



UK Government  
Investments

# UK STEWARDSHIP CODE REPORT

UK Government Investments

October 2021





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ISBN 978-1-5286-2961-4

E02686659 10/21

Printed on paper containing 75% recycled fibre content minimum

Printed in the UK by the HH Associates Ltd on behalf of the Controller of Her Majesty's Stationery Office

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# Chief Executive Foreword



I am very pleased to be able to set out how UK Government Investments (“UKGI”) approaches its stewardship responsibilities.

Good stewardship is absolutely essential for responsible investment and wider market integrity. This is as important to our work as it is to the private sector, given the public investment in our portfolio entities and their role in delivering government policy.

UKGI is the government’s centre of excellence in corporate governance and corporate finance. Our response to the UK Stewardship Code (“the Code”) focuses on the core of our stewardship practice where we act on behalf of government departments, for 20 organisations. These are primarily arm’s length bodies which have material governance complexities, and/ or a significant commercial element or significant private sector interface. In our response we also include information on activities across our wider remit where they inform and support elements of stewardship, notably in relation to our promotion of a well-functioning financial system.

We are unusual among Code signatories in that our clients are government departments; but similar in that our ultimate beneficiaries include taxpayers and citizens across the UK. Our purpose is to protect the economic interests of the taxpayer in the context of government policy. We take this responsibility extremely seriously and welcome the intense scrutiny to which we are rightly subject. Signing up to the Code is a further way in which we can challenge ourselves on our standards and be transparent about how we support the long-term, sustainable success of government-sponsored, taxpayer-funded organisations, in the national interest.

This is the first time that UKGI has applied to be a signatory to the Code across our full portfolio of assets – previously we have done so only in regard to our role with NatWest Group. Whilst we are proud of the work of our stewardship practice to date, we recognise the need for continuous improvement. Responding to the new Code has been a genuinely rewarding exercise. It has enabled us to reflect on how much of our culture flows from our values, the importance of our people, how we make the best of ourselves to meet our responsibilities to the taxpayer, and, energisingly, what we can do to be better.

A handwritten signature in black ink, appearing to read 'Charles Donald', with a horizontal line underneath it.

**Charles Donald**  
Chief Executive

# Executive Summary

UK Government Investments (“UKGI”) is a company wholly owned by HM Treasury (“HMT”). It resulted from the merger in 2016 of the Shareholder Executive (which was a division of the Department for Business, Innovation and Skills) and UK Financial Investments<sup>1</sup>; organisations born from a recognition of the likely long-term benefit to the taxpayer of bringing private sector expertise in corporate finance and governance into the centre of government.

UKGI is committed to good stewardship practices and the Financial Reporting Council’s (“FRC”) revised 2020 UK Stewardship Code (the “Code”). Our response to the Code covers the period FY2020/21. It outlines our stewardship beliefs and approach, and how we strive to meet the needs of government departments and, ultimately, taxpayers and wider society (our beneficiaries).

According to the FRC, stewardship is *“the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, environment and society.”* The government, through departments, owns or part-owns arm’s length bodies (“ALBs”). UKGI’s stewardship role does not relate to the allocation of capital, as funding allocation decisions are taken by the relevant government department. Instead, our role is the management and oversight of capital in the form of oversight of the government’s shareholdings in these ALBs. We do not act as ‘Asset Owner’ or ‘Asset Manager’, rather we advise the government on the exercise of its rights as a shareholder. As such we have focused our response on UKGI’s stewardship role as a service provider representing the government’s shareholder responsibilities across a portfolio of 20 ALBs (each, an “asset” and collectively, our “portfolio”) and seven government departments (our “clients”)<sup>2</sup>.

We support and challenge our assets’ governance and performance in order to promote their sustainable long-term success as defined by the overall policy and objectives of government. We approach and work with our assets differently depending on the government’s shareholder relationship with them, as set out in table 1 on page 17. The spectrum ranges from NatWest Group plc (“NWG”) (where we seek to follow best institutional shareholder practice and advise on a purely commercial basis), to assets like Land Registry and Ordnance Survey (where we undertake a more involved shareholder role commensurate with full government ownership).

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1 UK Financial Investments Limited was set up to manage the government’s investments in the Royal Bank of Scotland, Lloyds Banking Group and UK Asset Resolution Ltd.

2 To note, UKGI’s portfolio consisted of 19 assets across seven departments as at the end of the FY 20/21.

We provide case studies and examples throughout the report to demonstrate our stewardship role and activities under each Principle, focusing on the period FY2020/21, with key messages summarised here:

### **Principle 1: Signatories' purpose, strategy and culture enable them to promote effective stewardship**

- UKGI is the government's centre of excellence in corporate governance and corporate finance, providing expert advice and leading solutions that inform government decisions so they can be translated into effective outcomes in the national interest. Across our entire remit, we are tasked with:
  - promoting good governance of publicly owned businesses;
  - supporting the government's private sector financial interventions;
  - providing a central capability for contingent liabilities; and
  - delivering orderly asset sales that generate value for money.
- Because of our purpose and status, we cannot always choose what we work on. This focuses our strategy on the quality, standards and value for money that we can provide to our clients, through which we seek to achieve long-term, sustainable success for our assets, in the national interest. We meet our remit through a three-part strategy:
  - i. to be able to respond to the demands of government departments as they arise for expertise in governance, corporate finance, contingent liabilities and transaction execution;
  - ii. to ensure that any assignment we undertake is clearly defined and falls within UKGI's risk appetite; and
  - iii. to deliver the services and outcomes sought by our client departments to the highest standards.
- We believe that a diverse and inclusive workforce, and our values-led, supportive and non-hierarchical culture enables us to deliver our shareholder role and promote effective stewardship by enabling our people to work at their best, capturing a wide range of experience and perspectives to reflect in our work, and giving us a better understanding of the needs of our clients and the wider public we serve.
- Our values were revised in 2020 and decided upon by colleagues across the organisation and then approved by our Executive Committee and Board. They are the lens through which all our decisions and actions are considered and are embedded throughout UKGI, including in our Board's mandate. We are:
  - supportive and inclusive;
  - open and honest;
  - expert and professional; and
  - collaborative and outcome-focused.
- Our effectiveness in serving the best interests of our clients is evidenced through the ongoing expansion of our portfolio at the government's request; specific recognition of our role in Managing Public Money ("MPM"); achievement of value for money for the taxpayer in asset transactions (as confirmed by the National Audit Office); and positive feedback from key stakeholders, including permanent

secretaries of our client departments and chairs of assets within our portfolio.

- Going forward, we will continue to promote UKGI as the centre of excellence in corporate governance and corporate finance across government, maintaining core strategic relationships with our client departments. We will continuously seek areas for improvement and use the levers at our disposal to promote the long-term sustainable success of our assets.

## **Principle 2: Signatories' governance, workforce, resources and incentives enable them to promote effective stewardship**

- As the government's centre of excellence in corporate governance, we understand that the foundation of good stewardship begins with a clear governance framework, our own Board of directors and a specialist skilled workforce, all operating together. At UKGI, our governance structures ensure appropriate information is escalated from our portfolio and dedicated specialist teams (such as UKGI Legal or risk reviewers) up to our Executive Committee, and where necessary, to the Board. Complementing this, senior oversight of our stewardship activities is provided by the Board and senior executives through regular portfolio review processes and periodic deep dives.
- Our Board has oversight of all of our stewardship activities. Our Board promotes UKGI's performance of its stewardship role by fostering a culture which allows us to execute our strategy effectively and efficiently, equipping UKGI with sufficient resourcing, and the effective governance arrangements required to provide appropriate assurance of our activities.
- Our people are highly skilled professionals drawn from a range of backgrounds, combining Civil Service and private sector expertise. UKGI shareholder teams are resourced according to the skillsets and experience required to best serve our clients and assets, sometimes drawing from colleagues across the organisation, rather than from within particular teams. Having colleagues on secondment from private and public sector organisations and the Civil Service, working alongside permanent staff, is particularly helpful in ensuring specialist knowledge, expertise and networks stay up to date and can flex according to specific client requirements.
- UKGI has agreed a framework with our shareholder (HMT) for the pay of our permanent staff, which includes performance-related pay recognising exceptional organisational and individual performance. A component of organisation-wide performance is related to the performance of our stewardship activities, while performance ratings of individuals in shareholder teams are related to their performance in that team. Individuals on secondment to UKGI are paid according to their home organisation's pay bands and terms and conditions.

### **Principle 3: Signatories identify and manage conflicts of interest and put the best interests of clients first**

- UKGI has a Code of Conduct which sets the framework for how we work and the overarching principles we expect staff to abide by: integrity, honesty, objectivity, impartiality, compliance with law and professional standards, respect, protecting UKGI's resources and managing conflicts of interest. Our Code of Conduct brings to life UKGI's values by setting out the responsibilities, duties and expected behaviours of our staff, who all sign up to the Code of Conduct upon joining the organisation (whether on secondment or permanently).
- Given our role, it is incumbent on us to ensure that the interests of our client departments, assets or other organisations that we work with are not damaged by any conflicts of interest inherent within UKGI or arising between UKGI, or its staff, and those organisations. Our Code of Conduct therefore includes guidance and well-defined procedures for avoiding, identifying, disclosing, reporting and managing conflicts of interest.
- During 2020/21, we reviewed and updated our Code of Conduct to make the provisions around conflicts of interest more comprehensive and robust, enabling staff to better understand how to identify and avoid potential conflicts. We also provided more detailed guidance around the process for declaring interests.

### **Principle 4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system**

- UKGI's direct interactions with the financial system are rare and principally relate to our disposal programmes for NWG and UK Asset Resolution. However, a number of our assets are themselves involved in financial markets in other significant ways, for example the British Business Bank, UK Infrastructure Bank and UK Export Finance. Our governance of these assets contributes to the maintenance of orderly markets through their activities.
- We conduct a robust and frequent Risk Review process which provides consistent and detailed oversight of our portfolio. While this process principally identifies and analyses asset-specific risks relating to their objectives, given the strategic importance of our assets and the sectors within which they operate, this also includes consideration of market-wide and systemic risks which could lead to a significant impact on an asset's ability to achieve their policy objectives.
- UKGI has been a crucial element of the government's response to the pandemic over the past year. Our teams:
  - provided strategic advice to our clients;
  - established bespoke performance monitoring and governance structures in short timeframes to support continued and sustainable delivery by our assets; and
  - enabled robust decision-making on a number of coronavirus ("COVID-19") business support

schemes by establishing appropriate internal governance, providing timely and reliable advice, and acting as a bridge between our client departments and essential partners in the private sector.

- We are responding to the systemic risk caused by environmental issues and climate change through challenging and supporting our assets' overall organisational performance and sustainability. During 2020/21, our Board endorsed environmental stewardship as a core part of our governance role, and we are committed to further development in this area.
  - Beyond our shareholder (and therefore stewardship) role, activity across our remit relates to our identification of and response to market-wide and systemic risks to promote a well-functioning financial system: we advise on all major UK government corporate finance matters, support effective responses by the government to financially stressed corporate situations, and execute sales for all significant UK government assets. The expertise and experience of the people we hire for these areas of our remit, including their insight into markets and financial systems, is then available as a resource to our shareholder teams, ultimately contributing to better value for money for the taxpayer.
- Principle 5: Signatories support clients' integration of stewardship and investment, taking into account material environmental, social and governance issues, and communicating what activities they have undertaken**
- Client departments across the whole of our remit (not solely for our shareholder role) include (but are not limited to) HMT, the Department for Business, Energy and Industrial Strategy, the Department of Health and Social Care, the Ministry of Justice, the Department for Digital, Culture, Media and Sport, Cabinet Office, the Department for International Trade, the Department for Transport, and the Department for Environment, Food and Rural Affairs.
  - We have created a bespoke shareholder function for government-owned assets, which sits alongside and is designed to be complementary to how our client departments manage their policy and other interests in their assets. Our close working relationship with our client departments is central to enabling us to receive honest and open feedback from them, which we take on board in order to better support them.
  - We incorporate Environmental, Social and Governance considerations in our stewardship activities. These allow us to more effectively challenge and support our assets' overall performance and sustainability. For example:
    - to enable our shareholder teams to challenge and support our assets on their journey to net zero we have equipped them with guidance, and delivered a successful programme of events to establish a community

- of environmental leads across our portfolio;
- while many of our assets exist to provide public services and are inherently concerned with social issues in the national interest, we are devising a systematic approach to identifying and promoting social considerations for our assets across our portfolio, having identified this as a particular area for continuous improvement; and
- as the centre of excellence for corporate governance, good governance and a focus on continuous improvement runs through all the core strands of our stewardship activities.
- We communicate our activities and disseminate best practice through our events (as detailed on pages 68-69), within government guidance like MPM, and through our own publications (such as our 2020 report, '[UK government arm's-length-bodies: a case for them in specialised delivery and how to optimise their use](https://www.ukgi.org.uk/wp-content/uploads/2020/03/UK-Government-Arms-Length-Bodies-A-View-from-Practitioners-January-2020_WEB.pdf)'<sup>3</sup>).
- We welcome the intense scrutiny we are subject to as a public body, not least as an opportunity to regularly review and assure our processes and activity, and account for ourselves – frequently in public forums.
- We are held accountable by the government departments for which we conduct an agreed role; overall, by HMT as our shareholder; and are subject to audit by the government's Internal Audit Agency. At the time of publication, responsibility to account for the activities of UKGI in Parliament has been delegated to the Economic Secretary to the Treasury. Our Chief Executive, as accounting officer, has specific personal responsibility to account to Parliament, including giving evidence to Parliamentary committees on UKGI's stewardship of government assets and public funds.

### **Principle 6: Signatories review their policies and assure their processes**

- We currently have a number of internal mechanisms in place to review our policies and assure our processes. Our Board and Executive Committee regularly conduct reviews of our core shareholder role, policies and processes and seek assurance as to their operation.

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3 [https://www.ukgi.org.uk/wp-content/uploads/2020/03/UK-Government-Arms-Length-Bodies-A-View-from-Practitioners-January-2020\\_WEB.pdf](https://www.ukgi.org.uk/wp-content/uploads/2020/03/UK-Government-Arms-Length-Bodies-A-View-from-Practitioners-January-2020_WEB.pdf)

# Purpose, strategy and culture

## Principle 1: Signatories' purpose, strategy and culture enable them to promote effective stewardship

### Introduction

In this section we cover the following:

- **What is UK Government Investments (“UKGI”) and what is our purpose:** UKGI is the government’s centre of excellence in corporate governance and corporate finance.
- **Our strategy:** we focus on resolving challenging corporate governance and finance issues that the government faces, protecting the economic interests of the taxpayer in the context of government policy.
- **Government as ‘shareholder’ and our stewardship services:** we promote effective stewardship through our shareholder role on behalf of government departments.
- **Our portfolio:** we represent the government’s shareholder responsibilities across a portfolio of 20 arm’s length bodies (“ALBs”) and seven government departments.
- **Our values and how we embed them in our culture:** the appointment of a new Chief Executive in March 2020 provided an opportunity to refresh our values. They are essential to creating a supportive professional environment where we balance employee wellbeing with delivering on challenging and important work on behalf of the taxpayer.
- **How our strategy, values and culture enable us to promote effective stewardship:** in line with our strategy, values and culture, we provide deep specialist expertise, portfolio knowledge and experience, senior and experienced resource, expertise which is kept current, and strong networks.
- **How effective we have been in supporting our clients:** our strong, clearly defined culture enables us to have a robust organisation, able to adapt to the evolving demands and requirements of our clients, including supporting the government’s response to the pandemic and achieving net zero.
- **Our future:** we remain committed to continuous improvement across our portfolio as we deliver our role as the centre of excellence in corporate governance in government.

“Everyone you work with at UK Government Investments is really smart, energetic and dedicated, thinks creatively about solving problems and really wants to pitch in and help.”  
– **Ben Kennedy**,  
*Assistant Director*

## What is UKGI and what is our purpose?

UKGI is the government’s centre of excellence in corporate governance and corporate finance. We provide expert advice and leading solutions that inform the government’s decisions so they can be translated into effective outcomes in the national interest. We are a company wholly-owned by HM Treasury (“HMT”). UKGI has an agreed Framework Document with HMT which sets out the broad framework within which UKGI operates. This can be found on our website.<sup>4</sup>

UKGI is entrusted by HMT to undertake the following objectives:

- act as shareholder for, and lead establishment of, UK government ALBs (i.e. promoting good governance of publicly-owned businesses);
- advise on all major UK government corporate finance matters, including financial interventions into corporate structures and corporate finance negotiations;
- analyse and advise on the UK government’s contingent liabilities; and
- manage and execute the sale of all significant UK government corporate assets.

## Our strategy

We work with different government departments (our “clients”) to find solutions that optimise outcomes. Our strategy has three parts:

- i. to be able to respond to the demands of government departments for expertise in governance, corporate finance, contingent liabilities and transaction execution as they arise;
- ii. to ensure that any assignment we undertake is clearly defined and falls within UKGI’s risk appetite; and
- iii. to deliver the services and outcomes sought by our client departments to the highest standards.

“The opportunity to work on projects where you can really make a difference and at times can be high profile, and most importantly it’s to be part of a really impressive team that are motivated, talented and really fun to work with.” – **Sukhi Johal**, *Executive Director*

In contrast to the private sector, we cannot always choose what we work on. We ensure we have the mix of skills to deliver our corporate objectives and to respond to the needs of the client department as they arise. We maintain and develop our culture to ensure that we can attract and retain the people required to undertake this work.

There are times when we will agree with government departments to take on certain workstreams and projects that are outside of our risk appetite, purpose and/or strategy. UKGI is prepared to take on complex, high-profile and challenging roles. We take on this work primarily because there are often few alternatives within government, and our

<sup>4</sup> [www.ukgi.org.uk](http://www.ukgi.org.uk) (under ‘Transparency’)

commercial skillset is most closely aligned and valuable to the workstreams or project requirements. For example, UKGI colleagues took an active role in the coronavirus (“COVID-19”) Vaccine Task Force commercial negotiations, which enabled the vaccination programme in the UK. Where necessary, we will establish procedures for managing risks that fall outside our risk appetite and establish mechanisms to bring such work back within our risk appetite as swiftly as possible.

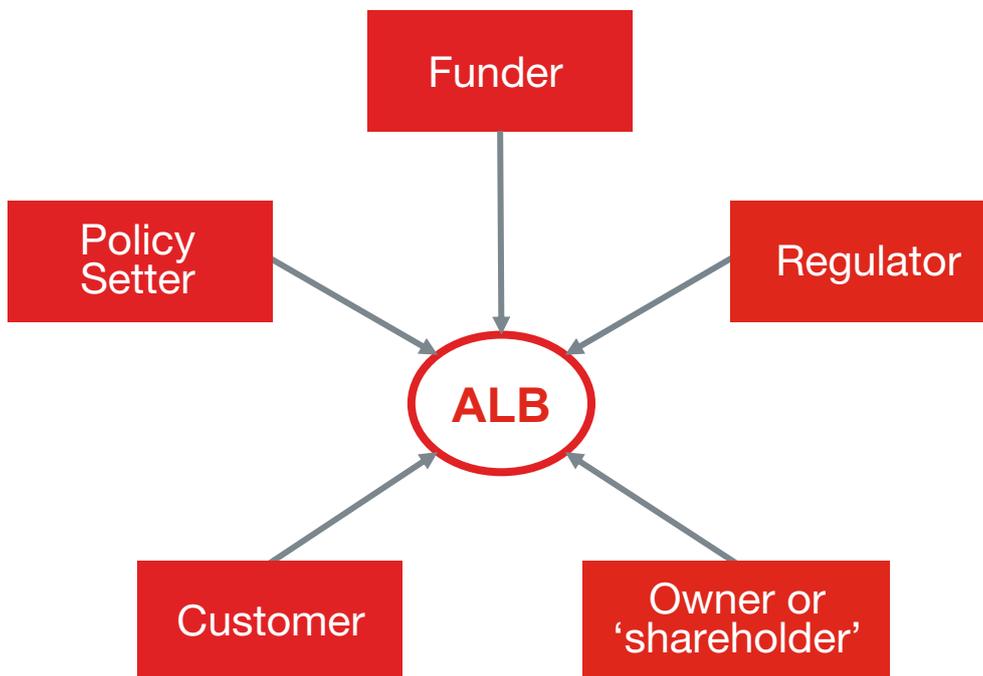
role in the delivery of public services and projects. They encompass non-ministerial bodies, non-departmental public bodies, executive agencies, and other public bodies such as public corporations. While UKGI’s role only relates to the shareholder element, the government has a number of different relationships with each of its ALBs, which can include customer, policy setter, funder, regulator and owner (or ‘shareholder’); and for each of the relationships, the government will have different responsibilities, ultimately all to ensure that public resources are used appropriately.

