

**Sheffield Forgemasters International Ltd - Framework Document
Dated 20 December 2021**

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INTRODUCTION AND BACKGROUND

1. Purpose of this document

- 1.1. This Framework Document (the “Framework Document”) has been agreed between the Secretary of State for Defence (the “Shareholder”) and Sheffield Forgemasters International Ltd (the “Company”) in accordance with the guidance set out in HM Treasury's handbook Managing Public Money (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, including:
 - the Company's core responsibilities;
 - the governance and accountability framework that applies between the Shareholder and the Company;
 - how the day-to-day relationship works in practice, including in relation to governance and financial matters.
- 1.3. This Framework 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 of its subsidiaries and joint ventures that are classified to the public sector 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.
- 1.5. Copies of the Framework 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's website.
- 1.6. This Framework Document shall be reviewed and updated at least every three years unless there are exceptional reasons and this has been agreed with HM Treasury and the Principal Accounting Officer of the Ministry of Defence. The latest date for review and updating of this document is 30 September 2024.

2. Ownership and classification

- 2.1. The Company is a private company limited by shares incorporated in England and Wales (registered no: 04883675) whose registered office address is at PO BOX 286 Brightside Lane, Sheffield, South Yorkshire, S9 2RW. The Company is wholly owned by the Secretary of State for Defence. The Company is governed by the requirements of, and the obligations created by the Companies Act 2006 and successor legislation.
- 2.2. The Articles of the Company (the “Articles”) and the delegation letter set out the Shareholder reserved matters and delegated authorities respectively.
- 2.3. The Company has not yet been classified by the Office for National Statistics. However, as agreed with HM Treasury, we are proceeding on the assumption of a classification as a Public Non-Financial Corporation (“Public Corporation”) whilst awaiting the final classification assessment.

PURPOSES AND OBJECTIVES

3. Purpose

3.1. The Company's primary purpose is the design and manufacture of forgings and castings for the most demanding engineering applications. The Company aims to work in partnership with its customers, employees, suppliers, funders and the local community to develop a long-term, sustainable business that benefits all of its stakeholders.

4. Objectives

4.1. The Shareholder has agreed with the board of directors (the "Board") of the Company the following strategic objectives (the "Strategic Objectives") for the Company.

4.2. The Company's Strategic Objectives (summarised) are to:

- Deliver the UK defence business outputs by maintaining the capability needed to deliver high-grade castings and forging products on a commercially sustainable basis;
- Deliver its capital investment programme successfully and efficiently demonstrating value for money for the UK taxpayer;
- Deliver a sustainable and resilient long-term business, by ensuring profitable income streams across its defence and commercial business activities, including liaising with other government departments;
- Continuously improve the efficiency and performance of the Company, utilising industry best practice in key areas including technical innovation, health and safety, environment and sustainability in line with Government targets (i.e. HMG net carbon zero commitments); and
- Encourage a diverse and high-performing workforce by attracting, investing in and retaining diversity of talent, with the right skills and behaviours that generate an inclusive workplace.

4.3. These Strategic Objectives, and how the Company intends to meet them, underpin the Company's strategy (the "Strategic Plan") and annual business plan (the "Annual Business Plan").

ROLE OF THE SHAREHOLDER

5. The Responsible Minister

5.1. The Secretary of State for Defence is the responsible minister (the “Responsible Minister”) for all matters concerning the Company and is accountable to Parliament. Responsibility may be delegated by the Secretary of State to another minister within the Department.

6. The Principal Accounting Officer

6.1. The Principal Accounting Officer (the “PAO”) is the Permanent Secretary of the Ministry of Defence. The responsibilities of the PAO are set out in Chapter 3 of *Managing Public Money*¹.

6.2. The PAO is responsible for advising the Responsible Minister on:

- an appropriate framework of objectives and targets for the Company, taking account of the Department’s wider strategic aims and priorities;
- an appropriate budget in light of the Department’s overall expenditure priorities; and
- how well the Company is achieving its Strategic Objectives and whether it is delivering value for money.

6.3. The PAO, via the Shareholder Team², is also responsible for ensuring that arrangements are in place to:

- monitor the Company’s activities and performance;
- address significant problems in the Company, making such interventions as are judged necessary;
- periodically carry out 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
- raise departmental concerns about the activities of the Company to the full (Company) Board, and, as appropriate to the Department’s Board, requiring explanations and assurances that appropriate action has taken place.

7. The role of the Shareholder Team

7.1. The Sheffield Forgemasters International Ltd shareholder team (the ‘Shareholder Team’) within the Ministry of Defence is the primary point of contact for the Company in relation to shareholder matters. The responsible Senior Civil Servant for this relationship is Director General Nuclear, delegated on a day-to-day basis to the UK Government Investments (UKGI) Defence Director as the head of the Shareholder Team. UKGI is responsible for fulfilling the Shareholder Team

¹ [Managing Public Money](#)

² See Section 7 for further details on the role of the Shareholder Team.

responsibilities on behalf of the Department. UKGI's shareholder responsibilities are set out in Annex A to this Framework Document.

