.3. The Shareholder's Department and HM Treasury may request the sharing of data held by the Company in such a manner as set out in central guidance except insofar as it is prohibited by law. This may include requiring the appointment of a senior official to be responsible for the data sharing relationship.

29.4. As a minimum, the Company shall provide the Shareholder's Department with information monthly that will enable it to satisfactorily monitor:

- the Company's cash management;
- its draw-down of any capital loan and/or grant-in-aid;
- forecast outturn by resource headings;

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<sup>18</sup> Balancing and Settlement Code

- other data required for the Online System for Central Accounting and Reporting (OSCAR); and
- data as required in respect of its compliance with any Cabinet Office Controls pipelines or required in order to meet any condition as set out in any settlement letter.

29.5. The Company will provide reports of annual CfD expenditure and will participate in relevant forum of the Shareholder's Department as required.

29.6. The Company will provide projected CfD expenditure and other projections as required for the Shareholder's Department and other parts of Government.

# Audit

## 30. Internal audit

30.1. The Company shall:

- establish and maintain arrangements for internal audit.
- ensure that any arrangements for internal audit are in accordance with the *Public Sector Internal Audit Standards* (PSIAS) as adopted by HM Treasury<sup>19</sup>.
- set up an audit committee of its Board in accordance with the Code of Good Practice for Corporate Governance and the *Audit and Risk Assurance Committee Handbook*.
- keep records of and prepare and forward to the Shareholder's Department a quarterly report on fraud and theft suffered by the Company and notify the Department of any unusual or major incidents as soon as possible; and
- share with the Shareholder's Department information identified during the internal audit process and the audit report (together with any other outputs) at the end of the audit where materially relevant to the Department, in particular on issues impacting on the Department's responsibilities in relation to financial systems within the Company.

30.2. Material reports and findings set out above will be provided to the Shareholder subject to BSC related contractual confidentiality provisions and those set out in the CfDs and Investment Contracts.

## 31. External audit

31.1. The Comptroller & Auditor General (C&AG) audits the Company's annual accounts. The Company provides the Secretary of State with information as specified by the Departments Finance team who consolidate this within the accounts of the Department, which are laid before Parliament.

31.2. In the event that the Company has set up and controls subsidiary companies, the Company will, in light of the provisions of the Companies Act 2006, ensure that the C&AG has the option to be appointed auditor of those company subsidiaries that it controls and/or whose accounts are consolidated within its own account. The Company shall discuss with the Shareholder's Department the procedures for appointing the C&AG as auditor of the companies.

31.3. The C&AG:

- will consult the Shareholder's Department and the Company on whom – the NAO or a commercial auditor – shall undertake the audit(s) on his behalf, though the final decision rests with the C&AG;
- has a statutory right of access to relevant documents, including by virtue of section 25(8) of the Government Resources and Accounts Act 2000, held by another party in receipt of payments or grants from the Company;
- will share with the Shareholder's Department information identified during the audit process and the audit report (together with any other outputs) at the end of

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<sup>19</sup> <https://www.gov.uk/government/publications/public-sector-internal-audit-standards>

the audit, in particular on issues impacting on the Department's responsibilities in relation to financial systems within the Company;

- will consider requests from Departments and other relevant bodies to provide Regulatory Compliance Reports and other similar reports at the commencement of the audit. Consistent with the C&AG's independent status, the provision of such reports is entirely at the C&AG's discretion

31.4. The C&AG may carry out examinations into the economy, efficiency and effectiveness with which the Company has used its resources in discharging its functions. For the purpose of these examinations the C&AG has statutory access to documents as provided for under section 8 of the National Audit Act 1983. In addition, the Company shall provide, in conditions to grants and contracts, for the C&AG to exercise such access to documents held by grant recipients and contractors and sub-contractors as may be required for these examinations; and shall use its best endeavours to secure access for the C&AG to any other documents required by the C&AG which are held by other bodies.