**Government as ‘shareholder’ and our stewardship services**

**Government as shareholder**

Government-owned businesses and organisations, or ALBs, play an important

**Figure 1: The government’s different sponsor responsibilities for its ALBs**



The government’s responsibility as owner (or ‘shareholder’) is to seek to have ALBs which are high performing organisations – and the government as shareholder has a number of areas it can focus on to support the achievement of this. See figure 2.

**Figure 2: Areas of focus for government in its shareholder role**

### UKGI's stewardship role

UKGI's stewardship role is as a service provider, representing the government's shareholder responsibilities across a portfolio of 20 ALBs and seven government departments. These are primarily ALBs which have material governance complexities, and/or a significant commercial element or significant private sector interface. We promote the sustainable long-term success (as defined by government policy and objectives) of our assets by supporting and challenging their governance and performance. Throughout this document this is what we mean when we refer to our 'shareholder role' and 'acting as shareholder'.

Our services are undertaken not to provide a financial return to beneficiaries, but to ensure value for money for taxpayers in a way that leads to sustainable benefits for the economy, environment and society. Our clients are those government departments that own or part-own our assets (referred to as "client departments") and our ultimate beneficiaries are the taxpayer and wider society. UKGI's shareholder role in relation to government owned ALBs is referenced in Managing Public Money ("MPM")<sup>5</sup>. It confirms the importance of the government properly fulfilling its shareholder responsibilities, and explicitly highlights the central role of UKGI in this context. MPM requires government departments to seek UKGI's advice on the set-up of certain types of ALBs and also consider whether UKGI should carry out the shareholder role for such bodies.

<sup>5</sup> Managing Public Money is published by HM Treasury and sets out the main principles for dealing with resources in UK public sector organisations. The reference to UKGI use can be found in Annexes 7.1 and 7.2, MPM: – <https://www.gov.uk/government/publications/managing-public-money>

## How we carry out our stewardship services

We work on behalf of our client departments, performing our shareholder role as agreed in a Memorandum of Understanding with them, with regular contact with them and our assets. We primarily do this across five core areas of activity, framed by the governance levers that the government has as a shareholder:

1. establish and maintain appropriate and effective corporate governance structure and documentation which govern the department-asset relationship;
2. promote effective objectives, business planning and performance against business plan;
3. promote strong corporate capability;
4. promote effective leadership through high quality boards and senior management; and
5. promote effective relationships between the department and the asset.

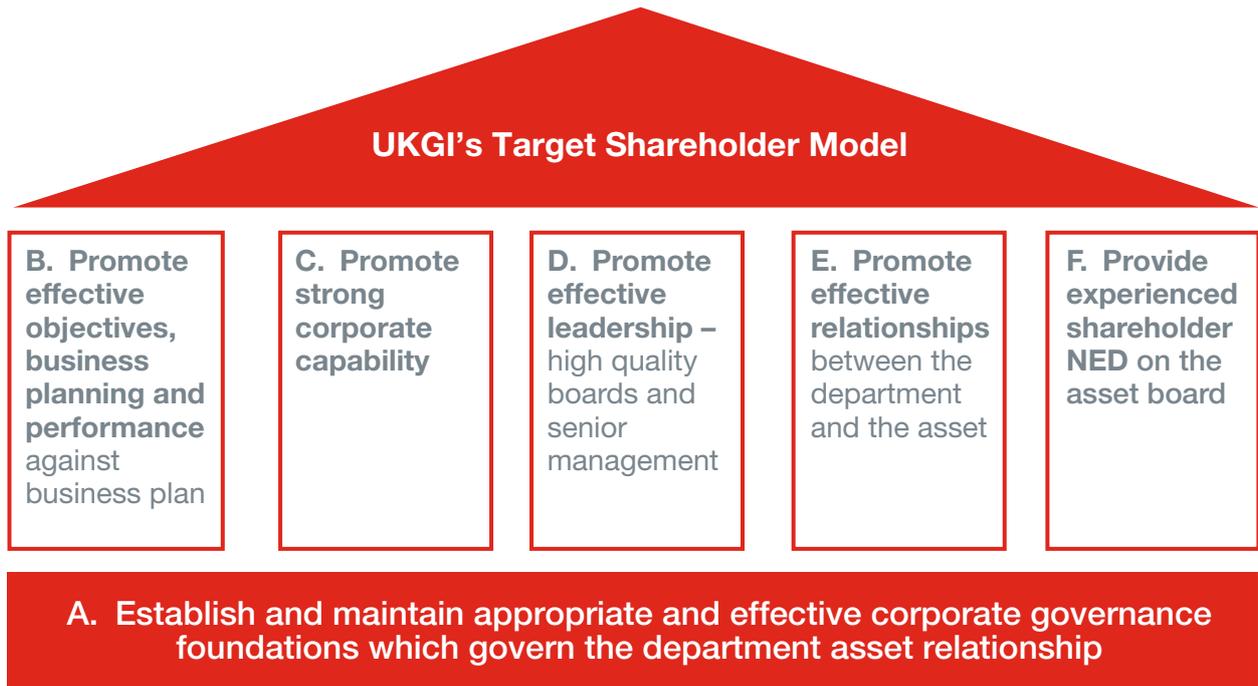
In most circumstances, we supplement the activities above by providing an experienced UKGI shareholder non-executive director (“UKGI Shareholder NED”) to our asset’s Board, usually supported by a shareholder team. The role of the UKGI Shareholder NED is to:

1. fulfil the relevant statutory and / or fiduciary duties of a director under the Companies Act, acting in a way which is most likely to promote the success of the asset for the benefit of its shareholder whilst having appropriate regard to other stakeholder interests;
2. contribute to the overall strength of the Board by bringing appropriate skills and expertise;

3. contribute expertise in best practice corporate and government governance; and
4. by virtue of their unique position, facilitate the relationship and understanding between the department and the asset, including:
  - i. conveying the context of the department’s objectives and perspective (established through regular meetings with departmental officials and, when appropriate, ministers to discuss asset developments and relevant departmental/ministerial interests) to the Board to aid its decision-making;
  - ii. whilst fulfilling their duties of confidentiality as a member of the Board, providing a direct line of sight to the department on developments at the asset and the quality of the Board and management in the performance of their functions; and
  - iii. supporting wider relevant government stakeholder relationships.

We work with the management of our assets to promote high organisational performance across our five core areas through frequent meetings and detailed reporting requirements, to enable government’s effective exercise of its shareholder levers. The size of each shareholder team varies, ranging between the equivalent of less than one to more than five full time dedicated colleagues at any one time. Our average shareholder team contains 1.6 full time equivalent team members. Further detail on how we perform these activities in practice is provided under Principle 5.

**Figure 3: Our stewardship services**



Reflecting our role within government, there are certain activities UKGI does not do: setting government policy; assuring satisfaction of policy objectives; mediating between departments on policy conflicts; assuring or approving business cases; assuring or approving procurement activity; and determining funding allocation or funding strategy.

Our shareholder teams are supported by our Portfolio Review and Governance functions which we outline on page 35. Our Governance function enables the sharing of our specialist expertise across government and our assets in applying governance disciplines in a government setting, which is key to how we promote effective stewardship. Further detail on how we support our clients by sharing best practice is provided under Principle 4.

Our shareholder role is one part of UKGI's overall activity, which also includes asset realisation, analysing and advising on the UK government's contingent liabilities, and supporting effective responses and contingency planning by the government to financially stressed corporate situations. Though not directly related to stewardship in the context of the UK Stewardship Code's definition and our shareholder role, this internal capability and specialist expertise is available to our shareholder teams who can then apply it in the context of our portfolio and so supports them to support our client departments and assets, ultimately contributing to achieving value for money for the taxpayer. For this reason, we have provided detail of our work here under Principle 4 where we view these additional services being relevant.

## Our portfolio



At UKGI we perform the shareholder function for a broad and diverse portfolio of assets. The portfolio consists of non-ministerial departments<sup>6</sup> through to private limited companies. They cover a range of sectors, with the main activities being finance, communications, transport, nuclear, defence, and property and land. Collectively, our assets employ over 115,000 people, generate approximately £17 billion of income and manage gross assets of over £945 billion.

We approach and work with our assets differently depending on the government's shareholder relationship with them and on the legal, regulatory and contractual framework the asset operates within. At one end of this spectrum, for example, is NatWest Group plc ("NWG"). We do not hold a seat on the NWG Board, which

is solely responsible for strategic and management decisions. We manage the government's shareholding in NWG following best institutional shareholder practice and on a purely commercial basis, to protect and enhance the value of the shareholding. On the other hand, for assets such as the British Business Bank ("BBB") or The Royal Mint, where the government is the 100% shareholder, UKGI has significant engagement with the ALB and undertakes a more involved shareholder role, including having an experienced UKGI executive on the Board of the ALB as a UKGI Shareholder NED. Whilst we do not involve ourselves in policy-setting for our assets, we regularly interrogate their performance with regards to fulfilling their policy objectives as set by the client department. Table 1 below demonstrates the spectrum of how we implement our shareholder model.

<sup>6</sup> A non-ministerial department is a government department in its own right but does not have its own minister. However, it is accountable to Parliament through its sponsoring ministers. A non-ministerial department is staffed by civil servants and usually has its own estimate and accounts.

**Table 1: Our portfolio of assets**

Asset	Government shareholding	Client department <sup>†</sup>	Cabinet Office classification	Board seat	Non-executive appointments
<b>NatWest Group</b>	53.96% <sup>‡</sup>	HMT	N/A <sup>±</sup>	No	No UKGI role – NWG NomCo leads appointments to Board
<b>URENCO</b>	33.3%	BEIS	N/A <sup>±</sup>	Yes	Appoint 2 shareholder NEDs and lead on appointment of Chair
<b>OneWeb</b>	19.3%	BEIS	Unclassified <sup>‡</sup>	Yes	UKGI leads appointment of 2 NEDs – NomCo leads other NED appointments
<b>HM Land Registry</b>	100%	BEIS	Non Ministerial Department	Yes	UKGI lead
<b>Post Office</b>	100%	BEIS	Public Corporation	Yes	UKGI lead on Chair – NEDs appointed by Chair
<b>Channel 4</b>	100%	DCMS	Public Corporation	No	UKGI supports DCMS and Ofcom who undertake the appointments
<b>Atomic Weapons Establishment</b>	100%	MoD	Non-Departmental Public Body	Yes	UKGI lead
<b>Nuclear Decommissioning Authority</b>	100%	BEIS	Non-Departmental Public Body	Yes	UKGI lead
<b>British Business Bank</b>	100%	BEIS	Unclassified <sup>±</sup>	Yes	UKGI lead
<b>The Royal Mint</b>	100%	HMT	Public Corporation	Yes	UKGI lead on Chair – NEDs appointed by Chair
<b>National Highways</b>	100%	DfT	Non-Departmental Public Body	Yes	Led by DfT
<b>UK Asset Resolutions</b>	100%	HMT	N/A <sup>±</sup>	Yes	UKGI appoints the Chair and 2 NEDs
<b>Ordnance Survey</b>	100%	BEIS	Public Corporation	Yes	UKGI lead
<b>UK Infrastructure Bank</b>	100%	HMT	Unclassified <sup>±</sup>	Yes	UKGI lead

Asset	Government shareholding	Client department†	Cabinet Office classification	Board seat	Non-executive appointments
<b>Defence Equipment &amp; Support</b>	100%	MoD	Executive Agency	Yes	UKGI lead
<b>Reclaim Fund</b>	100%	HMT	Non-Departmental Public Body	Yes	NomCo leads appointments to Board
<b>Government Property Agency</b>	100%	CO	Executive Agency	Yes	UKGI lead
<b>National Nuclear Laboratory</b>	100%	BEIS	Public Corporation	Yes	UKGI lead
<b>UK Export Finance</b>	100%	N/A§	Ministerial Department	Yes	UKGI lead

† Departments: HM Treasury (“HMT”); The Department for Business, Energy and Industrial Strategy (“BEIS”); The Department for Digital, Culture, Media and Sport (“DCMS”); the Ministry of Defence (“MoD”); the Department for Transport (“DfT”); Cabinet Office (“CO”).

‡ As of 17 September 2021.

§ UKEF is a Ministerial Department reporting to ministers at the Department for International Trade

± N/A – assets not classified to central government by the Office for National Statistics (“ONS”); Unclassified – assets classified to central government by the ONS, but not yet classified as an ALB by the Cabinet Office

### Case Study: Acting on behalf of Departments: HM Land Registry



*As outlined on page 16, we tailor our approach and work with assets depending on the nature of the government’s shareholder relationship, and based on the legal, regulatory and contractual framework the asset operates within. This case study demonstrates how we engage with HM Land Registry (“HMLR”), a non-ministerial department, for which BEIS is the sponsor department.*

UKGI performs the shareholder role on behalf of BEIS in relation to HMLR. HMLR plays a key role in the UK’s economic stability, security and growth. Its registers and the guarantees afforded by them underpin £7 trillion in property assets across England and Wales, with £1-1.5 trillion in lending secured against it. The Land Register, a piece of Critical National Infrastructure, contains more than 26 million titles, providing financial and economic security across the UK.

We discharge our role as set out in HMLR's Framework Document. UKGI provides strategic oversight of HMLR's corporate governance and corporate performance, working closely with and reporting directly to BEIS senior officials and BEIS Ministers. For example, last year UKGI was responsible for advising on the appointment of non-executive members to HMLR's Board. In practical terms, this involved leading the recruitment campaign for new non-executive Board members, engaging closely with both HMLR and BEIS throughout the process and advising BEIS Ministers for a decision. This led to the appointment of two new independent non-executive directors who strengthen the Board in terms of experience and capabilities and providing support for management to execute HMLR's business strategy.

## Our values and how we embed them through our culture

UKGI's culture is led by our values, developed by colleagues across our organisation, reflecting the people who work for us and the ways in which we want to work.

At UKGI, we are:

### Supportive and Inclusive

- Provide the opportunity for and enable others to achieve
- Feel comfortable to ask about each other's wellbeing and what we can do to help
- Create a sense of community built on respect for all diverse backgrounds
- Foster a culture where you can bring your whole self to work
- Behave with respect, consideration and good humour

### Open and Honest

- Proactively share information and keep people informed
- Welcome and facilitate challenge by encouraging everyone to speak up
- Acknowledge when things don't go to plan and learn from experience
- Provide regular feedback to help development of others

### Expert and Professional

- Present quality, objective, independent advice based on evidence
- Enjoy the challenge of applying expertise to help clients manage complex issues
- Earn trust through respecting confidentiality and behaving with integrity
- Ensure effective stewardship of public resources

### Collaborative and Outcome-focussed

- Build strong relationships, bring stakeholders together and facilitate solutions
- Are conscientious in meeting commitments and observing deadlines
- Focus on results and use process as a means, not an end
- Recognise, value and reward outcomes
- Achieve satisfaction from persevering and innovating to deliver good outcomes

The appointment of a new Chief Executive in March 2020 gave us the opportunity to refresh these values during 2020, knowing that they are essential to creating a supportive, professional environment where we balance employee wellbeing with delivering on challenging and important work on behalf of the taxpayer. These values are central to the way we expect to operate day to day.

We make best use of our people and resources by working within a team-led, non-hierarchical culture, with our team members chosen for the skillset and expertise they can bring. The vast majority of colleagues work on more than one team to build and share knowledge across all of our work and enable us to break down silos and more easily apply learning from different situations. We are collaborative and inclusive, building strong relationships and bringing stakeholders together to facilitate solutions informed by our corporate finance and corporate governance knowledge and expertise. Our expert advice and solutions inform and translate government decisions into effective outcomes in the national interest.

Our values are the lens through which our decisions and actions should be viewed. At UKGI, our values guide all of the work that we do, including the work of our Board who observe these values in their work. Our Board has a 'Board Mandate' which provides guidance to Board members about the culture and value of the Board and is reviewed annually. The Board Mandate explicitly outlines that the Board is responsible for ensuring that appropriate values, ethics and behaviours are agreed. It also mandates that appropriate procedures and training are in place to ensure that

our values are observed throughout UKGI and that reward and assessment includes measurement against our values. Our values are also used in evaluating the effectiveness of the Board and contribution of all Board members. The Board Mandate clearly outlines that our values should be at the heart of every action of the UKGI Board and its members and of every decision taken by the Board.

### **Supporting our culture through building a diverse and inclusive workplace**

We believe that a diverse and inclusive workforce enables us to deliver our shareholder role and promote effective stewardship by capturing a wide range of experience and perspectives and giving us a better understanding of the needs of our client departments and of the wider public we serve.

Our increased commitment to becoming a more diverse, supportive and inclusive organisation has led this year to UKGI making progress in a number of areas, including:

- i. On our formal diversity targets, exceeding our HMT Women in Finance Charter target of 40% female representation at senior management level by March 2021, with 41% of the senior management cadre identifying as female; and working to reach our target of 10% of our senior management cadre identifying as Black, Asian and minority ethnic ("BAME") by the end of 2022 (currently 6%);
- ii. A Board-level diversity policy approved by the UKGI Board, which (for example) sets an ambition to exceed Cabinet Office targets for BAME and gender

representation, and links performance-related pay to progress on diversity and inclusion (“D&I”) for the Chief Executive and senior management team; and

- iii. The appointment of a non-executive director, Robin Lawther, as the Board’s D&I champion.

In 2020, UKGI procured Seriously Inclusive, a D&I consultancy, to conduct an external audit of the organisation, endorsed by the Board. In March 2021, Seriously Inclusive presented their results to the Board and a report was distributed to the whole organisation in full form. It recognises both the progress we have made and identifies areas on which we should now focus. We have identified ten D&I workstreams in which all of our staff are invited to participate:

1. Leadership of D&I
2. Better Board engagement
3. External promotion of D&I
4. Continued focus on mental health and wellbeing
5. Embedding the refreshed UKGI values
6. Driving improvement in remuneration, recruitment, resourcing and learning and development

**“It’s a meaningful job. The transactions I am working on are transactions of national relevance that have positive social impact” – Nancy Zhang, Executive Director**

7. Enabling career progression
8. Creating a better onboarding and offboarding experience
9. Empowering success for colleagues with protected characteristics
10. Utilising our alumni network to further our D&I ambitions

Each workstream has specific milestones and key performance indicators (“KPIs”) and is being led and championed by a member of senior management. Our Executive Committee discusses progress on each of the workstreams on a monthly basis, reporting to the Board on progress and future plans on a bi-annual basis.

UKGI is committed to making further progress in this area, driven by colleagues at all levels of the organisation. Nonetheless, there remains much to do to realise our ambitions in this area. For more detail on how we are building a diverse and inclusive workplace, please see our [Annual Report](#).

#### *Gender Pay*

As an organisation with only 141<sup>7</sup> employees (124 full-time equivalent, as of 31 March 2021), UKGI is not required to publish gender pay data under the provisions of the Equality Act 2010. We are, however, committed to the highest standards of transparency and have therefore elected to disclose our gender pay data, setting out the difference in average hourly pay between men and women. As at 31 March 2021, our mean gender pay gap was 23.7% (31 March 2020: 23.6%), and our median gender pay gap was 24.4% (31 March 2020 28.6%). Our mean and median bonus gap was 24.8%% and 28.9% respectively (31 March 2020: 40.7% and 50.3%).