- 7.2. The Shareholder Team are the main source of advice to the Responsible Minister on the discharge of their responsibilities in respect of the Company and will seek regular input from the Shareholder. They also support the PAO on their responsibilities toward the Company. Officials of the Shareholder Team will liaise regularly with the Company to review performance against plans, achievement against targets and expenditure against its allocations. The Shareholder Team will also take the opportunity to explain wider policy developments that might have an impact on the Company.
- 7.3. In its role, the Shareholder Team will work closely with Ministry of Defence officials (in particular finance) and where relevant, officials in other government departments to deliver the Shareholder role effectively.
- 7.4. The Company will facilitate the Shareholder Team in fulfilling its function by providing relevant information on request including on, but not limited to, strategic plans, financial forecasts and budgets, financial performance, achievements against targets, capital expenditure and investment decisions, governance matters including Board appointments and remuneration; and reports on key corporate risks.

8. Resolution of disputes between the Company and Shareholder

- 8.1. Any disputes between the Shareholder and the Company will be resolved in as timely a manner as possible. The Shareholder and the Company will seek to resolve any disputes through an informal process in the first instance, through the Shareholder Team. If this is not possible, then a formal process, through the Performance and Risk Review Process³ will be used to resolve the issue. Failing this, the matter may be escalated to the PAO to review, and agree an approach to mediate the dispute, in consultation with the Shareholder.

9. Freedom of Information requests

- 9.1. The parties acknowledge that the Freedom of Information Act 2000 (FOIA) may apply both to information disclosed by the Company to the Shareholder and to information held by the Company regarding the Shareholder.
- 9.2. Where a request for information is received by either party under the Freedom of Information Act 2000, 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.

³ See section 24 for further detail on the Performance and Risk Review process

COMPANY GOVERNANCE AND STRUCTURE

10. The Chief Executive Officer

Appointment

10.1. The Chief Executive Officer (CEO) is appointed by the Company Board with approval of the Responsible Minister.

Responsibilities as Accountable Person

10.2. As a Public Corporation, the PAO has designated the Company's CEO as its Accountable Person (the "Accountable Person") and expects the CEO to observe the principles set out in Managing Public Money (in so far as they are applicable to a Public Corporation) and the Delegation Letter, with particular regard to the "Standards Expected of the Accounting Officer's Organisation" summarised in Box 3.1 of Managing Public Money (see Annex B).

10.3. The Accountable Person is personally accountable for safeguarding all funds for which he or she has charge; for ensuring propriety, regularity, value for money and feasibility in the handling of those funds; and for the day-to-day operations and management of the Company.

10.4. The CEO's responsibilities as Accountable Person include:

- signing the accounts and ensuring that proper records are kept relating to the accounts and that the accounts are properly prepared and presented in accordance with any directions issued by the Department;
- 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 the Framework Document, and other instructions and guidance issued from time to time by the Shareholder, HM Treasury and/or the Cabinet Office to the extent that they apply to the Company;
- 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 elements of any settlement letter issued to the Department that is relevant to the operation of the Company as are notified to the CEO by the Department and/or the Shareholder Team; and
 - any separate settlement letter that is issued to the Company from the Department.
- ensuring they have appropriate internal mechanisms for the monitoring, governance and external reporting regarding compliance with any conditions arising from the above documents;
- giving evidence, normally alongside the PAO, if summoned before the Public Accounts Committee on the Company's stewardship of public funds.

Responsibilities to the Shareholder

10.5. The CEO's responsibilities to the Shareholder include:

- establishing, in agreement with the Shareholder, through the Shareholder Team, the Company's Strategic Plan and Annual Business Plans in light of the agreed Strategic Objectives;
- informing the Shareholder of progress in achieving the agreed Strategic 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 Shareholder; that the Shareholder is notified promptly if over or under spends against the Annual Business Plan are likely, and the corrective action that is being taken; and that any significant problems whether financial or otherwise, and whether detected by internal audit or by other means, are notified to the Shareholder in a timely fashion.

Responsibilities to the Board

10.6. The CEO is responsible for:

- advising the Board on the discharge of the Company's responsibilities as set out in this Framework Document, the Articles, and in any relevant instructions and guidance that may be issued from time to time;
- advising the Board on the Company's performance compared with its Purpose and Strategic Objectives as set out in the Strategic Plan and Annual Business Plan;
- ensuring that financial considerations are taken fully into account by the Board at all stages in reaching and executing its decisions, and that appropriate financial appraisal techniques are followed.

Managing conflicts

10.7. The CEO 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. The CEO, as accountable person, must take care that their personal legal responsibilities do not conflict with their duties as a Board director. In particular, they should vote against any proposal which appears to cause such a conflict; it is not sufficient to abstain.

10.8. If the Chair of the Board or the Board is minded to instruct its CEO to carry out a course inconsistent with their duties as the Accountable Person, then the CEO should make their reservations clear, preferably in writing. If the Board is still minded to proceed, the CEO should then:

- ask the PAO to consider intervening to resolve the difference of view, preferably in writing through the Shareholder Team;
- if the Board's decision stands, seek its written direction to carry it out, asking the Shareholder, through the Shareholder Team, to inform HM Treasury.

11. The Chairperson and the Board

Composition of the Board

11.1. The Company will have established a Board in line with the principles set out in Chapter 3 of the UK Corporate Governance Code⁴. The role of the Board shall be to provide strategic leadership to the Company ensuring delivery of the Company's Strategic Objectives, in accordance with the purposes as set out above, their regulatory and common law duties, and their responsibilities under this Framework Document. Detailed responsibilities of the Board and its committees shall be set out in their terms of reference.

