

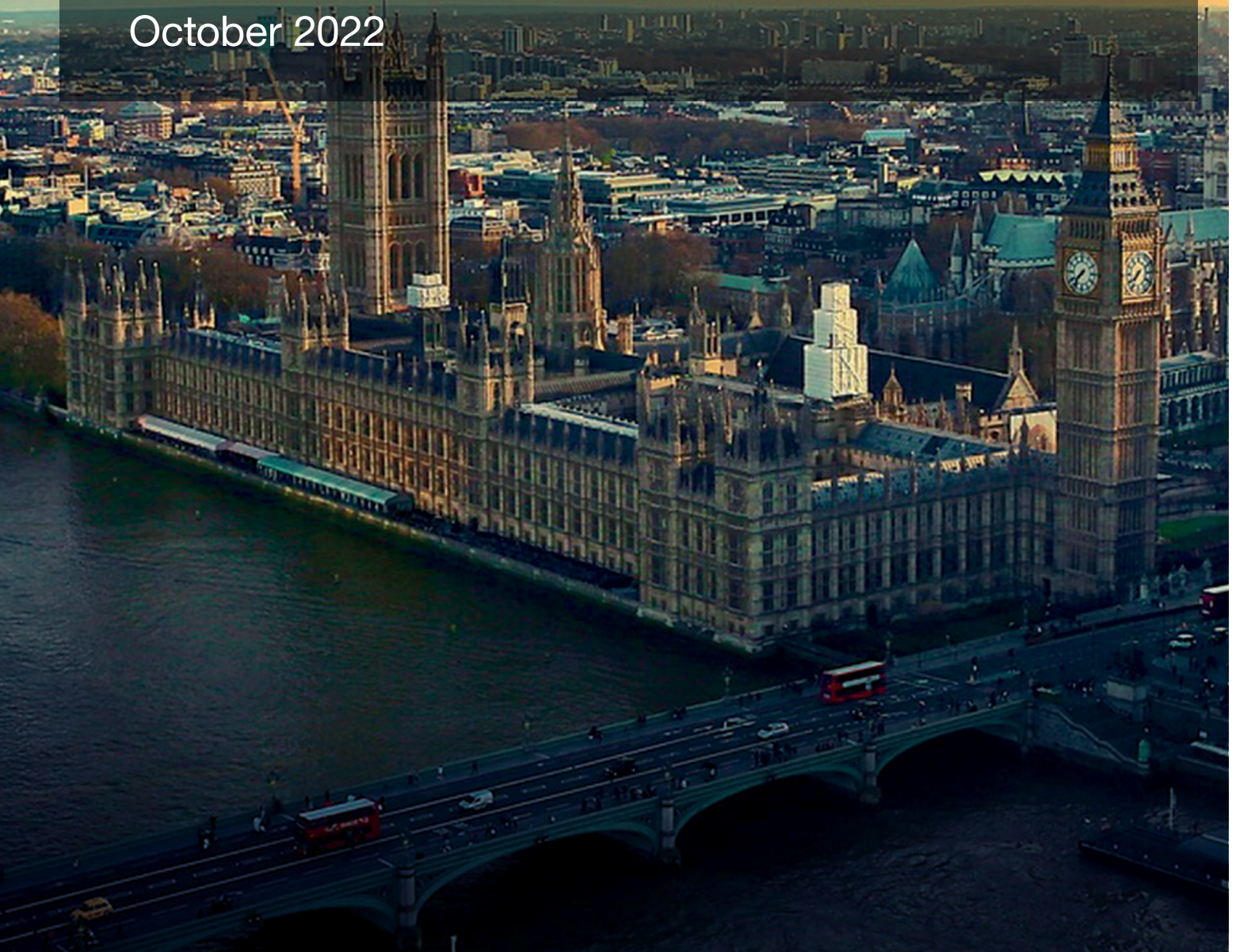


UK Government
Investments

UK STEWARDSHIP CODE REPORT

UK Government Investments

October 2022





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Chair's Introduction



This is my first Stewardship Code Report since being appointed as UKGI Chair in September 2021. We take our stewardship responsibility to our Clients, our Assets, and wider society very seriously.