<sup>7</sup> 141 employees as of 31 March 2021, 154 as of time of writing, October 2021

We have analysed the data collected to calculate the gender pay gap, and it is clear that our gender pay gap is driven by the composition of the organisation, with the majority of the senior roles occupied by men, and junior and administrative roles staffed predominantly by women. We anticipate this composition to progressively shift through our commitment to D&I and the initiatives outlined above.

### How our strategy, culture and values enable us to promote effective stewardship

In line with our strategy, culture and values, we promote effective stewardship through our shareholder role on behalf of government departments by providing:

1. **Deep specialist expertise** in applying private sector governance disciplines to a government setting, typically in relation to some of the government's most interesting and complex commercial tasks.
2. **Portfolio knowledge and experience** gained from working across government on multiple assets, enabling us to share learnings of cross-departmental perspectives and issues, and act as a consultation point for best practice corporate governance across government. UKGI offers an understanding of stewardship of complex assets which is unique in the government environment.
3. **Senior & experienced resource** from the private sector and the Civil Service, combining financial, commercial and portfolio management expertise, with public and private sector board experience. As part of our strategy, we plan and allocate our expert shareholder resources in an agile way to help the government respond to some of the most challenging issues that arise in corporate governance in the context of government policy.
4. **Expertise which is kept current** within the rapidly evolving field of corporate governance, through bespoke training programmes and seminars as well as via a secondment programme, bringing in relevant private sector and government expertise.
5. **Strong networks** within government and across the private sector including ALB chairs, Board members and management teams, as well as with specialist advisors.

“I hope to gain valuable insights and experience that I can utilise to bring fresh perspectives to problems when I return to my home department at the end of my secondment.” – **Vivienne Li**, *Civil Service Secondee, Manager*

The effective stewardship of our portfolio is supported by both our assurance functions in the form of our Portfolio Review and risk function, as well as our corporate governance programme and our commitment to Learning and Development – further detail of which is provided under Principle 2.

Clearly defining our purpose, strategy, values and culture, and disseminating and embedding these within UKGI and how we work, helps us to promote effective stewardship and ensures we are a robust organisation, able to adapt to the evolving demands and requirements of our clients. Our culture of collaboration enables our shareholder teams to share best practice, disseminate knowledge and identify

opportunities to improve the governance of our assets. By being open and honest, we are able to identify shortcomings in the services we provide and correct them to ensure that we continue to meet the high standards that we have set ourselves as an organisation. For example, below we provide a case study on the ‘Magnox Inquiry’ outlining how we have proactively enhanced our governance systems.

As detailed on page 20, our strong focus on being supportive and inclusive stems right up to our Board and supports our development of a diverse workforce with a range of specialist skills which are continuously improved, backed by our commitment to learning and development.

### Case Study: Magnox Inquiry

*This case study illustrates how we have proactively enhanced our governance systems.*



In March 2021, the Magnox Inquiry published its final report on the Nuclear Decommissioning Authority’s (“NDA”) award of the Magnox decommissioning contract, including an examination of UKGI’s shareholder role in that procurement, litigation and termination. UKGI participated in the inquiry, and in light of our reflections through that process, we proactively took steps to enhance our governance systems touching on a number of recommendations in the final report, including;

- refreshing our Departmental Memoranda of Understanding to set out in more detail the role UKGI performs as a departmental shareholder representative;
- working proactively with departments and assets to refresh or deliver up-to-date governance arrangements including Framework Documents;
- putting in place specialist information sharing protocols with assets facing material litigation to permit appropriate sharing of legally privileged information;
- working with departments<sup>8</sup> to promote a better understanding of the UKGI shareholder role and its intersection with other asset-focused roles e.g. that of the policy team; and

<sup>8</sup> Published in 2020: “UK government arm’s length bodies: the case for them in specialised delivery and how to optimise their use; a view from practitioners,” available [here](#).

- enhancing our programme of learning and development through external training and internal knowledge-sharing on corporate governance, including between UKGI Shareholder NEDs on issues across the UKGI portfolio.

The final Inquiry report also made additional recommendations on the future of the NDA's governance arrangements and UKGI's role. As the centre of excellence for corporate governance in government we remain committed to continuous improvement and are currently working with the Department for Business, Energy, and Industrial Strategy ("BEIS") to determine our optimal input to the NDA.

## How effective have we been in serving the best interests of our clients?

### Feedback on stewardship role

We assess our performance through feedback from key stakeholders, including permanent secretaries and Chairs of our assets; through measurement against performance metrics; and through a review of achievements against our objectives, which is subject to challenge and endorsement by our Board.

During 2020/21, UKGI has continued to serve the best interests of our clients, providing an active shareholder role across our portfolio. Our teams played a key role in coordinating with our assets and client departments as they managed the impacts of the COVID-19 pandemic, establishing bespoke performance monitoring and governance structures in short timeframes to, in turn, support continued and sustainable delivery by those assets. We expanded our corporate governance and corporate finance skills across our portfolio as we took on the shareholder role for Reclaim Fund Limited, OneWeb and the Government Property Agency. In parallel, we completed our role with the Nuclear Liabilities Fund by successfully implementing the investment policy and delivering the Board succession plan, to then return the asset to BEIS.

The UKGI Chair met with the Chairs of a number of our assets during 2020/21, including (but not limited to) Channel 4, The Royal Mint, the NDA, the National Nuclear Laboratory, HM Land Registry, and BBB. UKGI received uniformly positive feedback from all of these Chairs on the

value added by UKGI and the quality of the UKGI Shareholder NEDs. In addition, meetings were held with the permanent secretaries of HMT, BEIS, DfT, the MoD and the Department for International Trade which were also complimentary of UKGI. Box 1 provides examples of specific feedback we have received. We have also received further endorsement of our role through MPM, as referenced on page 13 under 'UKGI's Stewardship role', as well as in a recent National Audit Office report on ['Central Oversight of Arm's Length bodies'](#).

Alongside performing our shareholder role and corporate governance function, we streamlined our Portfolio Review and reporting processes in response to the pandemic and embedded a lessons learned process for exiting an asset, facilitating continuous learning across UKGI.

### Feedback on broader UKGI activities

Our people have also supported the Vaccine Task Force's commercial negotiations, which has enabled the successful vaccination programme. It is a good illustration of the value UKGI adds, even in unaccustomed roles, that our lead director on the vaccines work was seconded to BEIS at the end of last year, becoming the new director general leading on the entire programme.

Furthermore, during 2020/21, UKGI supported HMT by designing, developing and implementing a successful disposal transaction for part of the government's shareholding in NWG. The transaction achieved value for money for the taxpayer and represented an important step in the government's plan to return to private ownership institutions brought into public ownership as a result of the 2007-2008

financial crisis<sup>9</sup>. In addition, we successfully completed the sale of the government-owned businesses NRAM Limited and Bradford & Bingley plc, also achieving value for money. Additional detail on our approach

to promoting responsible stewardship and how effective we are at meeting our clients' requirements is provided under specific principles throughout this report.

### Box 1: What our clients say about UKGI

Lowri Khan, Director of Financial Stability, HMT:

“We rely greatly on UKGI’s expertise. They have proved exceptionally helpful where there are difficult stewardship issues. Our team at HMT and the UKGI team work very closely together. We particularly value how UKGI’s different expertise complements our own at HMT.”

Stephen Lovegrove, previously Permanent Secretary for MoD:

“UKGI brings an independent view into the heart of the MoD. Its expertise has been invaluable in suggesting solutions to the complex set of issues we face with the governance of our Enabling Organisations, particularly in recommending how we separate the owner and customer functions within MoD.”

National Audit Office:

“[UKGI] has improved government’s performance as owner of public businesses and is producing some real financial gains for the public sector”

## Our future

We will continue to promote UKGI as the centre of excellence in corporate governance and corporate finance across government, maintaining core strategic relationships with our client departments. We will share our expertise in stewardship where we are able, providing input to departments from a practitioner’s perspective (including through the publication of thought leadership pieces, such as our 2020 publication on the optimisation of ALBs).<sup>10</sup> Even where we do not have a direct shareholder role, UKGI is available to departments for advice and expertise across our core activities.

In relation to our stewardship activities, we will continue to evolve to deliver best practice corporate governance in government. As part of this, we review our Target Shareholder Model (further detail on pages 64 and 72) on a regular basis, incorporating learning from our work and evolving with the shifting corporate governance landscape.

We will continuously seek areas for improvement and use the levers at our disposal to promote the long-term sustainable success of our assets. For example, we are preparing to co-host, with BEIS, an Environmental Stewardship

<sup>9</sup> UKGI executed a further sale of part of the government’s shareholding in NWG in May 2021 and subsequently launched a Trading Plan in August 2021.

<sup>10</sup> “UK government arm’s length bodies: the case for them in specialised delivery and how to optimise their use; a view from practitioners,” available [here](#).

Cross-Government Working Group, principally aimed at our portfolio. This will bring together and share best practice across government departments and ALBs in relation to environmental stewardship, with the aim of helping to plan for the delivery of net zero by 2050 or sooner. This is in line with a key priority for 2021/22, to support the government's net zero carbon agenda.

As outlined on page 60, we are committed to developing and agreeing a strategy for how UKGI can effectively embed environmental considerations and standards into our stewardship of our assets and so support our shareholder role and wider delivery of best practice corporate governance. The UKGI Board has endorsed environmental stewardship as a core part of our governance role and have set environmental and net zero-focused KPIs for the portfolio.

# Governance, resources and incentives

## Principle 2: Signatories' governance, workforce, resources and incentives enable them to promote effective stewardship

### Introduction

In this section we cover the following:

- **Our governance:** detail of our governance structure and processes and how these promote effective stewardship, including: Framework Document; shareholder relationship with HM Treasury (“HMT”); and UK Government Investments (“UKGI”) Board and Committees.
- **Our people:** bringing together the powerful combination of both Civil Service and private sector expertise.
- **Learning and Development:** our UKGI learning and development (“L&D”) programme which is an essential part of our commitment to good stewardship.
- **Incentives:** while bound by rules on public sector pay, we have agreed incentive structures with HMT, subject to the available budget, to encourage and reward exceptional performance.
- **Fees:** we are funded by government (primarily HMT) and do not generate profit for our services.

### Our Governance

As the centre of excellence in corporate governance, we understand that the foundation of good stewardship begins with a clear governance framework, our own Board of directors and a specialist skilled workforce. Our internal governance framework provides for review of our policies and assurance of our stewardship activities and processes.

### Our Shareholder Relationship

We are a company wholly owned by HMT. UKGI has a Framework Document with HMT which sets out the broad framework

within which we operate and can be found on our website<sup>11</sup>.

Our Framework Document with HMT outlines UKGI's purpose, objectives, governance and accountability, shareholder relationship, board and committee responsibilities, annual report and accounts process, management and financial responsibilities, and staffing.

Our relationship with our sole shareholder, HMT, is underpinned by the principles of the UK Corporate Governance Code, in so far as is applicable. The UKGI Board is responsible for the day to day running of

<sup>11</sup> [www.ukgi.org.uk](http://www.ukgi.org.uk) (under 'Transparency')

UKGI. Subject to our Framework Document, any decisions taken by the UKGI Board (or any Committee of the Board) are taken in accordance with the directors' statutory, common law and fiduciary duties.

UKGI operates a corporate governance structure that provides a relationship between our Board and HMT which, so far as practicable and in light of the provisions of our Framework Document or as otherwise agreed with HMT, accords with best corporate governance practice.

HMT, in consultation with UKGI, is entitled to reports or other information, on reasonable notice, to enable our performance to be assessed and as part of HMT's broader oversight of UKGI. UKGI regularly reports financial and non-financial performance, including performance in helping to deliver ministers' policies, and the achievement of UKGI's objectives – for example, through Quarterly Shareholder Meetings between UKGI and HMT, and regular engagement between UKGI and its sponsor team in HMT.

### **Our Board**

At UKGI, our Board has oversight of all our shareholder roles, as well as our Portfolio Review and Governance function which is outlined on page 35. On page 20, we describe our Board's Mandate and how it enshrines our culture and values into every decision taken by the Board. The Mandate further outlines the Board's purpose and role and how the Board should discharge its responsibilities. Our Board provides strategic direction and ensures UKGI is equipped to perform its stewardship activities, including having a culture which allows us to execute our strategy, sufficient resourcing and effective arrangements in

place to provide appropriate assurance of our stewardship activities.

The extensive knowledge, dedication and time commitment provided by our Board enables UKGI to be a stable and well-led organisation that is well-placed to support government and promote the effective stewardship of our assets. The UKGI Board membership brings together private and public sector leadership experience, from investment banking, energy and transport, through to the Senior Civil Service. Our Board is comprised of 11 members, including the permanent secretary and second permanent secretary of two of our key stakeholder departments, the Department for Business, Energy and Industrial Strategy (UKGI's largest client department) and HMT (UKGI's shareholder) respectively, operating as ex officio Board members. This arrangement provides an essential line of sight to our Board from the key departments on whose behalf we operate. The remainder of our Board members, non-executive directors ("NEDs") who do not also work in departments, are assigned one or more oversight roles over our assets. These arrangements allow for a deeper insight for our NEDs into the work of the organisation and provide for a more substantial challenge and independent check on the work of management. Our Board meets at least six times per year. The Board receives extensive data allowing it to form judgements. Data received by the Board at each meeting includes, but is not limited to:

- A dashboard providing narrative and quantitative data on each asset within UKGI's portfolio; and
- A 'Risk Heatmap' setting out the risks to delivery and reputation for each of

UKGI's assets. The Board considers the 'Risk Heatmap' at each meeting to ensure its focus is concentrated on the right issues.

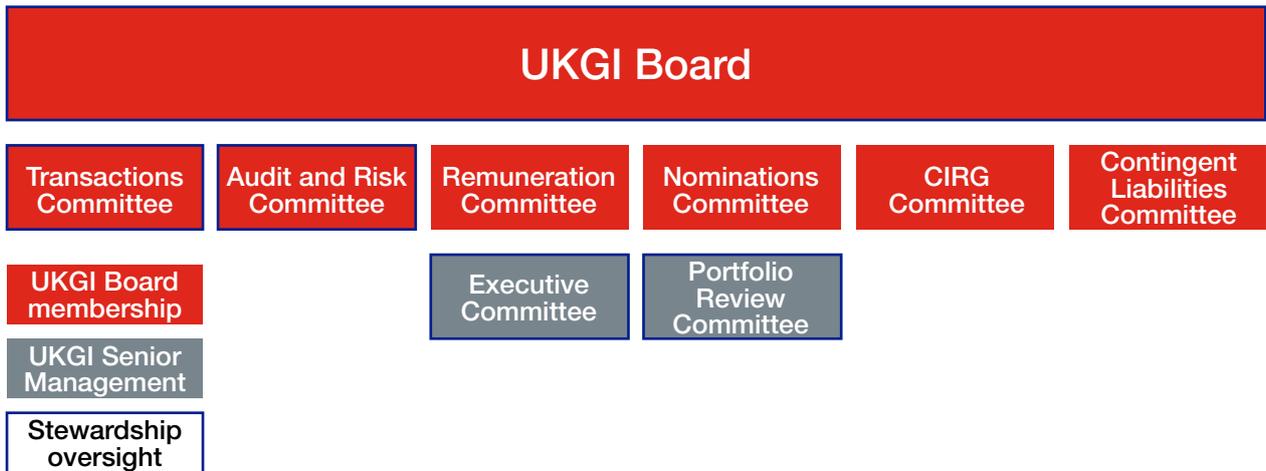
At the start of each financial year, our central Portfolio Review and Governance function sets out our strategy and business plan for our stewardship activities, which is then reviewed and approved by the UKGI Board. This includes resourcing for our shareholder role and provides the Board with oversight across our portfolio of assets. Furthermore, the Board undertakes a performance assessment on our governance activities each year which includes an assessment against our shareholder objectives, informed by feedback from key stakeholders and an assessment of performance against pre-agreed performance indicators for each of our assets; the Board also challenges shareholder teams annually to evidence where they have made a difference and added value. The Board commissions lessons learned exercises in relation to elements of our stewardship activities and ensures the outcomes are embedded across UKGI.

The UKGI Board agendas are driven by management's risk assessment, which itself is reviewed at each Board meeting. Any project with the highest risk rating must update the Board at each meeting, and there are periodic deep dives into those projects which retain the highest risk rating for multiple reporting periods. This is agreed by the Board in the process of updating its forward look, which is agreed at the end of each meeting, and which outlines the agenda for the next two to three meetings. The Audit and Risk Committee ("ARC") has delegated responsibility for satisfying itself that management's systems and processes for identifying, reporting and managing risks are robust.

For further detail on our Board and their experience, please refer to our [Annual Report and Accounts](#).

**Our Committees**

**Figure 4: Board and Executive oversight of stewardship activities**



To provide further oversight of our stewardship activities, our Board is supported by the ARC and the Transactions Committee, in addition to our Executive Committee (see figure 4).

**Audit and Risk Committee  
(Board Committee)**

The ARC’s purpose is to provide oversight and advice to the Board for financial reporting, external and internal audit, internal control and risk, and compliance in relation to UKGI. As an organisation whose role is to act as an agent for ministers and government departments, the key risks UKGI must manage are those which arise as a consequence of discharging its mandate. UKGI seeks to achieve its objectives while eliminating, or minimising, all risk including operational, execution and reputational risks. Risk is monitored and controlled on a regular basis.

**Remuneration Committee  
(Board Committee)**

The responsibility of the Remuneration committee centres on approving the pay of director level staff, and overall approval of the performance-related pay award. In respect of performance related pay, the

focus of the Remuneration Committee this year has been on the need to ensure the efforts of the people at UKGI have been properly recognised, whilst having due regard to the wider context of the pandemic. The Remuneration Committee has given particular consideration to the varying circumstances which our diverse set of employees have experienced over the course of the pandemic. This has resulted in a minor modification to the performance related pay framework, without diluting its commitment to reward excellence.

**Nominations Committee  
(Board Committee)**

The responsibility of the Nominations Committee is to regularly review the structure, size and composition of the Board and make recommendations to the Board with regard to any changes necessary. The Committee periodically reviews the membership and chairmanship of the Board and its Committees. The Committee considers succession planning for executive and non-executive Board members, taking into account the skills and expertise which will be needed by the company in the future. Whilst the appointments of the Chair and the Chief Executive will be made by HMT,

the committee remains responsible for ensuring succession planning for the Chair, Chief Executive and NEDs is frequently discussed and where appropriate making recommendations to the Board or, where appropriate, to HMT.

### **Transactions Committee (Board Committee)**

The role of the Transactions Committee is to oversee the preparation and execution of transactions where UKGI provides advice to ministers and accounting officers, and to oversee the stewardship of certain assets which the government has determined it has no policy reason to retain. The Transactions

Committee currently provides oversight for NatWest Group plc (“NWG”) and UK Asset Resolution Limited (“UKAR”). For the remaining assets in our portfolio, oversight is provided directly by the UKGI Board.

Further detail on the composition of the Transactions Committee can be found in the case study below.

### **The COVID Interventions Resolution Group (“CIRG”) (Board Committee)**

A description of the roles and responsibilities of the CIRG Committee can be found on page 54.

## **Case Study: The Transactions Committee’s stewardship role**



*This case study is provided as an example of how our governance structure provides oversight of the stewardship of assets that the government has committed to returning to private ownership.*

The government intervened in the Royal Bank of Scotland (now NatWest Group plc (“NWG”)) in 2008-09 to protect the financial stability of the UK economy – not to make a profit. With that objective achieved, HMT has committed to continuing the process of returning the shareholding to private ownership when market conditions allow and when it represents value for money to do so. At the Budget on 3 March 2021, the Chancellor of the Exchequer reaffirmed this intention with the programme of sales expected to be completed by 2025/26.