11.2. The non-executive directors shall have a balance of skills and experience relevant to directing the Company's business. The aim is to secure an environment in which the Board (advised by the Nominations Committee and the Remuneration Committee) and the Shareholder share a common view about the appropriate composition of the Board and have agreed proposals for succession, taking into account the required balance of skills and experience.

11.3. To this end:

- It is expected that there will be a minimum of seven Board directors, the majority of which shall be non-executive, excluding the Chair.
- A senior UK government official shall be appointed (in consultation with the Chair) as the Shareholder Non-executive Director;
- All new Non-executive Directors (excluding the Shareholder Non-executive Director) shall be appointed on fixed terms.
- An independent non-executive director shall be appointed as the Senior Independent Director (SID); and
- The Executive Directors shall include the CEO and CFO, and such other Executive Directors whose appointment is recommended by the Nominations Committee and approved by the Board from time to time.

11.4. All of the above will be company directors within the meaning of the Companies Act 2006.

Appointments

11.5. All future appointments shall be made as follows:

- **Chair:** The appointment shall be made by the Shareholder. The appointment process will be led by the Shareholder Team and approved by the Responsible Minister. This appointment must comply with the Governance Code on Public Appointments;
- **Non-Executive Directors, excluding the Chair:** The Board shall appoint the other directors on the advice of the Nominations Committee, subject to the prior written consent of the Shareholder. The Shareholder Team will be consulted on the overall recruitment process, including the proposed terms (including proposed remuneration⁵) and conditions of appointment, before that process begins. The Shareholder Non-Executive Director will be a member of the recruitment panel. The request to the Shareholder for approval of the final appointment should be accompanied by a justification. This process also applies to

⁴ [The UK Corporate Governance Code](#)

⁵ See Section 19 for further details on Remuneration

proposals to re-appoint non-executive directors, and to the appointment of interim non-executive directors;

- **Chief Executive Officer (CEO):** The Board shall appoint the CEO on the advice of the Nominations Committee, subject to the prior written consent of the Shareholder;
- **Executive Directors:** The Board shall appoint the other executive directors on the advice of the Nominations Committee. The Shareholder Team should also be consulted on the overall recruitment process, including the proposed terms and conditions of appointment, before that process begins.

11.6. All 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. The Shareholder reserves the right to appoint and remove any person as a director of the Company by notice in writing.

Duties of the Board

11.7. The Board is specifically responsible for:

- taking forward the aims and objectives of the Company consistent with its overall strategic direction (including the Strategic Objectives) agreed 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 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 Shareholder Team;
- 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 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 Department;
- ensuring that as part of the above compliance they are familiar with:
 - this Framework Document;
 - Any elements of any settlement letter issued to the Department that is relevant to the operation of the Company; 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 CEO, and the Company as a whole, acts in accordance with their obligations under the above documents.

- demonstrating high standards of corporate governance at all times and providing effective leadership within a framework of prudent and effective controls which enables risk to be assessed and managed; including by using the Company's Audit and Risk Committee to help the Board to address key financial and other risks;
 - 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. The outcome of that evaluation should be made available to the Shareholder Team; and
 - determining all such other things which the Board considers ancillary or conducive to the attainment or fulfilment by the Company of its Strategic Objectives.
- 11.8. 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)⁶.
- 11.9. The Board is expected to assure itself of the adequacy and effectiveness of the risk management framework and the operation of internal control. It shall maintain an Audit and Risk Committee chaired by an independent and appropriately qualified non-executive member to provide independent advice.

Board Committees

- 11.10. The Board may set up such committees as necessary for it to fulfil its functions. To assist the execution of the Company's corporate governance responsibilities the Board has established four Board committees, namely:
- The **Audit and Risk Committee**, which is responsible for the independent appraisal of the Company's control environment, financial reporting, risk management and effectiveness of corporate governance, and for providing advice and challenge on risks that may adversely impact the Company.
 - The **Nominations Committee**, which is responsible for reviewing the structure, size and composition of the Board, and making candidate recommendations for Shareholder, Shareholder Non-Executive Director or Board approval as required, to fill Board vacancies.
 - The **Remuneration Committee**, which will approve the Company's Remuneration Policy in accordance with Section 7 below. The Committee should report annually to the Shareholder Non-Executive Director on the key items it has considered over the course of the year and how it has approached them.
 - The **Recapitalisation Committee**, which will oversee the Company's recapitalisation programme and associated business changes on behalf of the Board, and report progress regularly.
- 11.11. The Chair, in conjunction with the Shareholder Team, shall ensure Board committees are properly structured with appropriate terms of reference, agreed by the Board. The terms of each committee shall set out its responsibilities and the authority delegated to it by the Board. The Chair shall ensure that committee membership is periodically refreshed and that

⁶ [The Orange Book](#)

individual independent non-executive directors are not over-burdened when deciding the chairs and membership of committees. The Shareholder Non-Executive Director will have the right to sit on the Audit and Risk, Remuneration, Nomination and Recapitalisation Committees. In addition, the shareholder will also have the right to appoint an observer to attend such committees.