A responsible mindset is crucial for UKGI as a business, as an adviser, and as an employer. UKGI is drawn into an enormous variety and range of issues, with our ability to offer independent, objective, and expert advice being particularly valued by our Clients. We are asked to use our expertise to take on some of the most complex assets and projects in the government's sphere of influence, many of which we know are high risk from the outset. We now face an evolving situation where there will be increased challenges for our Assets, and we will endeavour to drive resilience across our Portfolio and support our Clients with our expertise where required.

Whilst it is important to respond to external factors, we continue to focus on our core stewardship activities. Over the year, UKGI's Corporate Governance and Portfolio Management Programme has continued to embed stewardship best practice across our evolving Portfolio of Assets. As an organisation that seeks to stay alert to the latest practices across both the private and public sector, we are incorporating Environmental, Social, and Governance factors into our stewardship activities; allowing us to challenge and support our Assets' overall performance and sustainability more effectively. This year, in particular, we have focused on environmental considerations in the journey towards climate-related financial reporting and Net Zero, a priority issue for all businesses and indeed nations.

I am particularly grateful for the support from my Board colleagues for their ongoing insight and expertise, as well as to the wider UKGI team for their professionalism and commitment. It is this deep, specialist expertise bringing private sector governance disciplines to a government setting, that enables UKGI to act as responsible stewards. Reflecting this expertise, Managing Public Money was updated in 2021 to require government departments to seek UKGI advice on the set-up of certain types of arm's length bodies and additionally to consider whether UKGI should carry out the shareholder role for such bodies. This important milestone confirms the importance of government properly fulfilling its shareholder function and explicitly highlights the central role of UKGI in this context.

This refreshed report provides an update on our stewardship activities during 2021/22 and outlines our stewardship priorities going forward. It has been reviewed and approved by both our Audit and Risk Committee and the UKGI Board. I hope it will be of interest to our Clients, Assets, and wider stakeholders.



Vindi Banga
Chairman

Chief Executive's Foreword



UKGI's purpose is to create value for society from government's most complex commercial interests. We combine the best of public and private sector expertise to support government as its centre of excellence for corporate governance and corporate finance.


Reflecting this role, UKGI became a signatory to the new UK Stewardship Code in March 2022. As noted in our response last year, this proved to be a genuinely rewarding exercise, providing an opportunity to articulate our stewardship philosophy and activities, whilst demonstrating how we support our Clients by aligning our ways of working with the Code's Principles.

As CEO, I am personally accountable for making sure that UKGI continues to live up to the stewardship standards that we have set for our organisation. Over the past year, we have continued to secure our status with government departments as a trusted, objective adviser. Feedback from our Clients is that the ongoing support we have provided to them, and their Assets, has been invaluable as they navigate a rapidly changing business environment; in particular, the case for a specialised and centralised shareholder function for large and complex arm's length bodies has never been stronger. UKGI's Portfolio of Assets now stands at 22, having seen some additions in the past year and with some assets being returned to their sponsor departments following UKGI successfully completing our role.

Our position as a centre of excellence means we seek continuous improvement in how we deliver this shareholder role, applying learnings across our Portfolio for the benefit of our Clients. Environmental, Social, and Governance considerations are at the heart of effective stewardship in both a private and government context. We have made significant strides in the past year in our approach to ESG and how we can apply those themes effectively to our own stewardship activities. To support this work, we have successfully delivered a programme of events to establish a community of environmental leads across our Portfolio, including the establishment of a Cross-Government Environmental Considerations Working Group. As we go forward, the 'S' of ESG is an area which we intend to develop further, with work already underway by our Corporate Governance and Portfolio Management Programme.

At UKGI, our people are our greatest asset and we have continued to invest in their learning and development. I see this as an essential part of our commitment to good stewardship and to continuous improvement. We have developed a tailored development programme to provide specific training, resources, and personal development to support and upskill staff who are aspiring to be future Shareholder Non-Executive Directors. Through this framework, we will further strengthen our UKGI Shareholder NED cadre, improving our pipeline for the benefit of our Clients and their assets.

Whilst we are proud of our achievements, we realise that there is still much to be done. I see 2022/23 as a year to strengthen our offering, further professionalising our delivery model and ensuring we execute our stewardship activities to an even higher standard.