The UKGI Financial Institutions Group (“FIG”) is responsible for managing the government’s NWG shareholding and disposal programme on behalf of HMT. In line with Principle 2 of the Code, UKGI’s shareholder role for NWG is guided by two key documents in place between UKGI and HMT, which are available on UKGI’s website:

1. the Framework Document between UKGI and HMT, which sets out the objectives for UKGI as a whole and the broad framework within which UKGI will pursue them. The Framework Document sets out that, with respect to government shareholdings in UK financial institutions, such as NWG, UKGI should manage the NWG shareholding commercially with a view to achieving an exit from the shareholding in an orderly and active way, to protect and enhance value for the taxpayer; and

2. the Memorandum of Understanding drawn up between UKGI and HMT relating to the management by UKGI of NWG (“the Government Shareholdings MoU”) describes the scope of UKGI’s decision-making responsibilities and the extent to which decisions require the prior approval of HMT before being taken or implemented. It also makes clear that UKGI will not intervene in the day-to-day management decisions of NWG and that UKGI should follow best institutional shareholder practice in managing the investment (including compliance with the Financial Reporting Council’s Stewardship Code).

Given the nature of UKGI’s mandate for NWG, the FIG team spends a significant proportion of time focusing on stewardship duties, which are carried out by our staff. The expertise necessary to design, develop and implement government asset sales, and undertake stewardship activities, does not exist wholly within government, nor wholly within the private sector. These activities require a blend of Civil Service knowledge and corporate finance skills to ensure due consideration is given to the government context whilst achieving value for money for the taxpayer. In line with the wider organisation’s composition, the FIG team consists of individuals from both a public and private sector background. To support our internal expertise, UKGI will, from time to time, procure advisers to provide specialist advice, for example, investment banks and commercial lawyers when working on a share sale.

The UKGI Transactions Committee is responsible for determining advice to HMT and ministers on the stewardship, and preparation and execution of disposal strategies, of NWG. The UKGI Deputy Chair is the Chair of the Transactions Committee with the Committee further comprising of the Chair of the UKGI Board, the CEO of UKGI, the Director of the FIG team in UKGI and at least three additional independent non-executive directors of the UKGI Board. The Committee convenes monthly with update calls taking place approximately two weeks after each meeting, unless otherwise determined by the Chair of the Committee. Further ad-hoc meetings may be called subject to the requirements of specific transactions and stewardship activities. To ensure the UKGI Board is kept up to date on the stewardship of NWG and other activities of the Transactions Committee, the Chair provides an update to the Board as a standing item on each UKGI Board agenda.

Our governance processes around NWG have enabled UKGI to effectively support HMT to execute successful disposal transactions that achieved value for money for the taxpayer. Further detail can be found on page 49. On page 66 under Principle 5, we provide examples of the stewardship activities that the Transactions Committee has oversight of in relation to NWG.

### **Executive Committee (Senior Management Committee)**

The Executive Committee is responsible for the day to day running of UKGI. It comprises the UKGI Chief Executive, and UKGI senior management including the Chief Financial Officer, General Counsel and Chief Operating Officer. The Executive Committee meets weekly to discuss UKGI business, including the stewardship of our assets. This process of regular review and challenge by UKGI executives ensures that the information provided to the Board and its committees is up-to-date and reliable. This in turn enables the UKGI directors to carry out their duties effectively in supporting our clients.

The Chief Executive is also accounting officer under Managing Public Money, and so is responsible for maintaining a sound system of internal controls which supports the achievement of UKGI's objectives whilst safeguarding public funds and our assets, in accordance with the responsibilities assigned to him in terms of Parliamentary accountability. Please see case study below for a description of the role of the accounting officer and how the responsibilities imposed on the accounting officer promote effective stewardship throughout UKGI.

#### **Case Study: Accounting Officer Role and Responsibility**

UKGI's Chief Executive acts as accounting officer for UKGI and is personally responsible for safeguarding the public funds for which they have charge; for ensuring regularity, propriety, value for money and feasibility in the handling of those public funds; and for the day-to-day operations and management of UKGI. As accounting officer, the Chief Executive ensures that UKGI 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 Managing Public Money ("MPM") which can be found [here](#).

Central to this role is confirming whether proposals are good value for money for the Exchequer as a whole, which includes taking into consideration wider value impacts, such as financial stability. This responsibility flows down into the wider organisation as UKGI staff are required to consider the value for money implications in undertaking our shareholder role in line with HMT's MPM.

The role of accounting officer also brings greater accountability and transparency to UKGI, and the work undertaken by our staff. Our Chief Executive has specific responsibilities to account to Parliament, which can include giving evidence to Parliamentary Committees on the stewardship of our assets and public funds, which therefore provides an additional channel through which our stewardship activities are independently reviewed.

### **Portfolio Review Panels (Senior Management Panels)**

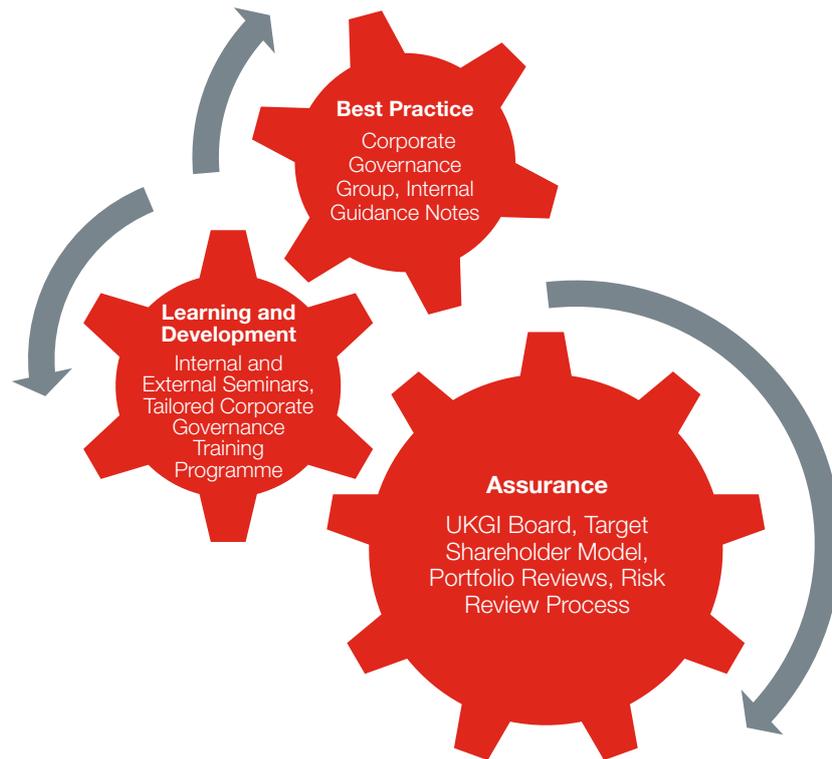
The UKGI Head of Portfolio Review and Governance has responsibility for the ongoing review of the health and performance of the UKGI portfolio. This review on an individual asset basis is principally undertaken via the UKGI Portfolio Review process. This consists of a review (at least semi-annually for each asset) of the performance of an asset, and any key issues arising, by a group of UKGI directors and senior managers from across the organisation, who form Portfolio Review panels. UKGI Board members sometimes attend these review meetings.

UKGI Portfolio Review panels are used to provide internal peer review to shareholder teams on the performance of their role, as well as to assess consistency of stewardship and share best practice across our portfolio. In addition to the regular Portfolio Review cycle, Portfolio Review panels may also be consulted where shareholder teams wish to test the following types of activity:

- advice likely to lead to real financial consequences for the ALB/department (e.g. new equity funding);
- advice which is expected to be controversial (e.g. recommending against a course of action favoured by the client department);
- advice with significant reputational risk for UKGI (e.g. very high public interest, for instance the removal of a high profile staff member on UKGI advice);
- approach to external enquiries (e.g. NAO, independent inquiries); or
- any other advice the asset team judges to be sufficiently material to merit panel challenge and discussion.

The Portfolio Review process is designed to provide quality control to identify and escalate issues from shareholder teams to our Executive Committee and the UKGI Board (including its Audit and Risk Committee), in addition to facilitating the sharing of experience across our organisation and providing guidance, support and appropriate challenge to shareholder teams. As part of a feedback and improvement loop, we promote information sharing between assets, share best practice and identify and advise on issues emergent within individual assets. For example, our shareholder teams carry out lessons learned exercises on our assets and disseminate those lessons across UKGI. The Portfolio Review process is additionally a mechanism to test that those lessons are being embedded by our shareholder teams across our portfolio.

Portfolio Reviews provide assurance to shareholder teams on behalf of UKGI, but responsibility for specific governance decisions within each asset remains with individual UKGI asset teams.

**Figure 5: How we challenge and support our UKGI shareholder teams.**

## Our people

### Deep specialist expertise

At UKGI, we bring together the powerful combination of both Civil Service and private sector expertise. Our people are highly skilled professionals drawn from a range of backgrounds, including, but not limited to: banking, accountancy, insolvency and restructuring, actuarial, and legal, as well as the Civil Service. As of 31 March 2021, we had 141 experts (124 full-time equivalent) with deep specialist expertise in corporate governance, asset realisations, corporate finance and government. UKGI shareholder teams are resourced according to the skillsets and experience required to best serve our clients and assets, sometimes drawing from colleagues across the organisation, rather than from within particular teams. In-house, we have the specialist commercial knowledge, expertise and credibility to give, understand and challenge advice on the

use, disposal and maintenance of taxpayer-owned capital and assets, combined with Civil Service skills in understanding government policy intentions, approval processes and effectively working within government. We are able to bring deep specialist expertise in applying private sector governance disciplines to a government setting, particularly at the challenging interface where the more complex or commercial ALBs typically operate. An example of this blend of private and public sector expertise can be seen in figure 6.

Our programme of secondments from government departments and private sector businesses enables us to keep our technical knowledge current and allows us to continue to learn from others. These carefully fostered relationships are vital to our shareholder role, as they mean UKGI

is able to access a vast range of expertise, at short notice and at good value to the taxpayer.

By bringing together individuals from the public and private sectors, we can provide high quality advice in undertaking our shareholder role to government departments.

**Senior and experienced resource**

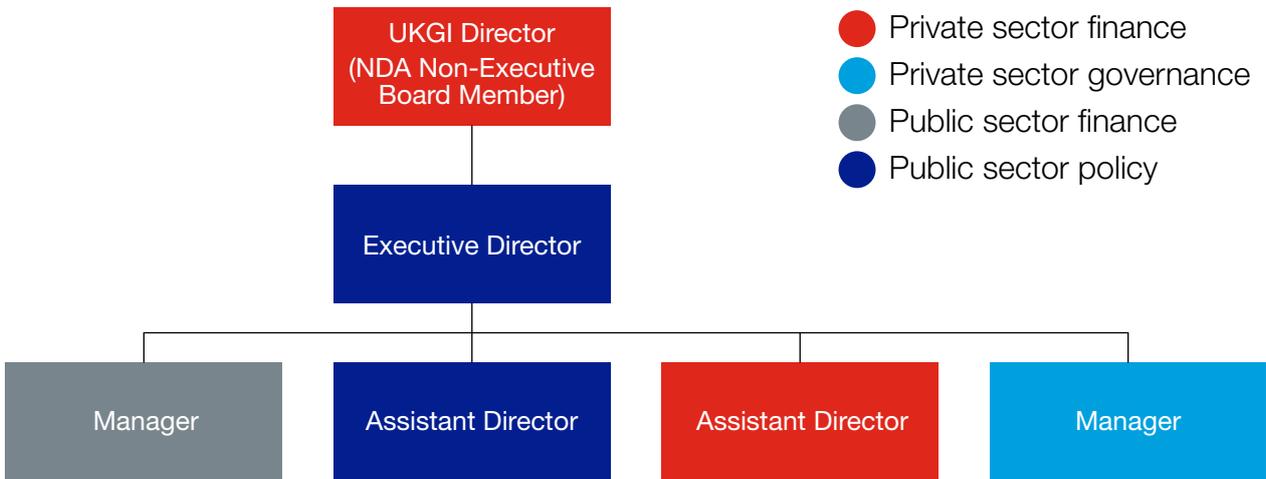
In comparison to most parts of government, we have a higher ratio of senior to junior staff and greater longevity in asset teams. Our senior resourcing mix includes our Chief Executive, 9 Directors, 25+ Executive Directors and 35+ Assistant Directors.

Our staff include individuals who are Board-experienced in public and private sector organisations.

UKGI can mobilise swift and targeted assistance to our clients both on ad hoc items as they arise, as well as longer term shareholder roles. Our ability to rapidly deploy expert resource at sufficiently senior levels to address the needs of our clients is key to our shareholder model, corporate structure, and our values. Furthermore, UKGI’s shareholder model assumes and encourages staff in shareholder teams to spend time building expertise and relationships, enabling effective stewardship through leveraging our corporate memory.

**Figure 6: Nuclear Decommissioning Authority shareholder team**

This diagram provides an example of a shareholder team in UKGI and the mix of appropriate seniority and expertise.



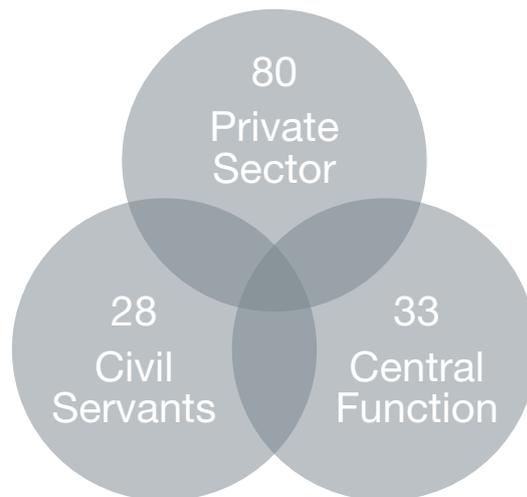
### Our Corporate Governance team

UKGI has a Corporate Governance team dedicated to driving UKGI as the centre of excellence in corporate governance in government. The Corporate Governance team creates and maintains high quality and consistent know-how infrastructure for our shareholder teams to support high performing stewardship activities across our portfolio, and the sharing of best practice across government.

The Corporate Governance team is responsible for:

- Supporting continuous improvement in the execution of our shareholder roles, through running UKGI's corporate governance L&D programme for our shareholder teams and NEDs; producing internal guidance on an ongoing basis; providing induction for new joiners; and carrying out an annual skills analysis of UKGI skills and capabilities across our shareholder teams to inform resourcing and training decisions;
- Forming and informing new 'house views' on key corporate and government governance issues;
- Ensuring sharing of best practice across UKGI shareholder teams through frequent internal specialist groups, and internal and external events. Over the previous year, internal discussions have included environmental matters in governance; principles of remuneration; pay challenges for 2021; and performance measurement across assets;
- Promoting shareholder best practice across Whitehall in relation to government-owned organisations; and

**Figure 7: UKGI resource by background<sup>12</sup>**



- Managing the establishment and execution of strategic projects for new areas and best practice in corporate governance – over the previous year, the Corporate Governance team ran dedicated events including: Environmental Considerations in Governance (see further detail below); Purpose & Culture in governance; and Measurement of Public Value Benefits.

### Learning and Development

L&D is and will continue to be an essential part of our commitment to good stewardship and to continuous improvement in this area. We have invested significantly in the training programmes on offer and created multiple new programmes and courses to ensure that colleagues continue to grow their technical corporate finance and governance expertise in addition to developing the skills necessary to apply that expertise effectively in a government context. Our L&D offering caters to both private and public sector: colleagues from a private sector background are able to develop a deep understanding of government finance and governance

<sup>12</sup> Figures correct as of 31 March 2021.

frameworks, whilst those from a Civil Service background can gain skills and expertise in corporate finance, governance and commercial practice. This in turn promotes effective stewardship by enabling colleagues at all levels to support and strengthen the ability of our clients to fulfil their function as owners of our assets.

In 2020, we asked all members of staff to undertake at least 16 hours of continuous professional development across the reporting year. We offered over 70 courses and seminars covering various topics including corporate finance, governance, well-being and self-development. In addition to sharing best practice with our clients and our assets, we readily share expertise and best practice among our own shareholder teams as part of our commitment to continuous improvement. For corporate governance in particular, we delivered 1,100 hours of training to our staff on a range of topics. These included courses or seminars on, but not limited to:

- succession planning;
- going concern reviews;
- public bodies reform;
- risk in the boardroom;
- role of the director and the board;
- environmental considerations in governance;
- insights and trends in pay and remuneration; and
- accountability and governance of ALBs.

Further, to influence and support our clients, we open up some of our training to colleagues from across government, including our client departments. We also provide specific training, resources and

personal development to support and upskill staff who also act as non-executive directors (“UKGI Shareholder NEDs”). We have increased our standards by mandating completion of two professional development courses and are considering the next phase of our UKGI Shareholder NED training.

Many individuals who have spent time working in UKGI take those experiences and learnings into their future role, whether this is across the Civil Service, or out of government entirely (as chairs of FTSE100 companies, for example). Within public service, we can count among our alumni two permanent secretaries, six directors general, two chairs and one chief executive of major government ALBs, as well as the current National Security Adviser and Director General of the Security Service (MI5). UKGI has also recently established an alumni network to maintain links and share experiences between its current and past employees.

In addition, we have introduced a range of personal development tools and awareness training over the previous year. One such tool is the ‘Predictive Index’, a behavioural tool to help people recognise the diversity of behaviours of individuals. Having been used by over 100 of our employees, this tool helps us to support our clients more effectively by promoting innovation and diversity of thought across our teams. Further detail can be found in the case study below.

## Case Study: The Predictive Index

Predictive Index helps us to maintain the UKGI culture of personal awareness and thoughtfulness. It provides people with an insight into what truly drives them.

Completion of a short questionnaire produces a profile based on four factors identifying an individual's drive to: exert influence over people and events; socially interact with people; have consistency and stability; and to conform to rules and structure. The profile is then viewed from three different perspectives: an individual's usual behaviours; how they feel they should behave in their current role; and how they would usually behave in a work environment.

This information makes people aware of not only their own behaviours but the diversity of behaviour throughout the organisation. Additional information provided to all those who undertake the questionnaire provides people with the strengths of their behaviours as well as the potential drawbacks. It also provides some self-coaching tips which employees are encouraged to discuss with their manager and the UKGI L&D manager from a development perspective.

## Incentives

As a public body UKGI is bound by rules on public sector pay, within which we have agreed a framework with our shareholder, HMT. We are able to incentivise permanent employees through a performance-related pay scheme (up to 20% of base salary) which recognises exceptional organisational and individual performance, subject to the available budget.

To reach performance ratings, we emphasise rigorous objective-setting consistent across grades; expect line managers to collect 360-degree feedback for individuals, both from within the organisation and from clients and stakeholders; and have full, frank performance discussions at least twice a year, before moderating performance ratings in organisation-wide forums. A component of organisation-wide performance is related to the performance of our stewardship activities, and performance ratings of

individuals in shareholder teams are related to their performance in that team.

Individuals on secondment to UKGI are paid according to their home organisation's pay bands and terms and conditions.

We also have an in-year peer reward scheme, for both permanent staff and individuals on secondment, where colleagues can nominate others in recognition of significant success or effort, either as a team or individually on specific projects or activities beyond their day-to-day remit.

We seek to remunerate our colleagues at a level which allows us to attract and retain talent while achieving value for money for our shareholder.

## Fees

UKGI is funded by HMT under section 36 of the Enterprise Act 2016. To date, UKGI has not charged client departments or assets for its services. The current intention is to

commence charging a fixed annual fee for shareholder services to client departments (other than UKGI's parent department, HMT, which already provides UKGI with its wider budget) from 1 April 2022. Such charges would represent a contribution to the cost of providing these services and would not generate a profit. UKGI's funding agreement for 2020/21 and its anticipated funding in 2021/22 is set out in our [Annual Report and Accounts](#).