- 11.12. The Chair shall ensure that sufficient time is allowed at the Board for committees to report on the nature and content of discussion, on recommendations, and on actions to be taken. 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 shall have the right to report the issue to the Shareholder Team. They may also seek to ensure the disagreement or concern is reflected as part of the report on its activities in the annual report.

The Chair's role and responsibilities

- 11.13. The Chair 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 Chair's service contract, the annual Chair's letter issued by the Shareholder, this Framework Document and the documents/guidance referred to within this Framework Document.
- 11.14. Engagement between the Company's Board and the Shareholder should, in the first instance, be by the Chair through the Shareholder Team.
- 11.15. The Chair is responsible for:
- ensuring, including by monitoring and engaging with appropriate governance arrangements, that the Company's affairs are conducted with probity; and
 - ensuring that policies and actions support the Shareholder's wider strategic policies and where appropriate, these policies and actions should be clearly communicated and disseminated throughout the Company.
- 11.16. In addition, the Chair 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 Shareholder;
 - 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.
- 11.17. The Chair also has an obligation to ensure that:
- the work of the Board and the Board directors are reviewed and are working effectively including ongoing assessment of the performance of individual board directors with a formal annual evaluation and more in-depth assessments of the performance of individual board directors 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 Chair and CEO continually update their skills,

knowledge and familiarity with the Company to fulfil their roles both on the Board and its 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 directors are fully briefed on their terms of appointment, duties, rights and responsibilities; and
- The Shareholder Team are advised of the Company's needs when board vacancies arise, and the action proposed by the Nomination Committee.

Individual Board Director's responsibilities

11.18. Individual Board directors shall:

- comply at all times with the Code of Conduct for Board Members of Public Bodies⁷ and with the rules relating to the use of public funds and conflicts of interest;
- 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 Company's rules on the acceptance of gifts and hospitality, and of business appointments;
- act in accordance with the Seven Principles of Public Life (the Nolan Principles)⁸ and ensure they are familiar with guidance on the role of Public Sector non-executive directors and Boards (including the Florman Principles); and
- act in good faith in the best interests of the Company and in accordance with their statutory, common law and fiduciary duties as directors of the Company, including under section 172 of the Companies Act 2006 which set out directors' duty to promote the success of the Company for the benefit of the members as a whole.

12. Corporate governance

12.1. The Company shall operate corporate governance arrangements that, so far as practicable and in the light of the other provisions of this document or as otherwise may be agreed with the Shareholder, accord with corporate governance best practice.

12.2. In particular (but without limitation), the Company shall take appropriate account of:

- the principles and provisions of the UK Corporate Governance Code; and
- the principles and provisions of the Corporate Governance in Central Government Departments Code of Good Practice, as it applies to arms' length bodies

⁷ [Code of Conduct for Board Members of Public Bodies](#)

⁸ [The Seven Principles of Public Life](#)

MANAGEMENT AND FINANCIAL RESPONSIBILITIES AND CONTROLS

13. Managing Public Money and other government-wide guidance and instructions

- 13.1. Unless agreed by the Shareholder and, as necessary by HM Treasury, the Company shall follow the principles, rules, guidance and advice for the use of public money as set out in Chapter 2 of Managing Public Money, in so far as applicable to a Public Corporation, and in line with the delegation letter, referring any difficulties or potential bids for exceptions to Shareholder Team in the first instance. The Company shall also have regard to the guidance listed in Annex C and any future relevant guidance as specified by the Government and applicable to the Company as a Public Corporation. This may be updated from time to time and changes to this should be communicated to the Company by the Shareholder Team.
- 13.2. The Company should have regard to the relevant Functional Standards⁹ as appropriate and in particular, those concerning project delivery, finance, commercial and counter fraud.

14. Delegated authorities

- 14.1. The Company's delegated authorities are set out within the Articles of Association and delegation letter.
- 14.2. The Shareholder is committed to giving the Board the freedom to operate the Company in line with the spirit of this Framework Document. 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.

15. Spending authority

- 15.1. Spending Authority for the Recapitalisation Programme is provided through two documents – firstly the endorsed Business Case, and subsequently the endorsed annual MOD Spend Management System (SMS) case; based on the financial forecast set out within the Annual Business Plan.
- 15.2. Following the provision of funding, the Company is authorised to commit funding without further reference to the Shareholder, on the following conditions:
 - inclusion of any planned and approved expenditure in the budget shall not remove the need to seek formal Shareholder approval where any proposed expenditure is outside the delegated limits or is for new schemes or proposals not previously agreed;
 - the Company shall provide the Shareholder with such information about its operations, performance, individual projects or other expenditure as the Shareholder may reasonably require.
- 15.3. Spending authority has been provided in quantum and in profile (FY's). Should intended spend deviate from this, then discussions would need to take place, and be agreed with the Shareholder Team and DNO Finance.
- 15.4. Funding will be provided directly as equity. The Company will provide the Shareholder with a consolidated shares certificate as requested, and at least annually prior to the end of the financial year (31 March) to ensure that the investment is appropriately accounted for within the Ministry of Defence's accounts.