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

Charles Donald
Chief Executive

Executive Summary

UK Government Investments (“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 FY2021/22. 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”)¹. 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 the responsibility for oversight of the assets within our Portfolio rests principally with the boards of the ALBs. As with last year, we have concentrated our response on UKGI’s stewardship role as a service provider to three distinct roles (corporate finance adviser, shareholder representative, and non-executive director) representing the government’s responsibilities across a Portfolio of 22 ALBs that we provide services for (each, an “Asset” and collectively, our “Portfolio”) and seven government departments (our “Clients”).

We support and challenge our Assets’ governance and performance 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. 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). Our Assets employ over 158,000 people, generate approximately £24 billion of income and manage gross assets of over £1 trillion.

We provide case studies and examples throughout the report to demonstrate our stewardship role and activities under each of the six Principles of the Code (individually – “Principle”), with emphasis on the period FY2021/22, summarised points outlined as follows:

¹ Arm’s length bodies (“ALBs”) are a specific category of central government public bodies that are administratively classified by the Cabinet Office. The three types of ALB are: Executive Agencies (“EA”), Non-Departmental Public Bodies (“NDPBs”) and Non-Ministerial Departments (“NMDs”).

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

- Combining the best of public and private sector expertise, UKGI is the government's centre of excellence for corporate governance and corporate finance. We create value for society from government's most complex commercial interests. 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
 - supporting our Clients with orderly asset sales that generate value for money
- Our strategy concentrates on the quality 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 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
 - iii. to provide the services and outcomes sought by our Clients to the highest standards
- We believe that a diverse and inclusive workforce, and our values-led, supportive and non-hierarchical culture enables us to provide our shareholder role. We promote effective stewardship by enabling our people to work at their best; by capturing a wide range of experience and perspectives to reflect in our work, we gain a better understanding of the needs of our Clients and the wider public we serve.
- In FY2020/21, we refreshed our organisational values. During FY2021/22 we have sought to ensure that our values are fully embedded into everything we do. 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
 - collaborative and outcome-focused
- As we have grown, we have given greater attention to the way we operate and interact with each other to further enhance the collaborative culture and provision of service for which UKGI is renowned. We have strengthened our infrastructure including our oversight processes such as risk, our systems in the form of hybrid working, our technology including building a new resourcing platform, and building an effective project management office.

- 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")²; achievement of value for money for the taxpayer in asset transactions (as confirmed by the National Audit Office); and positive feedback from stakeholders, including permanent secretaries of our Clients and chairs of Assets within our Portfolio.
- In the 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 Clients. 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. Reviews are undertaken by senior personnel from across the organisation, who form Portfolio Review panels. 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.

- Our Board provides strategic direction and ensures UKGI is equipped to perform its functions, including having sufficient resource and a suitable organisational structure. Our Board promotes UKGI's performance of its stewardship role by encouraging the development of 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. Over the past year, our Board has remained engaged with the activities of our Corporate Governance and Portfolio Management Programme.

2 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>

- 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, regularly 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 remuneration structure with our shareholder, HM Treasury (“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 the performance ratings of individuals in shareholder teams are linked to their performance in that team and adherence to the values set out above.

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

- UKGI has a Code of Conduct which governs how we work and the 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 are all trained on and 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 Clients, 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.
- To best support our Clients, we perform our shareholder role as agreed in a memorandum of understanding with them, setting out how we will represent our Clients’ best interest. Positive end-of-year feedback for FY2021/22 indicates that the best interests of our Clients have been provided for.

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 stewardship of these Assets contributes to the maintenance of orderly markets through their activities.
- We conduct a comprehensive 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 effect on an Asset's ability to achieve their policy objectives.
- UKGI is actively considering the financial pressures on our Assets as a result of the fiscal and economic outlook. During 2022, we undertook a review of economic stress on the UKGI Portfolio in relation to rising interest rates and strains on the supply chain associated with the supply of materials following the coronavirus (COVID-19) pandemic and the Ukraine war. Businesses subject to materially increased risks will be subject to additional assurance activities.
- 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.
- 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.
- UKGI leverages its corporate finance expertise to assist government with bespoke projects for which it is best placed to provide assistance, for example the Covid Interventions Resolutions Group which addressed a systemic market risk.