UKGI may recharge for specific costs incurred on behalf of another department, either via budget transfers or invoicing. During this financial year UKGI received budget transfers from the Department for Transport, Department for Education, and the Ministry of Defence. These transfers were made through HMT and the transfers form part of the total UKGI budget.

### How we can improve

Our strong culture is one of continuous improvement in the services we provide for our clients and the way we execute our roles. Our close working relationships with the client policy teams responsible for our assets and regular client meetings, outlined under Principle 5, are central to ensuring that we take onboard our clients' feedback. Our Corporate Governance team considers feedback from our client departments, assets and our shareholder teams, incorporating this into the wider corporate governance programme, including guidance notes and seminars which are then disseminated across UKGI.

Like all public bodies, UKGI is subject to intense scrutiny. As an organisation that strives for excellence in the performance of its role, we welcome this scrutiny, which complements our internal processes of

assurance and risk management. We also take the opportunity to learn from it.

As part of commitment to continuous improvement we have hosted events intended to encourage UKGI colleagues to reflect on the lessons we have learnt as an organisation in the performance of our shareholder role. For example, as a result of our co-operation with the Magnox Inquiry and their findings, we have been provided with the opportunity to refine our shareholder role further, including implementing activities highlighted at page 23 and organising bespoke internal training sessions on the division of responsibilities between UKGI and sponsor departments.

UKGI is ensuring that it is providing every possible assistance to the Post Office Horizon IT Inquiry and that, where there are lessons to be learned relevant to UKGI's shareholder role, we will learn and act upon them.

In 2020/21 we invested in resource to support increased effectiveness across all of our work – by recruiting to and establishing a dedicated Project Management Office, with a staff of four. We also bought in a new resource and portfolio management tool, Retain, which gives us immediate, greater visibility across the organisation's resourcing picture and supports quick identification and allocation of resource by, for example, enabling every member of staff to see resource allocations across the whole of the organisation, see which projects are upcoming and new, and maintain their own skills profile.

# Conflicts of interest

## Principle 3: Signatories identify and manage conflicts of interest and put the best interests of clients first

### Introduction

In this section we include an explanation of how our Code of Conduct, which includes our policies around conflicts of interest, serves to minimise and avoid conflicts of interest to ensure the interests of our client departments are protected.

UK Government Investments (“UKGI”) does not generate a profit for its services, with our budget set by HM Treasury (“HMT”) and any additional costs met by the specific departments on whose behalf we have incurred them. We do not trade actively in securities. In this regard, many of those conflicts of interest which need to be managed by the private sector and asset managers/owners in particular do not arise from our day-to-day activities.

### UKGI’s Code of Conduct

Our success as an organisation depends on our reputation for inhabiting the standards of public life adhered to across the public sector.

We have a Code of Conduct which sets the framework for how we work and the overarching principles we expect staff to abide by (which are based on the ‘[Seven Principles of Public Life](#)’ (known as the ‘Nolan Principles’)): integrity, honesty, objectivity, impartiality, compliance with law and professional standards, respect, protecting UKGI’s interests and managing conflicts of interest. Our Code of Conduct brings to life UKGI’s values (as referred to under Principle 1) by setting out the responsibilities, duties and expected behaviours of all of our staff.

There are also a number of high-level central government codes of conduct and guidance which outline the principles and expected behaviour for civil servants, board members and accounting officers, including on how to manage conflicts of interest. While these

codes are not directly applicable to UKGI in their entirety, they do set some of the guiding principles which underpin our Code of Conduct. For example, the:

- [Civil Service Code](#);
- [Cabinet Office’s Civil Service Management Code](#);
- HMT’s [Managing Public Money](#); and
- HMT’s [Corporate Governance Code for Central Government Departments](#).

All of our staff are required to comply with the Code of Conduct under their contract of employment and UKGI takes non-compliance with the Code of Conduct very seriously; the Board regularly considers compliance as part of its monitoring responsibilities. UKGI also requires all staff (including the members of our Board) to declare on an annual basis their understanding of, and compliance with, our Code of Conduct.

## Conflicts of Interest

Given our role, it is incumbent on us to ensure that the interests of our client departments, assets or other organisations that we work with are not damaged by any conflicts of interest inherent within UKGI or arising between UKGI, or its staff, and those organisations. Our Code of Conduct therefore includes guidance and well-defined procedures for avoiding, identifying, disclosing, reporting and managing conflicts of interest, which we have summarised below.

### Avoid

Under our Code of Conduct, all of our staff are subject to policies and guidance relating to personal account dealings in shares/ financial instruments, outside appointments, employment or political interests and the acceptance of gifts or hospitality, to prevent conflicts of interest arising. In addition, staff are required to seek to avoid any circumstance that would give rise to an actual, potential or perceived conflict of interest, taking into account our values, expected behaviours and the position of trust that staff hold as public servants. This includes avoiding any situation where:

- a conflict of interest may compromise or otherwise call into question their judgement, ability to act objectively or properly discharge their duties and responsibilities owed to UKGI;
- a conflict of interest may give rise to the risk of reputational damage to UKGI including the risk of the appearance of impropriety around having obtained an improper advantage or treatment; and/or
- a staff member exploits, reasonably appears to exploit, or allows themselves

to be exploited by any personal relationship with organisations that UKGI works with, any financial interests in those organisations or any outside or political interests.

### Identify and Disclose

Our Code of Conduct includes detailed guidance around the types of conflicts of interest that may arise; for example, as noted above, with respect to outside and political interests that staff may hold or wish to take up, dealing in financial instruments on their own account and the acceptance of gifts and hospitality. Where a potential conflict of interest does arise, staff are expected to identify (in consultation with senior managers where relevant) and disclose that conflict to UKGI's Compliance Team as soon as they become aware of it and regardless of whether there is the potential for monetary loss or gain.

### Report

On joining UKGI, we require staff to declare certain personal relationships (for example, with anyone working at one of our assets or for a firm seeking to supply services to UKGI), financial interests (for example, holding shares in a company in respect of which we hold sensitive information or in one of the assets in our portfolio) and other interests (for example, directorships) or circumstances which may result in an actual, potential or perceived conflict of interest. Board members must also, upon joining the Board, declare any of the above relationships or interests.

We also require all staff to refresh these declarations annually and to report any potential conflicts on an ongoing basis.

UKGI maintains a Declaration of Interests Register which records the declared personal relationships, outside interests, relevant financial investments and material financial relationships of all staff. The purpose of the Declaration of Interests Register is to act as a control to ensure that any such relationships or interests that could give rise to a conflict of interest have been declared in order that UKGI can manage such conflict of interest appropriately.

### Manage

Where a potential conflict of interest arises UKGI will:

- manage conflicts of interest appropriately, especially where there is a material risk of damage to UKGI's reputation or the reputation of our client departments, assets or other organisations that we work with;
- resolve conflicts of interest in a manner that is in, or not opposed to, the best interests of UKGI (or our client departments, where those interests are not one and the same);
- manage conflicts of interest whilst recognising that staff may have interests and affiliations beyond their work for UKGI; and
- enable staff to report any concerns regarding conflicts of interest through UKGI's whistleblowing procedures.

Agreed measures to mitigate or remove the conflict of interest are recorded on the Declaration of Interests Register.

By way of example of the types of conflict of interest scenarios that may arise within UKGI and the corresponding mitigation measures that have, or could, be used:

- **Conflicts between UKGI Shareholder non-executive director's ("UKGI Shareholder NED") duties to the asset and responsibilities as a representative of government:**
  - *Conflict:* occasionally, conflicts may arise between the duties that our UKGI Shareholder NEDs owe to the asset on which they sit on the Board and their broader responsibilities as government representatives i.e. when the interests of the asset and of government are not aligned.
  - *Mitigation:* a variety of tools can be used to manage such conflicts, including (but not limited to) the UKGI Shareholder NED recusing themselves from any vote in respect of which a conflict may have arisen.
- **External appointments of UKGI's Board or Executive Committee:**
  - *Conflict:* members of our Board or Executive Committee may from time to time take on external appointments, for example directorships of companies. In certain circumstances, for instance where the company on which they are a director is a major participant in the same sector as one of our portfolio assets, there is the potential for a conflict to arise if information is received through their role at UKGI which may be pertinent to the company on which they are a director.

- *Mitigation*: a key measure in circumstances such as this would be both limiting the disclosure of information to the relevant member of the Board or Executive Committee (which, depending on the materiality and possible impact could include a written protocol around information sharing) and potentially, asking them to recuse themselves from certain agenda items to avoid even the perception of possible conflict.
- **Staff with interests in organisations with a direct or indirect relationship with UKGI:**
  - *Conflict*: where a member of staff has an interest in an organisation (for example, a close personal relationship or a financial interest such as shares in that organisation) that, for example, provides external advisory services to UKGI (such as a bank providing corporate finance advice), there is the potential for a conflict of interest or the perception of a conflict.
  - *Mitigation*: the measures which UKGI may employ in this circumstance may be to, for example, ask that member of staff to recuse themselves from any procurement decisions where that organisation is tendering, or restricting them from working on certain projects within UKGI or with certain assets.

During 2020/21, we reviewed and updated our Code of Conduct to make the provisions around conflicts of interest more comprehensive and robust, enabling staff to better understand how to avoid and spot potential conflicts and provided more detailed guidance around the process for declaring interests.

# Responding to risk and promoting a well-functioning financial system

## **Principle 4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system**

### **Introduction**

UK Government Investment's ("UKGI") asset portfolio is mainly comprised of private companies wholly owned and funded by the UK government. UKGI's direct interactions with the financial system are rare and principally relate to our disposal programme for NatWest Group plc ("NWG") and UK Asset Resolution ("UKAR"). However, a number of our assets are themselves involved in financial markets in other significant ways, for example the British Business Bank ("BBB"), UK Infrastructure Bank ("UKIB") and UK Export Finance ("UKEF"). In addition, our wider obligations under Managing Public Money require us to always consider if our proposals are good value for money for the Exchequer as a whole, which includes taking into consideration wider value impacts, such as that on the financial system.

Under this Principle we provide examples of our governance of BBB and our role working with UKEF, demonstrating our contribution to the maintenance of orderly markets through their activities. In addition, although not directly related to our shareholder role, our role advising on all major UK government corporate finance matters and executing sales for all significant UKGI government assets further demonstrates how we respond to market-wide and systemic risk to promote a well-functioning financial system: we hire people with specific, deep commercial and finance expertise to work on these areas of our remit, and their knowledge and experience is available as a resource to our shareholder teams, ultimately contributing to achieving value for money for the taxpayer.

### **How we identify risk**

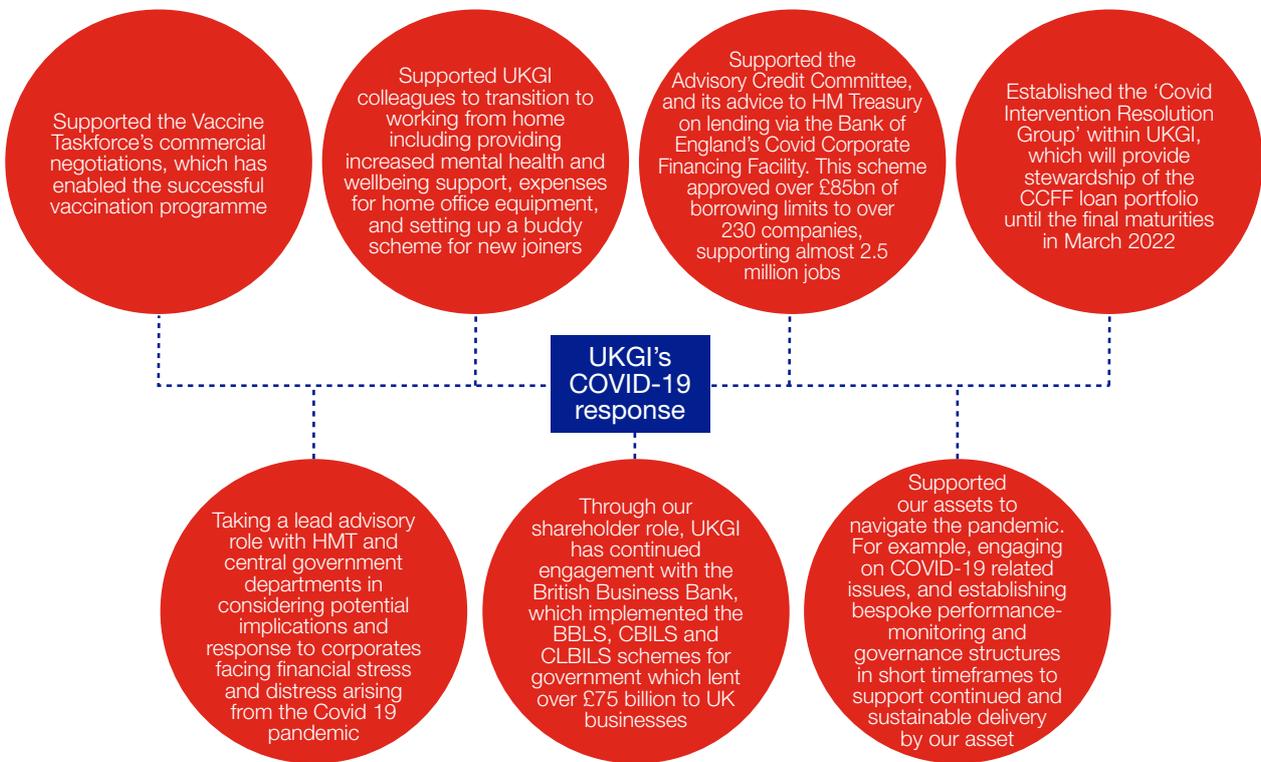
We both identify and respond to market-wide and systemic risk through a robust and frequent 'Risk Review' process reporting up to UKGI Board level which provides consistent and detailed oversight over our portfolio. Whilst this process principally identifies and analyses asset-specific risks, given the strategic importance of our

assets and the sectors within which they operate, this can also include consideration of market-wide and systemic risks which could lead to a significant impact on our assets' ability to achieve their policy objectives, or which could impact the wider market. Our risk processes have been updated to adhere to the latest (2020) version of the government's Orange Book

in Risk Management<sup>13</sup> reflecting increased emphasis on:

- i. leadership, culture, values and behaviours as a part of effective risk management;
- ii. embedding risk management in decision-making – within planning, policy development, prioritisation and performance management – not as something separate;
- iii. the need to have an informed view of all risks based on the best information and expertise, including the critical role that functions and professions play in providing expert judgements on risks and their management; and
- iv. learning from experience to continually improve the successful delivery of outcomes.

**Figure 8: Our response to the coronavirus pandemic**



When there are market-wide and systemic risks to the financial system, UKGI is called upon from across government to deploy our specialist corporate finance and governance expertise and provide advice to government departments and our assets. In this section, we discuss our shareholder response to the coronavirus (“COVID-19”) pandemic and

how we worked with our assets to navigate the pandemic and support the delivery of our client departments’ policies.

At the beginning of the pandemic, the focus of many of our assets immediately shifted from the longer-term policy objectives with which they were tasked, to the shorter-term

13 The Orange Book was produced by the Government Finance Function. It sets out the main principles underlying effective risk management in all government departments and arm’s length public bodies with responsibility derived from central government for public funds.

management of their workforce, supply chain, and in certain key instances, being a part of the wider government pandemic response. UKGI also responded to refocus our efforts from day-to-day corporate governance oversight and performance management, to targeted support and dialogue with assets and departments to respond to the pandemic.

Our teams worked closely with our client departments and our assets to navigate the pandemic, providing strategic advice to our client departments, engaging with assets on COVID-19 related issues, and establishing bespoke performance monitoring and governance structures in short timeframes to support continued and sustainable delivery by our assets. Further, in response to the increased risk environment as a result of the pandemic, we developed a specific 'Risk Assessment Tracker' to track the pandemic-associated risks to each of our assets. Those assets with materially increased risks were then subject to additional Portfolio Reviews, outside of the regular cycle of Portfolio Reviews discussed on page 35. In addition, our Audit and Risk Committee ("ARC") supported UKGI in managing the increased risk from the expansion of UKGI's scope and size due to the COVID-19 economic response measures, conducted reviews of Risk Registers and mitigation plans around key business areas, and agreed an enhanced risk management process for certain non-core workstreams/projects.

In addition, though not directly related to our stewardship activities (deriving from our shareholder role) in the context of the UK Stewardship Code ("the Code"), our wider UKGI services respond to market-wide and systemic risk, by advising on all major UK government corporate finance matters and executing sales for all significant UK government assets. As part of this, the Financial Institutions Group also provides general input to the Financial Stability Group in HM Treasury ("HMT") from its wider market engagement as and when required, for example on performance and trends in the banking sector. UKGI supported the government in mitigating the impacts of the pandemic on the UK economy and financial system through these services.

## Case Study: NatWest Group



*This case study is provided as an example of how UKGI responded to the systemic risk caused by the pandemic in relation to asset disposals.*

The government intervened in the Royal Bank of Scotland (now NatWest Group plc, “NWG”) in 2008-09 to protect the financial stability of the UK economy, not to make a profit. With that objective achieved, HMT has committed to continuing the process of returning the shareholding to private ownership when conditions allow and when it represents value for money to do so. As detailed in our case study on page 32, UKGI is responsible for managing the government’s shareholding in NWG on behalf of HMT.

The considerable economic impact and uncertainty caused by COVID-19 impacted global financial markets significantly throughout 2020. UKGI responded to the market disruption risks posed by the pandemic, advising our client (HMT) on transaction options, including monitoring market conditions. As part of our stewardship role, the UKGI Financial Institutions Group (“FIG”) team engaged with NWG on adapting to COVID-19, customer and employee experiences, and the impact of government support schemes, alongside other topics of interest. The team continued to monitor the financial performance of the firm, including capital and liquidity levels which remained very strong throughout the pandemic. As the situation eased, the FIG team with its external advisers undertook a careful assessment of when to re-start the disposal programme, engaging with a range of market participants to help inform this. Throughout this process, UKGI remained in regular communication with HMT as NWG’s shareholder.

When market conditions allowed for a transaction to be executed in an orderly and active way whilst achieving value for money for the taxpayer, UKGI executed a successful disposal of approximately £1.1 billion worth of NWG shares on behalf of HMT. The disposal was by way of a Directed Buyback (“DBB”) transaction in March 2021.

The innovative structure represented the first off-market share sale directly to NWG that has been undertaken by the government. It highlighted the capacity for capital returns underpinning NWG’s equity story. The transaction was positively received by the market as intended, setting the foundations for further disposals that achieve value for money for the taxpayer, by signalling to the market HMT’s ability and willingness to restart the disposal programme. The sale represented an important step in the government’s plan to return institutions brought into public ownership as a result of the 2007-2008 financial crisis to private ownership<sup>14</sup>.

14 UKGI executed a further sale of approximately 5% of NWG via an Accelerated Bookbuild (“ABB”) transaction in May 2021; a competitive market facing process that involves selling shares to institutional investors. The ABB continued the sales programme with a meaningful but appropriately sized sale which achieved value for money and protected the aftermarket. The transaction was absorbed by the market within days and positioned UKGI well to take advantage of future sales opportunities. Following the positive market reaction to the ABB, UKGI announced the launch of a Trading Plan on 22 July 2021.

## Case Study: UK Asset Resolution



*This case study is provided as a demonstration of our response to the pandemic and how UKGI seeks to maintain financial stability by having due regard to the impact of the transactions we execute.*

UKGI manages HMT's 100% shareholding in UK Asset Resolution ("UKAR"). UKAR is responsible for facilitating the orderly wind down of the government owned businesses of NRAM Limited ("NRAM") and Bradford & Bingley plc ("B&B"), including its subsidiary Mortgage Express.