⁹ [HMG Functional Standards](#)

16. Banking and managing cash

Day-to-day banking facilities

- 16.1. As a Public Corporation, it has been agreed between the Company and the Shareholder, that the Company will retain its current commercial bank account for day-to-day banking activities. The Company will inform the Shareholder, through the Shareholder Team, should there be any changes in the terms and conditions of the account, any issues with the account which may impact the Company's ability to deliver its activities or if the Company intend to change provider. Cash balances accumulated during the course of the year shall be kept to a minimum level consistent with the efficient operation of the Company.

Working Capital Facility

- 16.2. The Shareholder has agreed to the Company incurring borrowings through the utilisation of a working capital facility (the "Working Capital Facility"). The Working Capital Facility has been provided by the Ministry of Defence and a facility agreement (the "Facility Agreement") details the full terms and conditions of this facility, the obligations and the specific requirements for how such funds can be utilised.

Borrowing

- 16.3. Unless otherwise agreed between the Shareholder and the Company, the Company will not borrow externally.

17. Risk management

- 17.1. The Company shall ensure that 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 taking account of the HM Treasury guidance, Management of Risk: Principles and Concepts¹⁰.

18. Counter fraud

- 18.1. The Company should adopt and implement policies and practices to safeguard itself against fraud and theft, in line with guidance as set out in Managing Public Money Annex 4.9. It should also take all reasonable steps to appraise the financial standing of any firm or other body with which it intends to enter a contract.
- 18.2. It should keep records of any fraud and theft suffered by the Company, notifying the Shareholder Team of any unusual or material 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 expertise in line with the agreed government definitions as set out in Counter Fraud Functional Standard.¹¹

¹⁰ [The Orange Book](#)

¹¹ [Counter Fraud Functional Standard](#)

19. Staff

Broad responsibility for staff

- 19.1. 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's 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; and
 - whistle-blowing procedures consistent with the Public Interest Disclosure Act are in place.

Staff costs

- 19.2. The Company shall ensure that the creation of any additional posts does not incur forward commitments that will exceed its ability to pay for them.

Pay and conditions of service

- 19.3. As a public corporation, the Company is exempt from Cabinet Office spend controls, as outlined in the exemptions section of the Cabinet Office Controls Policy paper. The Company is also not subject Civil Service Pay Remit Guidance.
- 19.4. The Company is responsible for staff matters, including the appointment and management of staff, determining staff numbers, and determining terms and conditions of appointment. The Company will observe wider public sector pay guidance¹² when setting a remuneration policy for the Company and the Remuneration Committee should have oversight of all bonus and incentive schemes.
- 19.5. Specifically, the approval of the Chief Secretary to the Treasury (CST) is required for all new hires or appointments with remuneration at or above £150,000 and performance ("bonus") arrangements of more than £17,500 (as detailed in the senior pay guidance¹³). The Company shall engage with the Shareholder Team as early as possible for any recruitment which may breach this Threshold. The Company shall report annually (via the Remuneration Committee) to the Shareholder Team the number of posts paid above the HMT Senior Pay Threshold. The Annual Report shall set out the remuneration details for Board members, and provide information in bands for Executive Committee members paid above the remuneration

¹² [Public Sector Pay Guidance](#)

¹³ [Guidance for approval of senior pay](#)

threshold, and report the numbers of other staff (without names) paid above the remuneration threshold.¹⁴

- 19.6. Staff terms and conditions should be set out in an Employee Handbook, which should be provided to the Department together with subsequent amendments.

Pensions, redundancy and compensation

- 19.7. Compensation scheme rules and pension scheme rules should reflect legislative and HM Treasury guidance requirements regarding exit payments.
- 19.8. 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.
- 19.9. Any proposal by the Company to move from the existing pension arrangements, or to pay any redundancy or compensation for loss of office, requires the prior approval of the Shareholder.

¹⁴ Format to be agreed with HMT in line with government transparency commitments.

BUSINESS PLANS, FINANCIAL REPORTING AND MANAGEMENT INFORMATION

20. Strategic Plan

- 20.1. The Company will prepare a five-year strategic plan (the “Strategic Plan”). It will submit a draft Strategic Plan to the Shareholder Team for review and for approval by the Shareholder. The Shareholder, through the Shareholder Team, and the Company will agree the timetable for updating the Strategic Plan within the five-year period.
- 20.2. The Strategic Plan shall provide a narrative overview of how the Company plans to deliver its Strategic Objectives; setting out its key performance indicators and associated targets within the financial and resource parameters set by the Shareholder. In addition, the Strategic Plan shall include a high-level overview of financial plans that will underpin the delivery of the Strategic Objectives, key performance indicators and targets, information on any investment and/or transformation plans, an overview of the key strategic risks facing the Company, and any other matters agreed between the Shareholder and the Company. The Strategic Plan will be supported by a detailed annual business plan (see section 21 below).
- 20.3. Following approval by the Shareholder, and subject to any commercial considerations, the Strategic Plan will be published by the company on its website.