# Reviews and Winding up arrangements

## 32. Review of Company's status

32.1. The Company will be reviewed every 3 years in accordance with relevant Cabinet Office guidance<sup>20</sup>. The date of the next review will be in 2026.

## 33. Arrangements in the event that the Company is wound up

33.1. Subject to section 33.2 below, the Company will continue in existence and for so long as it is required to carry out the Company's purpose as set out in section 4.

33.2. It is envisaged that the Company will be wound up upon:

- (A) completion of the Company's purpose or remit as set out in section 4; or
- (B) withdrawal by the Secretary of State of the designation of the Company as CfD Counterparty in accordance with EA Legislation.

33.3. The Shareholder's Department shall put in place arrangements to ensure the orderly winding up of the Company. In particular it should ensure that the assets and liabilities of the Company are passed to any successor organisation and accounted for properly. (In the event that there is no successor organisation, the assets and liabilities should revert to the Shareholder's Department.) To this end, the Shareholder's Department shall:

- have regard to Cabinet Office guidance on winding up of ALBs<sup>21</sup>;
- ensure that procedures are in place in the Company to gain independent assurance on key transactions, financial commitments, cash flows and other information needed to handle the wind-up effectively and to maintain the momentum of work inherited by any residuary body; specify the basis for the valuation and accounting treatment of the Company's assets and liabilities;
- ensure that arrangements are in place to prepare closing accounts and pass to the C&AG for external audit, and that, for non-Crown bodies funds are in place to pay for such audits. It shall be for the C&AG to lay the final accounts in Parliament, together with his report on the accounts;
- arrange for the most appropriate person to sign the closing accounts. In the event that another Company takes on the role, responsibilities, assets and liabilities, the succeeding Company AO should sign the closing accounts. In the event that the Department inherits the role, responsibilities, assets and liabilities, the Shareholder's Department's AO should sign.

33.4. The Company shall provide the Shareholder's Department with full details of all agreements where the Company or its successors have a right to share in the financial gains of developers. It should also pass to the Department details of any other forms of claw-back due to the Company.

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<sup>20</sup> Tailored Review Guidance on public bodies - May-2019

<sup>21</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/690952/Public\\_Bodies\\_-\\_a\\_guide\\_for\\_departments\\_-\\_chapter\\_10.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/690952/Public_Bodies_-_a_guide_for_departments_-_chapter_10.pdf)

# Annex 1 – Matters Requiring Shareholder Consent

Whilst the Company has day-to-day operational independence as described in section 2 of this Framework Document (including by using the mechanisms in the CfD or contractual law to facilitate changes effectively and efficiently while maintaining the fundamental structure of the CfD), the Company may make certain decisions only once it has received the prior written consent of the Shareholder (the “**Shareholder Consent Matters**”).

The Shareholder Consent Matters are:

- A. I. The consent to the making of a Material Amendment to a CfD/Investment Contract or the making or pursuit of any proposal to effect a Material Amendment to a CfD/Investment Contract.
- II. Subject to paragraphs III and IV below, for this purpose, a “Material Amendment” means:
  - a. any amendment to a CfD or Investment Contract which the Company is proposing or required to enter into pursuant to the EA Legislation or which has already been entered into by the Company and, which would affect the overall intention of the balance of risks, benefits and liabilities (save that any waiver (express or implied, absolute or conditional) provided by the Company shall not constitute an amendment for these purposes) provided for in a CfD or Investment Contract, irrespective of whether or not such amendment is being effected:
    - i. on a bilateral basis with a single generator or in respect of a single CfD or Investment Contract;
    - ii. with multiple generators or in respect of more than one CfD/Investment Contract; or
    - iii. in accordance with the change control procedure provided for in the standard terms and conditions for CfDs/Investment Contracts published by the Secretary of State pursuant to the EA Legislation; and,
  - b. any amendment to an Investment Contract proposed or made in response to a decision that any subsidy arising from the Investment Contract is compatible with relevant subsidy control approvals subject to compliance with specified conditions or obligations.
- III. An amendment will not be a Material Amendment if either (1) it does not affect the overall intention of the balance described at II(a) above, or (2) if such balance or the overall intention of such balance would be affected but LCCC and the generator have agreed counter-balancing measures such that LCCC is satisfied that this affect is not or is no longer material.
- IV. It is for the Company to assess, on a case-by-case basis, whether a proposed change will constitute a Material Amendment for the purposes of paragraph II above.