UKGI provides a shareholder role for UKAR, and through our position on its Board we help to ensure that UKAR's governance functions in line with best practice and that the company continues to be well managed. This has been evidenced throughout the pandemic with UKAR maintaining a strong financial position while continuing to support customers (for example, through payment holidays). In addition, UKGI's FIG team works with both UKAR and HMT on sales, providing expertise to help devise and implement strategies that deliver the government's objectives and achieve value for money. Within the objectives laid out in the Framework Document with HMT (detailed under Principle 1), UKGI should, where applicable, seek to:

- i. maintain financial stability by having due regard to the impact of the transactions it executes; and
- ii. act in a way that promotes competition and orderly competitive markets consistent with a UK financial services industry that operates to the benefit of consumers and respects the commercial decisions of those financial institutions.

In line with the Framework Document, in all large UKAR disposals, the FIG team considered the impact on financial stability and whether there was sufficient capacity in the securitisation market to fund the transactions without disrupting the market. At each milestone in these transactions, market conditions were rigorously tested by UKAR and its advisers and independently assessed by the FIG team and its advisers.

The most recent transaction, the sale of the B&B and NRAM legal entities with their residual assets, originally scheduled to complete in 2020, was suspended as a result of the market impact of COVID-19. Though the suspension was at the buyers' request, the UKGI Transactions Committee remained engaged throughout the process in line with UKGI's stewardship and asset realisation responsibilities. This ensured that UKAR suspended the transaction in an orderly manner with a 'clean edge' which allowed the disposal to be resumed subsequently as market conditions improved. This approach proved to be ultimately successful, with the transaction resumed in September 2020.

On 26 February 2021, UKAR agreed the sale of the issued share capital and remaining mortgage and loan portfolios of B&B and NRAM and their subsidiary companies in a transaction worth around £5 billion. The buyer comprised a consortium of Citibank and Davidson Kempner Capital Management LP, with funding provided by Pacific Investment Management Company LLC. This was a particularly significant sale as it brings to a close the government's ownership of the assets acquired from its interventions in Northern Rock and B&B during the financial crisis of 2007-08, with the taxpayer fully repaid.

In addition to returning taxpayer funds to the Exchequer, a key consideration for the sale was also the continued fair treatment of customers, as it has been in previous sales. The transaction results in a change in ownership of B&B and NRAM but does not involve any of their 29,000 customers moving to a new lender. There will be no changes to the terms and conditions of any loans as a result of this transaction and borrowers will continue to receive the same protections for the lifetime of their mortgage as they currently receive under UKAR ownership.

### **Pandemic financial support**

This year has seen UKGI working closely with HMT, the Department for Business, Energy and Industrial Strategy ("BEIS"), the BBB (as outlined below), UKEF and the Bank of England as part of the economic response to the COVID-19 pandemic.

Our resourcing model allowed us to quickly deploy colleagues with relevant corporate finance and corporate governance expertise, together with Civil Service colleagues with a deep understanding of government finance, processes and accountability. As such we enabled, at speed, robust decision-making through establishing appropriate internal governance, providing timely and reliable advice, and bridging our client departments and stakeholders with essential partners in the private sector.

Examples of our support include:

- UKGI performs the shareholder role for the BBB on behalf of BEIS. BBB is a government-owned economic development bank that makes finance markets work more effectively for smaller businesses, allowing those businesses to prosper, grow and build UK economic activity. UKGI played an important role in establishing the internal governance of BBB's delivery of four government COVID-19 business support schemes, enabling them to support over 1.7 million businesses with more than £75 billion of finance.
- UKGI worked together with HMT and UKEF<sup>15</sup> to co-develop the Temporary COVID Response Facility, a key pillar in government's support to large UK corporations during the pandemic (enabling the extension of more than

<sup>15</sup> UKEF is the UK's export credit agency and a government department. It is the world's oldest export credit agency and has a track record of providing world-class support for UK businesses, leading the way in the field of export credits for the last 100 years. UKEF's mission is to ensure that no viable UK export fails for lack of finance or insurance from the private sector, while operating at no net cost to the taxpayer. UKEF achieves this by providing insurance, guarantees and loans where the private sector will not, backed by the strength of the UK government's balance sheet.

£7 billion of guarantees to companies including Rolls Royce, British Airways and EasyJet). UKGI's role included establishing internal governance for the Facility, review and monitoring of the Facility and provision of general expert advice. UKGI also helped navigate the necessary government processes to enable timely decision-making.

On page 47 we give further examples of UKGI's work during the pandemic, including our stewardship, through the COVID Interventions Resolution Group, of the loan portfolio acquired by the government through one of its financial support packages.

### Special Situations

As evidenced above, our shareholder role is one part of UKGI's overall activities, which also include asset realisation, analysing and advising on the UK government's contingent liabilities, and supporting effective responses and contingency planning by the government to financially stressed corporate situations. Though not directly related to stewardship in the context of the Code's definition and our shareholder role, this internal capability and specialist expertise is available to our shareholder teams who can apply it in the context of our portfolio and so supports them to support our client departments, ultimately contributing to achieving value for money for the taxpayer. For this reason, we have provided an overview of the work we do in these areas to demonstrate how our wider UKGI services respond to market-wide and systemic risk to promote a well-functioning financial system.

In addition to our shareholder role, we also deploy our expertise in all significant

negotiations between the government and the private sector, including, for example, when the government considers whether to financially support companies in distress.

Our Special Situations Group provides expert technical and practical advice to support effective responses by the government to financially stressed corporate situations, as an active trusted advisor to stakeholders across government. The team is made up of corporate restructuring practitioners, including qualified insolvency practitioners, experienced restructuring bankers, lawyers, and civil servants. We act as a bridge between the private and public sectors, applying deep understanding of the objectives and workings of both. Our Special Situations Group objectives are to:

- **Contingency plan:** We support stakeholders across government to contingency plan for company and sector-wide failures.
- **Advise on interventions:** We advise government departments when they are considering intervention in the private sector to further policy objectives.

We help our stakeholders across government to understand the signs of financial stress and distress and the implications of these for government. We also help to educate private sector partners facing financial stress or distress on the government's aims and objectives in such circumstances.

The team works extensively with colleagues across government, including in HMT, Cabinet Office, BEIS, Ministry of Defence, Department for Transport, Ministry of Justice, Department of Health and Social Care and Department for Environment,

Food and Rural Affairs on specific projects and sectors.

This year, the Special Situations Group has again been at the centre of some of the most high-profile situations where the government has an interest, including taking a lead advisory role with HMT and central government departments in considering potential implications and responses to corporates facing financial stress and distress arising from the COVID-19 pandemic. We supported client departments to contingency plan for company and sector-wide failure, and when they were considering intervention in the private sector as a result of pandemic.

For example, in mid-2020 and in direct response to the financial pressures faced as a result of the COVID-19 pandemic, the team provided advice and assistance to both HMT and BEIS in relation to the only bespoke loan by the government to a limited company, namely Celsa Manufacturing (UK) Limited. The financial intervention assisted the company in continuing to trade and saved a number of jobs in the local community.

## Responding to Climate Change and Environmental Risk

Organisations, and those invested in them, are increasingly expected to consider their impact on the environment, and how environmental and climate change risks may impact them. Under Principle 5 on page 60, we outline how we have responded to systemic risk caused by environmental issues and climate change through

effectively challenging and supporting our assets' overall organisational performance and sustainability. Our environmental stewardship workstream will support UKGI to contribute to the government's goals for tackling climate change.

Operationally, we are developing our own policies in this area, in line with government departments and, specifically, the plans of BEIS in relation to reduced emissions, waste and consumption at their premises at 1 Victoria Street, London. UKGI is a tenant in this building alongside BEIS as principal lessee, with the lease held by the Government Property Agency. As such we cannot separate from the whole (and therefore disclose) the relevant statistics for our proportion of the premises, whilst building-related policies are not within UKGI's immediate control. Full sustainability data for BEIS is reported in its annual report and accounts<sup>16</sup>.

Nonetheless we continue to focus on what we can do in this area, for example in relation to staff behaviour and travel, recognising that we need to do more. We are committed as an organisation to developing an appropriate strategy and approach to climate change and environmental issues, and are increasing our efforts to identify, track and manage our own environmental impact so that, at the very least, we reach net zero by 2050<sup>17</sup>.

## Covid Interventions Resolution Group

On 17 March 2020, HMT announced a number of measures designed to support

16 Available at [Department for Business: Energy & Industrial Strategy – Annual Report and Accounts 2019-20](https://publishing.service.gov.uk) ([publishing.service.gov.uk](https://publishing.service.gov.uk))

17 The Climate Change Act, as amended in 2019, commits the UK to 'net zero' by 2050. The original act, passed in 2008, committed the UK to an 80% reduction of greenhouse gas emissions by 2050, compared to 1990 levels. In 2019, the Climate Change Act 2008 (2050 Target Amendment) Order 2019 was passed which increased the UK's commitment to a 100% reduction in emissions by 2050.

companies in response to the pandemic. The Chancellor of the Exchequer set out a package of temporary, timely and targeted measures to support public services, people and companies through this period of disruption caused by COVID-19. One of the major measures announced was the joint HMT and Bank of England lending facility, named the Covid Corporate Financing Facility (“CCFF”). The facility was designed to alleviate pressure on companies’ cash flows and support liquidity among larger, listed firms, helping them to bridge coronavirus disruption to their cash flows through the purchase of short-term debt in the form of commercial paper (“CP”). By lending to large companies directly, the CCFF protected the space for banks to lend to the wider population of companies, complementing other Bank of England and government schemes.

HMT established an Advisory Credit Committee, with membership drawn from the Civil Service and wider public sector, tasked with providing expert advice in relation to the assessment of the government’s credit risk stemming from certain applications for borrowing under the CCFF, which closed to new applications in Q1 2021. A team from UKGI, comprising experts in credit and corporate finance, was assembled to conduct the required analysis of these cases and present them for the Advisory Credit Committee’s consideration. Drawing on our corporate finance expertise, the Covid Interventions Resolution Group (“CIRG”) provided and continues to provide stewardship of this loan portfolio until the final maturities of the CP in March 2022. As part of its ongoing portfolio monitoring, CIRG provides the Advisory Credit Committee with monthly

updates for review. UKGI has provided a secretariat to the Committee (joint with HMT) since its inception, coordinating the papers presented for the 84 meetings held since the start of the pandemic to 31 March 2021<sup>18</sup>. A new sub-committee of the UKGI Board was also established, the “CIRG Committee”, with a specific focus on CIRG’s operations, activities and governance.

Overall, the CCFF lent over £37 billion to 107 different companies between March 2020 and March 2021, with a peak issuance in the scheme of over £20 billion in May 2020. Furthermore, the CCFF approved over £85 billion of borrowing limits to over 230 companies. Eligible CCFF companies accounted for almost 2.5 million jobs.

### **Vaccine Task Force**

UKGI’s corporate finance team has worked closely with the government’s Vaccine Task Force (“VTF”) since its inception in April 2020. A small number of UKGI employees worked intensively with the VTF over the year to secure access to a portfolio of vaccines, and are credited with a strong contribution to its success.

UKGI employees, working together with BEIS as one team, led the negotiations for all seven of the initial vaccines purchased by the government to tackle COVID-19 and also helped to secure vaccine and fill/finish manufacturing capacity, build capability and secure additional doses of vaccines. The current VTF director general was recruited from UKGI. UKGI continues to be involved in this area in particular in relation to expanding the UK’s vaccine manufacturing capability.

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18 91 meetings at time of writing, October 2021

# Supporting clients' stewardship

## Principle 5: Signatories support clients' integration of stewardship and investment, taking into account material environmental, social and governance issues, and communicating what activities they have undertaken

### Introduction

This section includes:

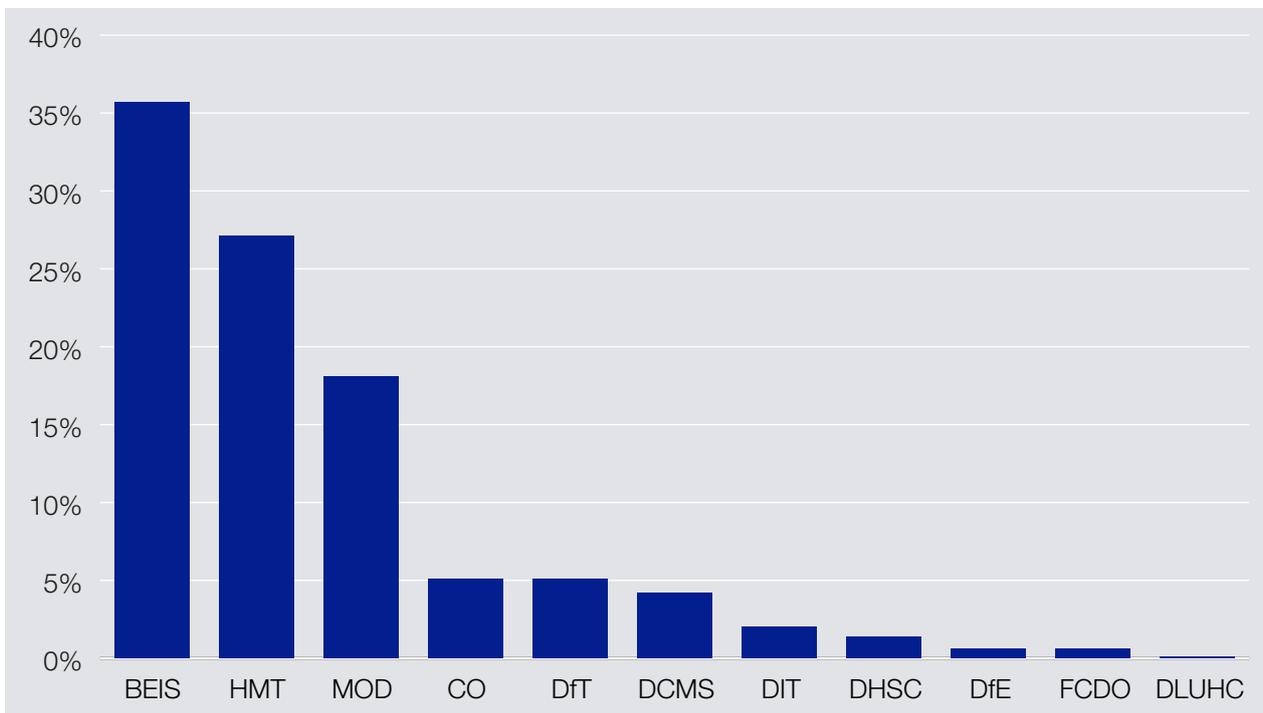
- **Our clients:** we are a trusted provider of the shareholder role across central government and work on behalf of government departments ("client departments").
- **How our services best support our clients:** we have created a bespoke shareholder function for government-owned assets, via our Target Shareholder Model. The application of this bespoke shareholder function sits alongside and is designed to be complementary to how our client departments manage their wider policy and other interests in our assets.
- **Continuously improving our shareholder practice and our focus on Environmental, Social and Governance ("ESG") considerations:** we seek to continuously improve our stewardship activities and incorporate ESG considerations to allow us to effectively challenge and support our assets' overall organisational performance and sustainability.
- **How we support our clients through sharing best practice:** we have continued to build our strategic capability through the development and dissemination of best practice and the sharing of expertise.
- **Working with our clients:** UK Government Investments' ("UKGI") shareholder teams develop close and effective relationships and work closely with the client department for each of our assets, meeting with colleagues at all levels.

## Our clients

We have provided the shareholder role or governance advice across central government. In 2020/21 we acted as shareholder on behalf of the following departments:



This graph shows the departments UKGI worked with, both in our shareholder role and across other projects, in 2020/21, weighted by UKGI Full Time Equivalent (“FTE”) deployed.



## Working with our clients

UKGI has substantial engagement with both client departments and assets. Whilst UKGI has established activities which we perform for each asset, codified within UKGI's Memoranda of Understanding with our clients and Framework Documents with assets themselves, establishing close contact and coordination with our clients remains core to our stewardship activities. We ensure interactions between our client departments and UKGI are conducted through professional, efficient, and trust-based dialogue:

- i. **Professional:** professional people engaged in dialogue relevant to delivering UKGI's objectives, with commitments delivered on time and to specification;
- ii. **Efficient:** both parties ensuring a joined-up and efficient approach

amongst their respective constituent elements; and

- iii. **Trust-based:** open dialogue, based on a shared commitment to providing UKGI with the ability to realise its role effectively.

Our UKGI shareholder teams each work alongside a policy team within the client department, which is responsible for setting policy in the area in which the asset operates. Officials and ministers in our client departments can expect the same degree of confidentiality from UKGI staff as they expect of their own officials, in accordance with the Civil Service Code. We maintain a close working relationship with these teams, and often coordinate reporting into the client department among other key tasks. For an example of this coordinated relationship, please see our case study on the National Nuclear Laboratory ("NNL"), a UKGI asset within the Department for Business, Energy and Industrial Strategy ("BEIS"), below.

## Case Study: Our shareholder role in respect of the National Nuclear Laboratory



*As outlined on page 16, we approach and work with assets differently depending on the government's shareholder relationship with them, based on the legal, regulatory and contractual framework the asset operates within. This case study demonstrates how we approach our shareholder role in respect of the National Nuclear Laboratory ("NNL"), where we take an involved shareholder role.*

UKGI manages BEIS's 100% shareholding in the NNL, including providing a UKGI Shareholder NED to represent BEIS as shareholder on the NNL Board. Shareholder priorities are set out at least annually in a letter to the NNL Chair, as well as being reflected in NNL's business plan and Key Performance Indicators ("KPIs"). We hold Quarterly Shareholder Meetings ("QSMs") to monitor performance as against business plan as well as monthly financial performance monitoring meetings with the NNL Change to Chief Financial Officer ("CFO"). We are also able to flex our level of engagement if needed, in order to deliver shareholder intervention which is proportionate to any given circumstance. For example, during the early stages of the pandemic, owing to the increased uncertainty around impact on the business and operations, engagement between UKGI and NNL increased significantly, with UKGI working with BEIS to put in place contingency arrangements to allow NNL to access additional funding if required. UKGI provides formal reporting on NNL's performance to BEIS twice a year, and the NNL Chief Executive Officer ("CEO") and NNL Chair meet with the BEIS Minister and Director General alternately every six months.

Environmental Sustainability is a key focus for NNL and UKGI is involved in active discussions, alongside NNL's executive team, on developing NNL's enhanced environmental strategy and approach. NNL is fully accredited to ISO14001: Environmental Management and ISO5001: Energy Management (including control of natural resources) and committed to the Greening Government Commitments. Environmental strategy is covered in both the Chair's letter and the NNL business plan and will also form part of the QSM agendas. NNL have also accepted UKGI's invitation to participate in a cross-Whitehall group to share best practice with other UKGI assets.

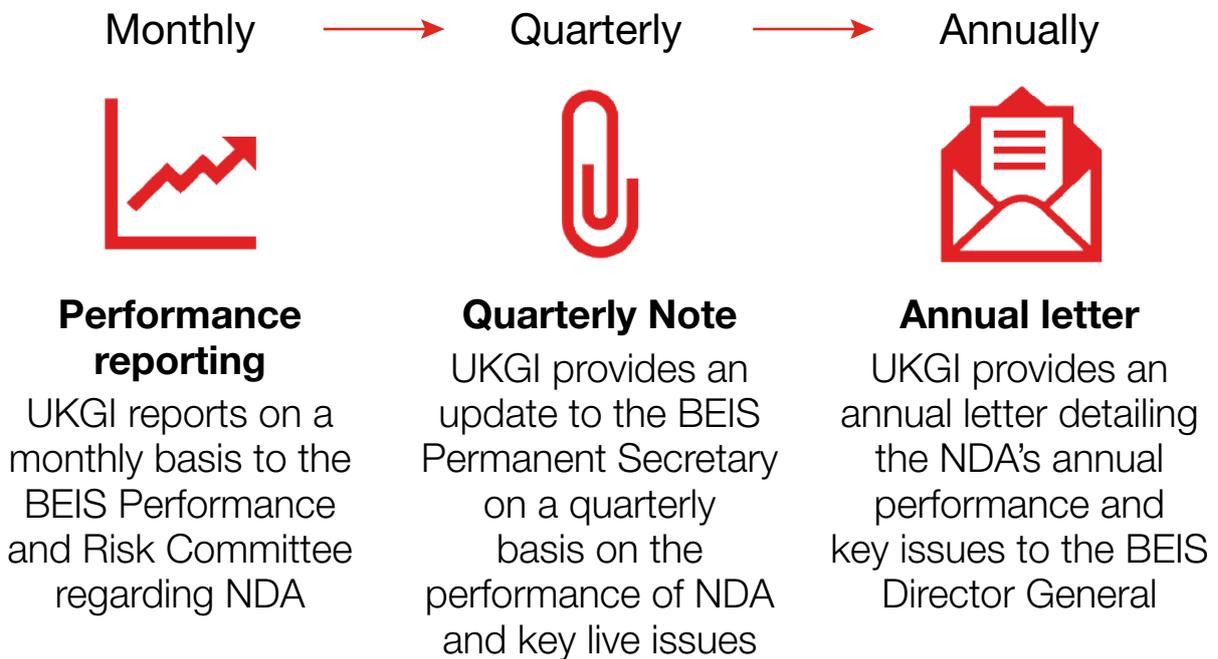
We also work with NNL to continually seek improvement and evolution of NNL's governance to reflect best practice, and delivered a full refresh of NNL's constitutional and governance documents. These include updated articles of association and board terms of reference, as well as a new 'Framework Document' setting out the roles and accountabilities of NNL, including how NNL meets the standards outlined in Managing Public Money.