21. Annual Business Plan

- 21.1. Underpinning the Strategic Plan, the Company will prepare an annual business plan (the “Annual Business Plan”). This is an internal document and will not be published. It is a detailed, rolling business plan that provides five-year financial forecasts, including a comprehensive detailed budget (the “Budget”) for the first year. This will include monthly profiles.
- 21.2. The Company shall agree with the Shareholder, through the Shareholder Team, the issues to be addressed in the Annual Business Plan and the timetable for its preparation. The Annual Business Plan will demonstrate how the Company intends to meet the Strategic Objectives over the period, setting out the resources required and the key milestones.
- 21.3. The following key matters will be included in the Annual Business Plan:
 - key activities and associated key performance targets for the forecast years;
 - detailed financial plans to deliver the activities (and thus Strategic Objectives) within the financial and resource parameters set by the Shareholder, which shall include cash flow and balance sheet information. These plans will also include detailed financial forecasts in relation to capital investment plans;
 - a detailed profile of expected funding requirements, including short term working capital requirements;
 - key performance indicators and targets (financial and non-financial) which allow the Board and Shareholder Team to monitor performance against the Annual Business Plan;
 - a review of performance in the preceding financial year and an estimate of performance in the current year, together with a comparison against the previous Annual Business Plan;

- alternative scenarios and an assessment of the risk factors that may significantly affect the execution of the Annual Business Plan but that cannot be accurately forecast; and
- other matters as agreed between the Shareholder and the Company.

21.4. The Company shall inform and consult with the Shareholder Team in respect of any contemplated changes to the Strategic Plan, Annual Business Plan and/or Budget that it considers are, or may become, necessary from time to time. Any proposed updates or amendments will be subject to discussion with the Shareholder Team, and approval by the Shareholder.

22. Budgeting procedures

22.1. Each year, in the light of decisions by the Ministry of Defence on the draft Annual Business Plan, the Shareholder will send to the Company:

- a formal statement of the annual budgetary provision allocated by the Department in the light of competing priorities across the Department; and
- a statement of any planned change in policies affecting the Company.

22.2. The final 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. This will be submitted to the Shareholder for final approval.

22.3. The Company will provide financial forecasts and updates in line with the timetable set out by DNO Finance and the department's Annual Budget Cycle. In line with Ministry of Defence accounting timelines, the Company shall submit its monthly financial forecast on or by Working Day 5 each month. Reporting expectations, templates and timelines will be issued by DNO Finance.

23. Annual report and accounts

23.1. The Company must publish an annual report of its activities together with its audited accounts after the end of each financial year (together, the "Annual Report and Accounts"). The accounts must be prepared in accordance with the relevant statutes, in particular the Companies Act 2006 and any specific accounts direction issued by the Department, as well as the principles set out within HM Treasury's Financial Reporting Manual (FReM) as appropriate for a Public Corporation. Should there be any conflict between the requirements of the Companies Act and the FReM, the Companies Act takes precedence. The Company should discuss the situation in the first instance with the Shareholder Team.

23.2. The Company will share a draft of the report narrative with the Shareholder Team for review before it is signed off by the Board. Upon receipt of auditor approval, the final report should be submitted to the Shareholder at least four weeks before the proposed publication date to enable the Shareholder to seek endorsement from the Responsible Minister. The Shareholder recognises that the finalised annual report is solely the responsibility of the Company's Board.

- 23.3. Information on performance against key performance indicators (including key financial targets) is within the scope of the audit and should be included in the notes to the accounts.
- 23.4. In order for the accounts to be consolidated into the Whole of Government Accounts, the Company will follow the Whole of Government Accounts process save for where an exemption has been granted.
- 23.5. The Shareholder will lay the Annual Report and Accounts before Parliament and it should be made available on the Company's website.
- 23.6. If the Company wishes to publish documents in addition to its annual report and accounts they must comply with the requirements of sections 426 and 426A of the Companies Act 2006. The summary data must not be published in advance of the full annual report and accounts being laid before Parliament as to do so would be a breach of Parliamentary privilege.

24. Reporting performance to the Department

- 24.1. 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 corporate and business plans.
- 24.2. The Company shall inform the Shareholder of any changes that make achievement of objectives more or less difficult. In addition to frequent working level engagement between the Company and the Shareholder team, the Company's performance shall be formally reviewed regularly.

Monthly Reporting

- 24.3. The Company will meet with the Shareholder Team and officials from the Ministry of Defence (as required) monthly to review financial and delivery performance. As a minimum, the Company shall provide the Shareholder with the following information that will enable the Shareholder satisfactorily to monitor:
 - The Company's current financial performance against the Annual Business Plan and Budget, including any variation;
 - The Company's performance and progress in relation to the capital investment programme;
 - its actual and forecast funding requirements;
 - the Company's cash management and Working Capital Facility utilisation;
 - progress against agreed key performance indicators;
 - top risks and issues, and
 - other data required for departmental accounting and reporting.

Quarterly Performance and Risk Review (P&RR)

- 24.4. The Company and the Shareholder, through the Shareholder Team, will establish quarterly meetings to review and discuss the Company's performance, governance and related matters. The Ministry of Defence refers to these as Performance and Risk Reviews (P&RR). These meetings provide a forum through which the Shareholder discharges its duty for ensuring effective governance and assurance that the Company's strategy, performance, risk management and operations are on track to deliver the Strategic Objectives.
- 24.5. These meetings will be chaired by the DNO Finance and Programme Director, on behalf of DG Nuclear¹⁵, supported by the Shareholder Team. The meeting will be attended by the Company's Chair, CEO, CFO, COO, the Shareholder Non-executive Director, the DNO Commercial Deputy Director¹⁶ and DNO Finance Deputy Director. Additional attendees may be invited as required. The terms of reference for the P&RR provide further detail on the conduct of these meetings.
- 24.6. The Responsible Minister will meet the Chair once a year. The PAO will meet the CEO at least once a year.

