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Guidance Note 20

NED Appraisal

August 2021

This Guidance Note is intended as a guide to the key elements of an annual appraisal for NEDs. While responsibility for this appraisal sits with the Chair, it is important for Shareholder teams to encourage assets to undertake them and provide guidance as appropriate.

This note sits alongside the guidance notes on Chair Appraisals and Board Effectiveness reviews.

The Reason for Appraisals

Regular appraisals of all Board members are key to effective corporate governance and a core part of the [FRC Corporate governance code](#) (principle L and paragraph 21) and the recently published Cabinet Office “[Principles of Governance for all Public Body NEDs](#)” – as a means of improving and monitoring the performance of the Board. The Code requires companies to review the effectiveness of individual Directors as well as the effectiveness of the Board as a unit on a continual (generally annual) basis.

Additionally, they provide the opportunity for NEDs to reflect on their contribution and identify areas for development that will benefit the board in the round. It may also give an opportunity for NEDs to feed back to the Chair views about the Board and position of the business. Finally, it provides the opportunity to build evidence to support (or otherwise) a potential reappointment case.

Who is responsible:

Responsibility for reviewing the performance of Non-Executive Directors sits solely with the Chair

Shareholder teams should ensure that the Chair is aware of their responsibility and encourage them to conduct formal and rigorous annual appraisals of the Non-Executive Directors. Chairs should be reminded of this responsibility as appropriate (often this is best done through the shareholder appointed NED) as well as via the “[governance expectations of the Chair](#)” annex to the annual Chair’s letter. This responsibility should be codified within governance documents such as Directors’ letters of appointments and the Board Terms of Reference.

The Chair should be prepared to share the annual appraisal of Non-executives with the shareholder, either in the form of short written appraisals of the NED sent to the UKGI shareholder team, or through discussion between the Chair and the shareholder. UKGI should be alert to the sensitivities of such appraisals and may only wish to ensure that such reviews have been undertaken, rather than probe for the details of such reviews. However, a written note will be required when seeking to reappoint or extend a board members tenure. UKGI should make sure both the Chair and the NEDs are aware of this.

Timing:

Appraisals should happen annually. There is no set time during which appraisals are best undertaken. Chairs may consider NED appraisals are best undertaken ahead of the Board effectiveness review or during a particularly quiet time in the Board’s annual calendar. UKGI should push Chairs to ensure that appraisals are complete in good time ahead of any decisions regarding a certain NED’s reappointment.



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Process:

The Chair is free to decide how to conduct these appraisals, however it is likely that they will rely on their own experience of the Non-Executive's input throughout the year, and over their whole tenure, with a one-to-one meeting with the individual. The Chair may wish to involve the SID as useful sounding board and may wish to consult other NEDs, such as any members of committees chaired by the NED. The UKGI NED on the board should offer to share their reflections with the Chair. The review format should be proportionate, and the Chair has considerable discretion in this area.

Meetings should be constructive and offer the Director an opportunity to feed back any observations regarding either their own performance, or that of the Board, to the Chair.

It is worth noting the Cabinet Office's advice on reappointments expects evidence to be presented on the specific skills, strengths, contributions and general effectiveness of a Director as well their opportunities for development (including training and skills). You may wish to [share this](#) with Chairs as a way to help focus appraisals, especially of those who they may wish to reappoint.

NED appraisals should look forward, not just back, in order to take account of the future needs of the ALB and its Board. Learning and development opportunities should be identified and the aspirations of the individual discussed. While many NEDs bring considerable expertise and experience from their wider careers it should not be automatically assumed that they have no ongoing development needs. Training and development requirements identified during appraisals may be specific to the public sector (e.g. developing experience of public sector accounting standards), the body itself, or external topics such as cyber risk or certain markets. Alternatively, the development needs may be more generic, or reflect a collective knowledge gap of the Board as identified as part of the Board effectiveness review. Framed correctly, development activities can be beneficial to the body but also potentially make a director more suited to other roles in the public sector. Where development activities require funding the Chair should always be clear that this is necessary expenditure for that organisation.