As well as maintaining strong functional working level relationships with client departments, UKGI shareholder teams provide regular reports (quarterly or biannual, for most UKGI assets) to senior departmental personnel, often at the permanent secretary level. Reports give a qualitative UKGI view of the asset, and any concerns UKGI has across our shareholder role. Figure 9 further demonstrates our communication with BEIS in relation to the NDA.

In addition, UKGI's Chair and Chief Executive regularly meet with permanent secretaries of client departments, and chairs of assets, to receive and discuss feedback on the relationship with and performance of UKGI. For example, our Chief Executive

meets the Permanent Secretary of BEIS and the Second Permanent Secretary of HMT at least monthly, and the permanent secretaries of other client departments at least once or twice a year, barring any pressing issues precipitating an urgent meeting. Examples of feedback received are provided under Principle 1 on page 26. These stakeholder relationships are so key as to be reviewed periodically as part of the UKGI Portfolio Review process (as outlined on page 35). More broadly, UKGI has specific relationship leads (Executive Directors and Directors within UKGI) for each government department, whether or not we are actively working with that department.

**Figure 9: UKGI reporting to BEIS on Nuclear Decommissioning Authority (“NDA”) performance**



## Case Study: Communicating with our clients

*This case study is provided as an example of our regular engagement with our clients and how we communicate formal feedback on our asset to our clients.*



The Banking Assets and Resolution Strategy team (“BARS”) team is the shareholder relationship team responsible for NatWest Group plc (“NWG”) in HMT. BARS has responsibility for policy relating to the management of the government’s shareholding in NWG, with the primary policy objective being the delivery of a managed exit of the shareholding. UKGI’s Financial Institutions Group (“FIG”) team meets with members from BARS at least once a week and has a good working relationship with the team. This working level engagement provides HMT with regular feedback from our stewardship engagement with NWG.

The centrepiece of our formal engagement with HMT is through the Quarterly Customer Meeting (“QCM”). Each QCM provides an opportunity for the UKGI FIG team to update on progress against UKGI’s objectives over the previous quarter, with a particular focus on stewardship of NWG (and UK Asset Resolution Limited). These quarterly discussions cover issues including, but not limited to, market conditions and how they are affecting NWG; UKGI’s current strategy in respect of NWG; opportunities, or potential opportunities to realise value in the government’s shareholding; and the extent to which NWG is complying with any conditions attaching to any decisions of the national regulatory authorities.

### How we support stewardship that takes into account material ESG considerations

We seek continuous improvement in how we deliver our stewardship role, constantly looking across the private and public sector for new developments in best practice which apply to our shareholder role.

ESG considerations are at the heart of effective stewardship in both a private and government context, and as part of the UKGI Corporate Governance programme, we regularly assess the ESG themes and how we can apply those effectively to our own stewardship activities.

### Environmental

Last year we initiated a focus on systematically incorporating environmental considerations into our stewardship activities. Organisations, and those invested in them, are increasingly expected to take into account their impact on the environment, and how environmental and climate change risks may impact them. We have sought to incorporate environmental considerations into our stewardship activities, to allow us to effectively challenge and support our assets’ overall organisational performance and sustainability, and so deliver best practice corporate governance.

During 2020/21, the UKGI Board endorsed environmental stewardship as a core part of our governance role. To enable our shareholder teams and non-executive directors ("UKGI Shareholder NEDs") to support our assets on their journey to net zero we equipped them with centrally held, and regularly updated UKGI Environmental Governance guidance.

To support this work, last year we successfully delivered a programme of events to establish a community of environmental leads across our UKGI portfolio – enabling efficient sharing of best practice and to raise standards across our portfolio. Environmental stewardship was also the key topic for UKGI's annual Chairs & Chief Executives ("CEOs") event in July 2021. UKGI was delighted to welcome Mark Carney as our keynote speaker at

the event. Mark Carney is currently the UN Special Envoy for Climate Action and Finance and the Prime Minister's Finance Adviser for the 2021 United Nations Climate Change Conference ("COP26"). He delivered a fascinating talk outlining this work and answered questions from the attendees. The event then moved into breakout rooms for Chairs to discuss how boards are adapting to environmental sustainability requirements and CEOs to discuss how their companies are developing environmental strategies in practice, in line with the themes of the COP26 Private Finance Hub's work. The event was a valuable opportunity for attendees from across different organisations to discuss some of the upcoming challenges regarding environmental sustainability.

### Case Study: Pursuing environmental sustainability

*This case study is provided as an example of our stewardship role in the context of the government's net zero policies.*



UKGI manages the UK government's one-third shareholding in the uranium enrichment company, URENCO, on behalf of BEIS. As part of this role, we nominate two shareholder NEDs. The other shareholders are the Dutch government and two German utilities, E.ON and RWE.

The shareholders, including the UK, attach significant importance to environment sustainability. A UK shareholder NED sits on URENCO's Sustainability Committee. The Sustainability Committee is a committee of Urenco's Board of Directors. The Committee's main areas of focus are the monitoring of key performance indicators in health, safety, environment, asset integrity, security and non-proliferation, safeguards, ethical conduct, social performance and employee engagement, including diversity and inclusion. Reflecting BEIS's broader climate change priorities, the shareholder representative has worked in collaboration with the Dutch and German shareholders to help promote and develop URENCO's clear plans to reach its goal of being net zero in advance of 2040. Total energy use and total emissions (scope 1 and 2) fell by 2% and 9% respectively in 2020. The Committee also retains a strong focus on water and waste management. Progress is reported publicly via URENCO's annual sustainability report.

## Social

Many of our assets perform a public purpose, and among their objectives are required to meet government policy aims in the national interest towards the long-term health of society, the economy and the environment. UKGI is not responsible for the policy setting of the assets within our portfolio; however, we monitor the performance of each of our assets against their respective key performance indicators, which often relate to government policy objectives as set by their department.

We also focus on diversity across our assets, particularly through board appointments. UKGI believes that boards are most effective if they are diverse.

As we go forward, the 'S' of ESG is an area where we want to devise an increasingly systematic approach to identifying and promoting social considerations for our assets.

## Governance

As the centre of excellence for corporate governance in government, UKGI has designed much of our Target Shareholder Model (further detail on page 63) around ensuring effective corporate governance within our portfolio to enable our assets to carry out their missions effectively. Good governance runs through all the core strands of our approach to our shareholder role and as such, we describe our focus on governance considerations throughout this report. We encourage our assets to follow the UK Corporate Governance Code.

We support good governance practices by also sharing our expertise across government, beyond our asset portfolio working with the Cabinet Office and HMT to support continuous improvement in wider government governance both in the UK and overseas.

## Case Study: Our international governance work

*In this case study, we demonstrate our commitment to good governance and sharing best practice.*

The UK continues to be seen by the international community as an exemplar of best practice in the corporate governance of its state-owned enterprises ("SOEs") and as such is often approached by international delegations for advice and is encouraged to play a proactive role at the Organisation for Economic Co-operation and Development ("OECD") to inform, challenge and share best practice.

In January 2021, our Chief Executive, Charles Donald, took up the post of Chair of the OECD's Working Party on State Ownership and Privatisation Practices ("WPSOPP"). The WPSOPP is a policy forum created in 2001 to promote improved corporate governance of SOEs and provide guidance on privatisation practices. It oversees implementation of the OECD Guidelines on Corporate Governance of SOEs, which provide a framework for governments to assess and improve the way they exercise ownership of SOEs. Members of the Working Party include all 37 OECD Member countries and the EU Commission. UKGI has represented the UK at the WPSOPP for over ten years and has provided expertise and support to the WPSOPP in numerous ways, including fielding UKGI colleagues to participate in speaking and training events as well as experts in the field of SOE governance and privatisation practices.

Although this year UKGI has not been permitted to meet with our fellow members of the WPSOPP owing to travel restrictions, we have still managed to contribute to the Working Party in a number of ways, including presenting on the UK government's approach to supporting the corporate sector during the coronavirus ("COVID-19") pandemic.

## How our services best support clients' stewardship

The UKGI Corporate Governance team has led the establishment of a Target Shareholder Model to underline how we perform our shareholder role across our portfolio, and provide guidance and assistance to individual shareholder teams. This model sits alongside and is designed to be complementary to how our client departments manage their wider policy and other interests in our assets. As outlined under Principle 2, our approach and work across our assets differs depending on the government's shareholder relationship

with them. In light of this diversity within our portfolio, our model may not be applicable in its entirety to our operations for each asset.

Where our model does apply, we support our clients by performing our shareholder role across five core areas of activity, framed by the governance levers that the government has as a shareholder.

1. Establish and maintain appropriate and effective corporate governance structure and documentation which govern the department-asset relationship;

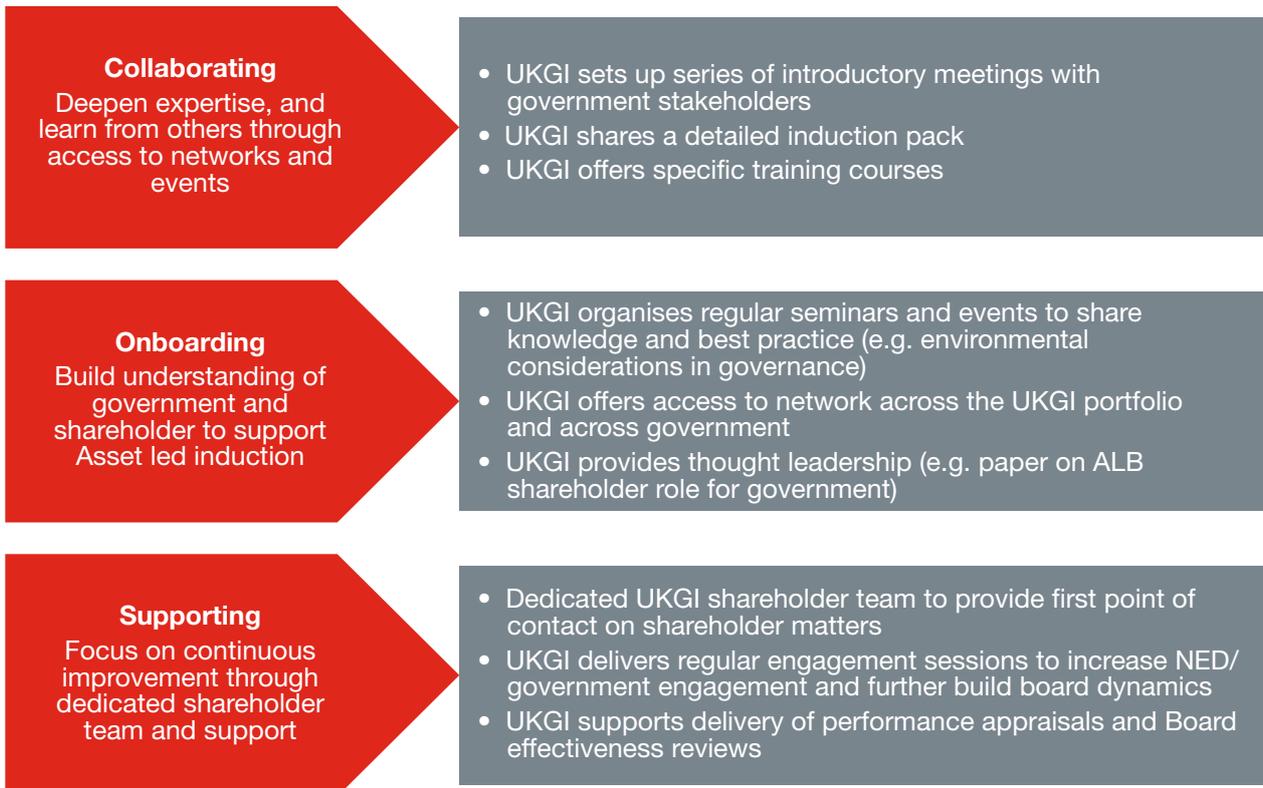
2. Promote effective objectives, business planning and performance against business plan;
3. Promote strong corporate capability;
4. Promote effective leadership through high quality boards and senior management; and
5. Promote effective relationships between the department and the asset.

In most cases, we supplement the activities above by providing an experienced senior employee of UKGI to sit on the asset's Board as a UKGI Shareholder NED. UKGI sees the UKGI Shareholder NED as an important lever through which we can perform our shareholder role. The UKGI Shareholder NED has the same duties as all

other directors, including those appointed by ministers, such as the duty to act in a way they consider, in good faith, most likely to promote the success of the asset for the benefit of its shareholders.

UKGI encourages the UKGI Shareholder NED to draw upon the assistance of the UKGI shareholder team and best practice across the portfolio, including supporting on live issues regarding the asset which require input at Board level. The UKGI Shareholder NED and shareholder team further provide the asset with a government perspective and assistance in navigating central government processes. We take a strategic approach to promoting development of NED capability, as illustrated in the diagram below.

**Figure 10: Developing NED capability**



Through undertaking our shareholder role, our services support our clients by providing:

- **Deep specialist expertise** in applying private sector governance disciplines to a government setting, typically in relation to some of the government's most interesting and complex commercial tasks.
- **Portfolio knowledge and experience** gained from working across government on multiple assets, enabling us to share learnings of cross-departmental perspectives and issues, and act as a consultation point for best practice corporate governance across government. UKGI offers an understanding of stewardship of complex assets which is unique in the government environment.
- **Senior & experienced resource** from the private sector and the Civil Service, combining financial, commercial and portfolio management, with public and private sector board experience.
- **Expertise which is kept current** within the rapidly evolving field of corporate governance, through bespoke training programmes and seminars as well as via a secondment programme, bringing in relevant private sector and government expertise.
- **Strong networks** within government and across the private sector including arm's length bodies' chairs, board members and management teams, as well as with specialist advisors.

## Case Study: Our shareholder role in respect of NatWest Group



*As outlined on page 16, we approach and work with assets differently depending on the government's shareholder relationship with them, based on the legal, regulatory and contractual framework within which the asset operates. This case study demonstrates how we approach our shareholder role in respect of NatWest Group plc ("NWG"), a publicly listed company in which the government is not the sole shareholder.*

UKGI is mandated to develop and execute a strategy for disposing of NWG in an orderly and active way, to protect and enhance value for the taxpayer. We manage the shareholding, on behalf of HMT, following best institutional shareholder practice and on a commercial basis. We do not get involved in the day-to-day commercial decision making of NWG and are not represented on the NWG Board which is solely responsible for strategic and management decisions.

Though not responsible for strategic and management decisions, UKGI ensures the bank has a sound long-term strategy, and that it is effectively managed and properly governed. The Financial Institutions Group ("FIG") meets with the NWG CEO and CFO on a monthly basis and engages with NWG throughout the year on a range of issues such as ESG, strategy, financial performance, board composition and remuneration. This engagement assists us in delivering on our objectives and provides us with the opportunity to give feedback to NWG, whilst continuing to manage the government's shareholding on a commercial basis.

During 2020/21, the FIG team continued our shareholder engagement with NWG, on behalf of HMT, holding meetings with the NWG Chair, NWG CEO and CFO, Chairs of the Technology and Innovation Committee, Audit Committee, Risk Committee, Remuneration Committee and Sustainable Banking Committee. In addition to Board level engagement, we also carried out engagement with NWG's Executive team, including the Director of Strategy and Ventures, Group Chief Risk Officer, Commercial Banking CEO, NatWest Markets CEO and Chief Transformation Officer.

By way of example of our engagement on certain issues with NWG, during 2020/21, the FIG team engaged on remuneration, purpose and culture, ESG and technology and innovation, alongside COVID-19 related issues. On remuneration in particular, UKGI seeks to ensure that (a) remuneration incentives at NWG are designed to promote long-term, sustainable performance; (b) remuneration policies are at the leading edge of implementing the Financial Stability Board's remuneration principles through the Prudential Regulation Authority's ("PRA") rulebook and the Financial Conduct Authority's ("FCA") remuneration code; and (c) remuneration incentives and policies are designed to enable NWG to attract and retain the staff needed to advance UKGI's objective of protecting and enhancing value for the taxpayer.

On ESG issues, the NWG CEO, Alison Rose, has set out NWG's strategy to put climate change and sustainability at the heart of the bank's focus. Acting as a good institutional shareholder, a key focus of our shareholder engagement with NWG during 2020 has been to monitor NWG's progress on this strategy. Our engagement on this topic included NWG's Head of Climate, Director of Strategy and Ventures and Chair of the Sustainable Banking Committee, in addition to HMT officials, the Investment Association and the Cambridge Institute for Sustainability Leadership. Given the long-term nature of ESG targets and aspirations, we expect this to be an ongoing theme which we will regularly review.

Throughout 2020/21, the Transactions Committee continued to oversee UKGI's stewardship responsibilities, supporting the FIG team to constructively engage with NWG in a shareholder role on the range of topics outlined above. Alongside its oversight function, the Transactions Committee also makes recommendations to Ministers with regard to our NWG shareholder responsibilities. These responsibilities include, for example, voting at shareholder meetings and matters relating to remuneration, board composition, and company strategy. UKGI has a clear policy on both voting and transparent disclosure and will exercise its stewardship role through its voting rights when practicable to do so (i.e. on all resolutions other than where the government has been a related party). As in prior years, in line with appropriate and previous practice, in 2021 UKGI did not register a vote on Resolution 25 (the renewal of the authority for NWG to buy back shares from HMT), given the vote pertains to HMT's shareholding. These votes were lodged in line with our MoU with HMT, our Framework Document with HMT and the Financial Reporting Council's UK Stewardship Code.

In addition to our shareholder engagement with NWG and advice to HMT, UKGI has maintained an active and continuous dialogue with other institutional shareholders throughout 2020/21 – both existing and prospective. Our aims through this dialogue include: emphasising our remit and explaining the arm's-length nature of our relationship with government; ensuring investors are clear that NWG is being run on a commercial basis; and hearing other investors' views. We are committed to continuing the policy of engagement with other shareholders and trade bodies around major business issues and in the deliberation of matters brought to vote at NWG's Annual General Meeting and other shareholder meetings. Going forward, UKGI will continue this contact with investors, within the context of protecting and enhancing value for the taxpayer.

Any institutional shareholders who would like to contact UKGI regarding stewardship of NWG are encouraged to do so, and in the first instance should contact UKGI by email at: [enquiries@ukgi.org.uk](mailto:enquiries@ukgi.org.uk)

## Supporting clients and assets through sharing best practice

We seek to provide opportunities for the UKGI portfolio to share best practice in an effective way. This dissemination of knowledge and experience is a key part of how we support our clients and ultimately promote effective stewardship.