25. Information Sharing

- 25.1. The Shareholder has the right of access to all Company records and personnel for any purpose including, for example, operational investigations. The Company shall provide the Shareholder with such information about its operations, performance, individual projects or expenditure as the Shareholder may reasonably require.
- 25.2. The Shareholder may request the sharing of data held by the Company except insofar as prohibited by law. This may include the appointment of a senior official to be responsible for the data sharing relationship.
- 25.3. Both the Company and the Shareholder must take the initiative in informing the other of changes in conditions which need to be agreed or other significant developments, in particular where these may make the achievement of company objectives more or less difficult, impact their ability to deploy its budget allocation or raise significant reputational risks for either party. This shall be done without delay, particularly where the CEO considers an issue will impact on their ability to discharge their Accountable Person responsibilities.
- 25.4. The Shareholder Team shall work with the Company to resolve issues and, where required, escalating to the PAO and to the CEO respectively if this becomes necessary.

Litigation

- 25.5. The Company shall provide a quarterly update to the Shareholder on the existence of any active litigation and any threatened or reasonably anticipated litigation, notwithstanding the provisions of any protocol agreed under the terms below.
- 25.6. The parties acknowledge the importance of ensuring that legal risks are communicated appropriately to the Shareholder in a timely manner.
- 25.7. In respect of each substantial piece of litigation involving the Company, the parties will agree a litigation protocol which will include specific provisions to ensure appropriate and timely reporting on the status of the litigation and the protection of legally privileged information

¹⁵ DG Nuclear will have a standing invitation to Chair if they desire.

¹⁶ As DNO's Senior Responsible Owner for the recapitalisation programme.

transmitted to the Shareholder in order to facilitate this. Until such time as a protocol is agreed, the parties will ensure that:

- Material developments in the litigation are communicated to the Shareholder in an appropriate and timely manner;
- Legally privileged documents and information are clearly marked as such;
- Individual employees handling the legally privileged documents are familiar with principles to which they must adhere to protect that legal privilege; and
- Circulation of privileged information within government occurs only as necessary.

26. Audit

Internal Audit

26.1. The Company shall:

- maintain an Audit and Risk committee of its Board in accordance with the Code of Good Practice for Corporate Governance and with regard to the Corporate Governance Code for Central Government Department;
- ensure that the Ministry of Defence's internal audit team have complete access to all relevant records if required;
- keep records of and prepare and forward to the Shareholder an annual report on fraud and theft suffered by the Company and notify the Shareholder of any unusual or major incidents as soon as possible; and
- share with the Shareholder information identified during any audit process and associated audit report (together with any other outputs) at the end of the audit.

External audit

26.2. The Company Audit & Risk Committee is responsible for appointing a suitably qualified and experienced external auditor, subject to the approval of the Shareholder. The Audit & Risk Committee should work with the Executive Directors to provide the Shareholder, and other relevant bodies, with regulatory compliance reports and any other reports deemed appropriate at the commencement of the audit and as compatible with the independent auditor's role.

26.3. The Audit & Risk Committee should periodically review the Company's auditors in line with best practice.

REVIEWS AND WINDING UP ARRANGEMENTS

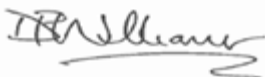
27. Review of the Company's status

- 27.1. The Shareholder, together with the company, will review every two years whether the company should remain in public ownership. As part of this review, the overall value of the Company shall be reviewed. The most effective approach to conducting this valuation is to be agreed.
- 27.2. The date of the next review will be no later than [September] 2023.

28. Arrangements in the event that the Company is wound up

- 28.1. The Shareholder 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.) To this end, the Shareholder shall:
- 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 Comptroller and Auditor General (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 their report on the accounts; and
 - 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 Accounting Officer should sign the closing accounts. In the event that the Shareholder inherits the role, responsibilities, assets and liabilities, the PAO should sign.
- 28.2. The Company shall provide the Shareholder 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 Shareholder details of any other forms of claw-back due to the Company.

Signed: David Williams



Date: 20th December 2021
(On behalf of the Ministry of Defence)

Signed:



Date: 20th December 2021
(On behalf of Sheffield
Forgemasters International
Limited)

Establish and maintain appropriate and effective corporate governance foundations which govern the department-Company relationship

- work with Ministry of Defence and the Company to **establish and maintain appropriate corporate governance documents and systems**, through up to date and fit for purpose governance documents, including the Framework Document, Articles of Association, Board Terms of Reference and Chair's letter.

Promote effective objectives, business planning and performance against the Strategic and Annual Business Plans

- assess and challenge from an owner's perspective the Company's Strategic and Annual Plans, advising the Ministry of Defence and Responsible Minister on the clarity of the objectives, the quality of the Plans and the financial, and where relevant commercial, strength underpinning it, and its effectiveness as a tool for the Company.
- monitor and challenge the Company and its Board as to the **performance** against its Strategic Plan, Annual Business Plan and Budget, in terms of how the Company is performing as an organisation (as opposed to monitoring the success of the policy delivery itself) and advise the Responsible Minister accordingly.
- if there is a UKGI shareholder Non-executive Director on the Board, challenge the Company's business cases, and other government approvals outside the Company's executive delegations, through that Non-executive Director position on the Board only (this will be limited to the degree of challenge that any non-executive board director can provide. UKGI is not responsible for formally reviewing such business cases, providing advice to the department and ministers, or obtaining government approval for business cases, unless explicitly agreed otherwise).