- B.** Except where formally agreed with the Shareholder's Department under section 4.1(K), the following commitments with financial or policy impacts for the Department:
- a. any action which is not contemplated or permitted by this Framework Document or which is contrary to the Guiding Principle;
  - b. any action which will give rise to obligations or liabilities (including contingent liabilities) which are not in the normal course of the Company's business or which are not expected to be affordable in terms of expected levy income (present or future);
  - c. any action which, notwithstanding the levy arrangements, will or is likely to give rise to an additional funding requirement from the Shareholder's Department (including loans for capital expenditure) or other additional financial support being required from, or liabilities or obligations being assumed by the Department (including in the form of an indemnity).
- C.** Management of Operations:
- a. the approval of or any increase in the Company's budget in accordance with sections 18 and 25;
  - b. the approval of financial assistance, subject to section 26 which provides for the Company to incur operating costs that are greater than the levy income expected to be received in the same financial year;
  - c. the approval of or material deviation from, or any revised version of the Company's Business Plan as defined in section 24;
  - d. the approval of any Board appointments and related remuneration arrangements in accordance with the Framework Document;
  - e. the approval of any change to the location of the Company;
  - f. the approval of any change to the name of the Company;
  - g. the approval of the borrowing of funds from any organisation other than the Shareholder's Department or HM Treasury;
  - h. the approval of the establishment of subsidiary companies and the acquiring of any other business/company;
  - i. the approval of the depositing of funds in accounts other than within the Government banking service;
  - j. the approval of investments not through deposits in interest bearing accounts provided through the Government Banking Service;

- k. the approval of the appointment of any auditors as described in section 31 (External Audit) (such approval not being required where the auditors to be appointed are the NAO);
- l. the approval of any exceptions to MPM (in the first instance) and (if required) as agreed by HM Treasury.

## Annex 2 – Schedule of Meetings

Who	Frequency	Purpose
The Shareholder's Department: Secretary of State/Energy Minister Company: Chairperson	Annual	Government policy, delivery priorities and concerns
The Shareholder's Department: Permanent Secretary Company: Chairperson/Chief Executive	Annual	Strategic issues and MPM issues
The Shareholder's Department: Director General, Energy and Security Company: Chairperson	Ad hoc, at least every 6 months	Discussion of Board re-appointments, The Shareholder's Department strategy and Company role
The Shareholder's Department: Director Clean Electricity Directorate and Shareholder team Company; Chief Executive, Director of Strategy and Strategy team	Annual	Opportunity to undertake joint horizon scanning to develop a 3-5 year outlook to support the companies' strategy function in undertaking their annual strategy review.
The Shareholder's Department: Director Clean Electricity Directorate Company: Chief Executive	Six-monthly	Opportunity to discuss relevant matters, such as changes in risk appetite and changes in policy and how this may affect the companies' operations.
Shareholder team: SCSPB1 <sup>i</sup> Company: Director of Strategy	Every six weeks	Update on progress and discuss emerging issues/forward look
The Shareholder's Department: Shareholder team (including SCSPB1) and Finance Company: Chief Finance Officer and Director of Strategy	Quarterly	High level meeting to provide strategic overview – looking at finance, risk performance and forward look
The Shareholder's Department: Shareholder team, Finance and Legal team Company: Finance and Legal functions	As appropriate	

<sup>i</sup> SCSPB1 – Senior Civil Servant Pay Band 1, typically a member of the Senior Civil Service in this pay band would be a Deputy Director.