Our Corporate Governance events programme enables the sharing of experiences and perspectives across our portfolio. During 2020/21, we held five focused events targeting core governance topics within our portfolio, with expert speakers and round table discussions reflecting on best practice from both the private and public sectors. These were each for the benefit of different members of asset leadership, including Chairs, Remuneration Committee Chairs, Audit

and Risk Committee Chairs and Chief Executives. As part of this programme, we held an event on environmental considerations in governance for our portfolio in February 2021, which was a significant opportunity for UKGI and our assets to start collaborating in this vitally important area. Through these events we ensure good governance and environmental considerations remain on the agenda at the most senior level within our assets. Please see case study below for further detail on these events. In addition, in 2020, we produced a paper titled '*UK Government Arm's Length Bodies: the case for them in specialised delivery and how to optimise their use*' which is referenced in Managing Public Money and the National Audit Office report detailed on page 13, and can be found [here](#).

### Case Study: UKGI Portfolio Board Roundtable Events 2020

*This case study provides an example of our role in disseminating best practice*

Periodically UKGI convenes the Chairs and CEOs from across its portfolio to attend events in order to provide an opportunity for them to discuss key government priorities and learn from each other with regards to their implementation. In July 2020, UKGI chaired an event which was addressed by John Glen, Economic Secretary to the Treasury and Sir Edward Lister, senior advisor to the Prime Minister.

COVID-19 played a central role in discussions; however, the event also provided an opportunity for several key policy areas to be considered. The levelling up agenda and the UK's commitment to carbon net zero were among the topics. Organisations were engaged in discussions around these core areas of their corporate social responsibility, in line with government policy, and given an opportunity to seek clarifications and policy directions from the centre of government. As part of these discussions our assets were given the opportunity to share their own learning in these policy areas.

One particular topic which necessitated a dedicated event in 2020 related to remuneration and the role of the Remuneration Committee across UKGI assets in response to COVID-19.

The pandemic placed immense pressure on organisations and companies across the UK to consider what was both feasible and appropriate in terms of staff remuneration, both at senior levels, and throughout the workforce. Whilst many companies started to announce the furloughing of staff and a cut to senior executive remuneration or bonus schemes in response, the public sector was largely insulated from the worst effects of COVID-19 on its workforce.

Boards across the UKGI portfolio went into the financial year having to plan their remuneration policies amidst the uncertainty of the COVID-19 pandemic. UKGI therefore assembled its portfolio Remuneration Committee chairs to discuss possible approaches to remuneration and incentive schemes.

Prior to the virtual event, many organisations had looked to government for a blanket policy steer with regards to remuneration. However, given the diverse nature of government assets within the UKGI portfolio, some working on the front line of the COVID-19 response, such as the British Business Bank or, unexpectedly, The Royal Mint who turned their production line to producing visors, to Highways England or the National Nuclear Laboratory, that was not possible or appropriate. Instead, assets within the UKGI portfolio were encouraged to develop appropriate remuneration programmes which reflected the needs and work of each organisation, and were encouraged to be sensible and defensible.

At these events UKGI established working groups within which various assets discussed their experience from the wider public or private sectors and proposals for their own assets. These events were a crucial opportunity for UKGI to provide effective stewardship to its portfolio during the pandemic. They encouraged organisations to learn from each other, and consider the wider government context to their operations, without encroaching upon the operational freedoms each asset requires, or seeking to impose any "one size fits all" approach within so diverse a portfolio.

# Review and assurance

## Principle 6: Signatories review their policies and assure their processes

### Introduction

This section includes:

- **Reviewing our policies and assuring our processes:** we are committed to maintaining the highest standards in undertaking our stewardship activities. Our strong culture means that we are constantly looking for ways to improve the way we execute our shareholder roles.
- **How UKGI is held accountable for our stewardship activities:** as an organisation that strives for excellence in the performance of our role, we welcome public scrutiny, which complements our internal processes of assurance and risk management.

### Reviewing our policies and assuring our processes

We are constantly looking for ways to improve the way we execute our shareholder role across our assets and keep up to speed with developments in governance practice in both the public and private sectors. We ensure that where there are lessons to be learned relevant to UK Government Investments' ("UKGI") role we will learn and act upon them. We currently have a number of internal mechanisms in place to review our policies and assure our processes.

### Lines of assurance

Our first line of assurance is ensuring that each asset in our portfolio is assigned a UKGI Director sitting on the Executive Committee, who will have responsibility for that asset. On page 35, under Principle 2, we outlined our Portfolio Review processes, our second line of assurance. In 2020, the Portfolio Review team carried out an annual internal review of the Portfolio

Review process, which was presented to our Executive Committee. This included considering how our process could be further developed and refined, culminating in several recommendations approved by the Executive Committee. The outputs of Portfolio Reviews are included in reporting to the UKGI Board.

Our Board regularly reviews our core shareholder model, policies, and processes and obtains third line assurance as to their operation. The UKGI Board has oversight of our stewardship activities as outlined under Principle 2.

Fourth line assurance of our stewardship activities can be undertaken by the Government Internal Audit Agency ("GIAA"). For example, GIAA, on behalf of the Department for Business, Energy and Industrial Strategy ("BEIS"), reviewed UKGI's role in the sponsorship of BEIS ALBs, with specific reference to HM Land Registry and Ordnance Survey during FY2020/21. The objective of the audit was

‘to provide reasonable assurance over the progress made by BEIS and UKGI as to the adequacy and effectiveness of the oversight arrangements BEIS has in place with UKGI. The audit noted improvements that had been undertaken, and found there to be clearly defined roles and responsibilities, good use of UKGI’s corporate governance expertise, and a positive relationship between BEIS and UKGI, with clearly understood roles and responsibilities providing a framework of governance and oversight. The audit also recommended further practical improvements which can be made, and which we welcome as part of our focus on continuous improvement across all our work.

UKGI is committed to continuously reviewing and improving its corporate governance programme. To enable this, a review of the corporate governance programme will be built into the audit plan in FY 22/23.

UKGI has appointed the Comptroller and Auditor General as its external auditor. The National Audit Office (“NAO”) carries out the audit for and on behalf of the Comptroller and Auditor General. UKGI’s Audit and Risk Committee (“ARC”) works closely with GIAA and the NAO, supported in particular by UKGI’s finance and corporate services functions. Representatives from the NAO and GIAA are invited to ARC meetings throughout the year.

We use these lines of assurance to embed accountability across different levels of the organisation, provide multiple check points for issues and deviation from standard policies and practice, and to enable discussion and reflection (particularly at Board level) of the effectiveness of our activities and behaviours.

## Our Target Shareholder Model

As outlined on page 63, our Target Shareholder Model comprises five core principles, which we apply to those assets within our portfolio for which the government is 100% shareholder. The model acts as a benchmark against which UKGI can measure our activities across our assets, assess consistency in approach, and allows UKGI to provide tailored guidance to shareholder teams for the various activities that we undertake across all our assets. UKGI assesses the shareholder role performed for each of our assets against our Target Shareholder Model. This is not to provide a qualitative assessment of the performance of either the shareholder team or the asset, but instead allows UKGI to:

- understand UKGI’s risk profile in terms of capacity and capability required on any given team, and so inform our resourcing requirements;
- consider the size and appropriateness of the portfolio on an ongoing basis, in terms of both existing and potential new assets;
- provide shareholder teams with comprehensive learning and development, tailored to the specific elements of our role; and
- present meaningful management information for UKGI and its Board for decisions about the portfolio.

We update our Target Shareholder Model as we learn lessons and as governance best practice evolves; we then ensure that these changes are acted on by shareholder teams, for example through UKGI-training to update all colleagues on the latest practice, as well as through our Portfolio Review process.

## Reviewing our policies and assuring our processes in practice

Our policies relevant to stewardship are set out in a number of documents, including (but not limited to):

- Our Code of Conduct;
- Target Shareholder Model; and
- UKGI Guidance Notes.

These are reviewed by UKGI on a regular basis to ensure they are enabling effective stewardship. During 2020/21, in response to the pandemic, we updated certain of our policies and processes to ensure that we were able to continue to provide support to our staff, clients and our assets. For example, in response to the increased risk environment posed by COVID-19, we implemented an additional COVID-19 'Risk Assessment Tracker' to ensure visibility of pandemic-associated risks to each of our assets. Those assets with materially increased risks were subject to additional assurance activities, as detailed on page 48 under Principle 4.

UKGI also reviews its other policies that impact on its stewardship activities. For example, in 2020/21, we undertook a comprehensive review of our Diversity and Inclusion policy. Further, as introduced under Principle 3, we reviewed and updated our Code of Conduct to make, among other changes, the provisions around conflicts of interest more comprehensive and robust, enabling staff to better understand how to avoid and spot potential conflicts and provided more detailed guidance around the process for declaring interests. We also reviewed and updated our Whistleblowing Policy to, for example, make clearer for staff the process for reporting concerns

and the way in which UKGI will deal with such concerns.

Where appropriate, our policies are also independently reviewed by external parties to provide an additional layer of assurance; for example, this was the case with our new Code of Conduct and updated Whistleblowing Policy.

### Review of Board effectiveness

In FY2020/21, the Board commissioned a review of its effectiveness. This was facilitated internally by the company secretarial function, with an external review due next year. The main focus of the review was on board composition, which resulted in specifications for new board recruits who will join in the course of 2022, and on reviewing the implementation of the recommendations of the prior year's review. It was found that these recommendations were effective in improving interactions between the Board and the rest of the organisation.

During the year, UKGI also made considerable progress with regards to ensuring further engagement between the Board and the wider organisation. Non-executive directors attended staff meetings and networks to share their knowledge and offer support where needed.

### How UKGI is held accountable for our stewardship activities

Like many other public bodies, UKGI is subject to intense scrutiny. As an organisation that strives for excellence in the performance of our role, we welcome this scrutiny, which complements our internal processes of assurance and risk management – and the opportunities it brings for continuous improvement. UKGI

is held accountable by the government departments for which we conduct an agreed role, overall, by HM Treasury as shareholder and is subject to government's internal audit. At the time of publication, responsibility to account for the activities of UKGI in Parliament has been delegated to the Economic Secretary to the Treasury.

As detailed under Principle 2, our Chief Executive's role of accounting officer brings greater accountability and transparency to UKGI, and the work undertaken by our staff. Our Chief Executive has specific responsibilities to account to Parliament, which can include giving evidence to Parliamentary Committees on UKGI's stewardship of government assets and public funds, which therefore provides an additional channel through which our stewardship activities are independently reviewed. UKGI also responds to requests under the Freedom of Information Act 2000 and to correspondence from members of the public, Members of Parliament, and other stakeholders.

# Principles Reporting Requirements Glossary

The Code comprises a set of ‘apply and explain’ Principles for asset managers and asset owners, and a separate set of Principles for service providers. The Code does not prescribe a single approach to effective stewardship. Instead, it allows organisations to meet the expectations in a manner that is aligned with their own business model and strategy.

## **Principle 1: Signatories’ purpose, strategy and culture enable them to promote effective stewardship.**

### **Context:**

Signatories should explain the purpose of the organisation, what services it offers, and an outline of its culture, values, business model and strategy.

### **Activity:**

Signatories should explain what actions they have taken to ensure their strategy and culture enable them to promote effective stewardship.

### **Outcome:**

Signatories should disclose an assessment of how effective they have been in serving the best interests of clients.

## **Principle 2: Signatories’ governance, workforce, resources and incentives enable them to promote effective stewardship.**

### **Context and activities:**

Signatories should explain how:

- their governance structures and processes have enabled oversight and accountability for promoting effective

stewardship and the rationale for their chosen approach;

- the quality and accuracy of their services have promoted effective stewardship;
- they have appropriately resourced stewardship, including: – their chosen organisational and workforce structure(s); – their seniority, experience, qualification(s), training and diversity; – their investment in systems, processes, research and analysis; and – how the workforce is incentivised appropriately to deliver services; and
- they have ensured that fees are appropriate for the services provided.

### **Outcome:**

Signatories should disclose:

- how effective their chosen governance structures and processes have been in supporting their clients’ stewardship; and
- how they may be improved.

### **Principle 3: Signatories identify and manage conflicts of interest and put the best interests of clients first.**

#### **Context:**

Signatories should disclose their conflicts policy, which seeks to put the interests of clients first and minimises or avoids conflicts of interest when client interests diverge from each other.

#### **Activity:**

Signatories should explain how they have identified and managed any instances in which conflicts have arisen as a result of client interests.

#### **Outcome:**

Signatories should disclose examples of how they have addressed actual or potential conflicts

### **Principle 4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.**

#### **Activity:**

Signatories should explain:

- how they have identified and responded to market-wide and systemic risk(s) as appropriate;
- how they have worked with other stakeholders to promote continued improvement of the functioning of financial markets; and
- the role they played in any relevant industry initiatives they have participated in.

#### **Outcome:**

Signatories should disclose the extent of their contribution and an assessment of their effectiveness in identifying and responding to systemic risks and promoting well-functioning markets.

### **Principle 5: Signatories support clients' integration of stewardship and investment, taking into account material environmental, social and governance issues, and communicating what activities they have undertaken.**

#### **Context:**

Signatories should disclose client base breakdown, for example, institutional versus retail, and geographic distribution

#### **Activity:**

Signatories should explain:

- how their services best support clients' stewardship as appropriate to the nature of service providers' business;
- whether they have sought clients' views and feedback and the rationale for their chosen approach; and
- the methods and frequency of communication with clients.

#### **Outcome:**

Signatories should explain:

- how they have taken account of clients' views and feedback in the provision of their services;
- the effectiveness of their chosen methods for communicating with clients and understanding their needs; and
- how they evaluated their effectiveness.

**Principle 6: Signatories review their policies and assure their processes.****Activity:**

Signatories should explain:

- how they have reviewed their policies and activities to ensure they support clients' effective stewardship;
- what internal and external assurance they have received in relation to activities that support their clients' stewardship (undertaken directly or on their behalf) and the rationale for their chosen approach; and
- how they have ensured their stewardship reporting is fair, balanced and understandable.

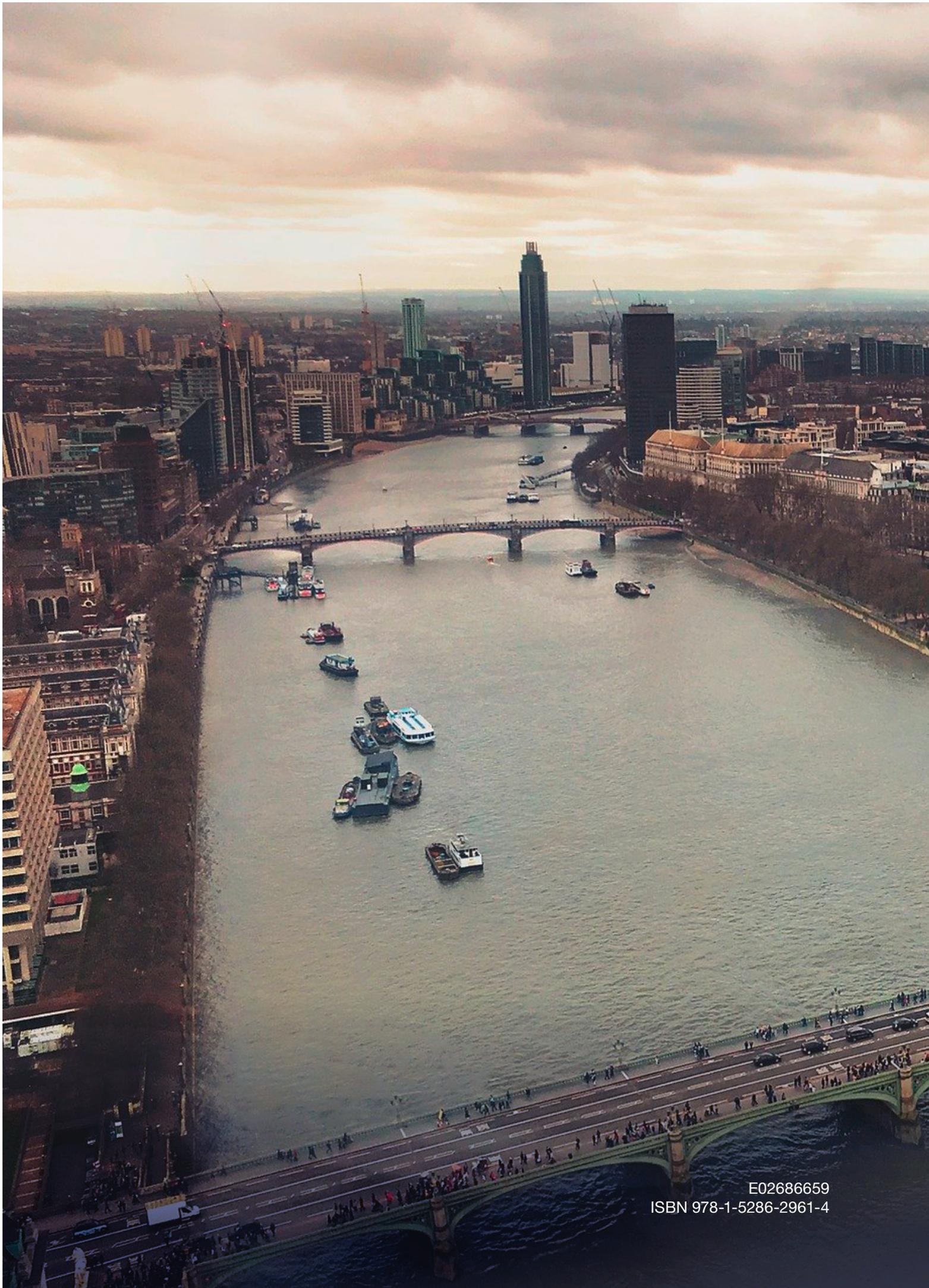
**Outcome:**

Signatories should explain how the feedback from their review and assurance has led to continuous improvement of stewardship practices.

## Glossary of Terms

<b>Accounting Officer</b>	The person in a public sector organisation who Parliament calls to account for stewardship of its resources (usually its most senior official)
<b>Asset</b>	The entity in relation to which UKGI performs the shareholder role
<b>Asset Board/Board</b>	The Board of the asset
<b>ALBs</b>	Arm's Length Bodies
<b>B&amp;B</b>	Bradford & Bingley plc
<b>BBB</b>	British Business Bank
<b>BEIS</b>	The Department for Business, Energy and Industrial Strategy
<b>Business Plan</b>	An annual or multi-annual plan that sets out the asset's strategy and forms the basis to which budgets are set and performance is evaluated
<b>Client department</b>	The department within UK government with the overall policy responsibility for the asset, or the department within UK government with which we are working on a project
<b>Code</b>	The FRC's 2020 UK Stewardship Code
<b>DEFRA</b>	Department for Environment, Food and Rural Affairs
<b>DfT</b>	Department for Transport
<b>FCA</b>	Financial Conduct Authority
<b>FRC</b>	Financial Reporting Council
<b>HMT</b>	Her Majesty's Treasury
<b>KPI</b>	Key Performance Indicators
<b>MPM</b>	Managing Public Money (published by HMT)
<b>MoJ</b>	Ministry of Justice
<b>MoU</b>	Memorandum of Understanding – between UKGI and the Department
<b>NDA</b>	Nuclear Decommissioning Authority
<b>NED</b>	Non-Executive Director (or Non-Executive Board Member where the asset is not a limited company)

<b>NWG</b>	NatWest Group plc
<b>PRA</b>	Prudential Regulation Authority
<b>UKAR</b>	UK Asset Resolution Limited
<b>UKEF</b>	UK Export Finance
<b>UKGI</b>	UK Government Investments
<b>UKGI Board</b>	The Board of UKGI (including UKGI's own NEDs)
<b>UKGI Shareholder NED</b>	UKGI representative on the Board of a portfolio asset, nominated by the Shareholder department
<b>UKIB</b>	UK Infrastructure Bank



E02686659  
ISBN 978-1-5286-2961-4