Promote strong corporate capability

- through the UKGI Shareholder Team, and the Shareholder Non-Executive Director's membership of the Board, promote the **strength of the Company's governance systems which support organisational performance**, by providing high level challenge to the company and its Board on:
 - a. governance framework compliance – defined as the Company's view on its compliance with its governance framework (as set out in this Framework Document, delegated authorities, and any other specified governance documents); and
 - b. the adequacy and strength of the Company's reporting to the Department on these issues.

Promote effective leadership (high quality boards and senior management)

- promote and advise the department on the **effectiveness of the Company's leadership**, specifically through:

- a. promoting high quality and diverse boards, challenging the Board's capability and effectiveness, and monitoring succession planning;
- b. promoting the implementation of effective board composition, recruitment, remuneration and appointment processes;
- c. providing a Shareholder Non-Executive Director on the Board; and
- d. giving a view on the Company's Board level executive capability in relation to its responsibilities, and remuneration.

Promote effective relationships between Ministry of Defence and the Company

- support effective relationships between Ministry of Defence and the Company, including through:
 - a. building effective relationships with the Company's Board and senior management;
 - b. promoting effective interfaces and communications between the Department and the Company, including through regular shareholder meetings; and
 - c. maintaining an effective regular meeting "rhythm" with Chair, Board and Executives to ensure appropriate flow of information (management information) between the Company, and Ministry of Defence, including the Shareholder Team, including effective reporting to Ministry of Defence.

Supporting and supplementing the activities above by providing a Shareholder Non-Executive Director on the Company's Board who will:

- act as government's shareholder representative on the Company's Board, through:
 - a. providing an appropriately skilled Board director to carry out the non-executive director role effectively, drawing on the support and analysis from the Shareholder Team;
 - b. attending the Company's Board committees as appropriate, but usually Remuneration Committee, Audit and Risk Committee, and Nominations Committee
 - c. acting as an interlocutor between the department and the Board.
 - d. providing a view to the department on the strength of the Board.

ANNEX B: HMT MANAGING PUBLIC MONEY BOX 3.1: STANDARDS EXPECTED OF THE ACCOUNTING OFFICER'S ORGANISATION (SPRING 2021)

Acting within the authority of the minister(s) to whom they are responsible, the accounting officer should ensure that the organisation, and any ALBs it sponsors, operates effectively and to a high standard of probity. The organisation should:

Governance

- Have a governance structure which transmits, delegates, implements and enforces decisions
- Have trustworthy internal controls to safeguard, channel and record resources as intended
- Work cooperatively with partners in the public interest
- Operate with propriety and regularity in all its transactions
- Treat its customers and business counterparties fairly, honestly and with integrity
- Offer appropriate redress for failure to meet agreed customer standards
- Give timely, transparent and realistic accounts of its business and decisions, underpinning public confidence;

Decision-making

- Support its ministers with clear, well reasoned, timely and impartial advice
- Make all its decisions in line with the strategy, aims and objectives of the organisation set by ministers and/or in legislation
- Take a balanced view of the organisation's approach to managing opportunity and risk
- Impose no more than proportionate and defensible burdens on business;

Financial management

- Use its resources efficiently, economically and effectively, avoiding waste and extravagance
- Plan to use its resources on an affordable and sustainable path, within agreed limits
- Carry out procurement and project appraisal objectively and fairly, using cost benefit analysis and generally seeking good value for the Exchequer as a whole
- Use management information systems to gain assurance about value for money and the quality of delivery and so make timely adjustments
- Avoid over defining detail and imposing undue compliance costs, either internally or on its customers and stakeholders
- Have practical documented arrangements for controlling or working in partnership with other organisations, as appropriate
- Use internal and external audit to improve its internal controls and performance.

ANNEX C: LIST OF GOVERNMENT-WIDE CORPORATE GUIDANCE APPLICABLE TO PUBLIC CORPORATIONS

The Company shall have regard to the principles set out in relevant sections of the following guidance documents:

Corporate Governance

[Corporate Governance Code for Central Government Departments \(April 2017\)](#)

[Corporate Governance Code \(July 2018\)](#)

[Code of Conduct for Board Members of Public Bodies \(June 2019\)](#)

[Management of Risk: Principles and Concepts \(July 2019\)](#)

Financial Management

[Managing Public Money \(May 2021\)](#)

[NAO Good Practice Guidance – Fraud and error \(March 2021\)](#)

[HM Treasury Consolidated Budget Guidance \(particularly Chapter 11\) \(March 2021\)](#)

Senior Appointments and Remuneration

[Governance Code on Public Appointments \(April 2019\)](#)

[HM Treasury Guidance for approval of Senior Pay \(September 2021\)](#)

Other

[Whistleblowing Guidance and Code of Practice \(March 2015\)](#)