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

- Our Clients 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
 - 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 Clients manage their policy and other interests in their Assets. Our close working relationship with our Clients is central to enabling us to receive honest and open feedback from them, which we take on board 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 provided 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
 - as the centre of excellence for corporate governance, good governance and an emphasis on continuous improvement runs through all the core strands of our stewardship activities
- We communicate our activities through a range of media (for example the UKGI website and gov.uk) and disseminate best practice through our events (for example the Diversity & Inclusion network), 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')³. In 2022, we published a report detailing the role of the UKGI Contingent Liability Central Capability. We also publish an Annual Report and Accounts and Stewardship Code response.

- 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.

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.
- We are held accountable by the government departments for which we conduct an agreed role (as well as 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 Financial 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.

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



Principle 1: Purpose, strategy and culture

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:** combining the best of public and private sector expertise, we are the government’s centre of excellence for corporate governance and corporate finance. We create value for society from government’s most complex commercial interests.
- **Our strategy:** we concentrate on resolving challenging corporate governance and finance issues that the government faces, making sure that any assignment we undertake is defined and assessed relative to our risk appetite, and providing advice on these assignments to the highest standards.
- **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 22 arm’s length bodies (“ALBs”) and seven government departments (our “Clients”).
- **Our values and how we embed them in our culture:** during FY2021/22 we have sought to ensure that our values are fully embedded into everything we do, including aligning the behaviours associated with our values with our interview and appraisal process. As we have grown, we have provided greater emphasis on collaborative culture and exceptional service provision for which UKGI is renowned.
- **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:** during FY2021/22, UKGI has continued to serve the best interests of our Clients, providing an active shareholder role across our Portfolio. We received feedback from 16 senior department sponsors and 11 chairs of our Assets, with the average response saying that UKGI performed our shareholder role extremely well.
- **Our future:** we work to ensure continuous improvement across our Portfolio as we provide our role as the centre of excellence for corporate governance in government.

What is UKGI and what is our purpose?

Combining the best of public and private sector expertise, we are the government's centre of excellence for corporate governance and corporate finance. We create value for society from government's most complex commercial interests. 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 website⁴. UKGI is entrusted by HMT to undertake the following objectives:

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

Our strategy

We work with different government departments 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 assessed relative to UKGI's risk appetite
- iii. to provide the services and outcomes sought by our Clients to the highest standards

In contrast to the private sector, we cannot always choose what we work on. We ensure we have the mix of skills to achieve our corporate objectives and to respond to the needs of our Clients 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 are best placed within government to take on this work as our commercial skillset is most closely aligned and valuable to the workstreams or project requirements. 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.

⁴ UKGI's website: <https://www.ukgi.org.uk/>

Case study: The redevelopment of UKGI’s purpose statement

Our People Survey feedback in the autumn of 2021 highlighted that our colleagues felt aligned to UKGI’s mission and objectives (what we provide and how), but that the organisation lacked a unifying purpose statement which captures why we do what we do. A working group set out to capture the reason UKGI exists in a simple purpose statement, which would create a sense of community and shared aspiration.

The working group collected input from staff via a survey, which was then used to create three draft statements, and these were then discussed in line management focus groups held throughout the organisation. The group discussion approach helped to ensure the resulting statement was representative of all areas of expertise and levels of experience. The final draft was then shared with personnel in HMT’s sponsorship team and submitted for Board approval.

UKGI’s purpose is

“To create value for society from government’s most complex commercial interests.”

We will continue to promote UKGI’s purpose and mission in our Client engagement, maintaining core strategic relationships with government departments. We will share our unique blend of public and private sector expertise in stewardship across government where we are able, providing input to departments from a practitioner’s perspective. Even where we do not have a direct shareholder role, UKGI is available (within resource constraints) to provide advice and expertise to departments across our core activities.

Figure 1: Our purpose, mission and objectives hierarchy



Government as ‘shareholder’ and our stewardship services

Government-owned businesses and organisations, or ALBs, play an important role in the provision 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 is centred upon 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.

The government’s responsibility as owner (or ‘shareholder’) is to seek to have ALBs which are high performing organisations – and has a number of areas it can concentrate on to support the achievement of this. See Figures 2 and 3.

Figure 2: The government’s different sponsor responsibilities for its ALBs

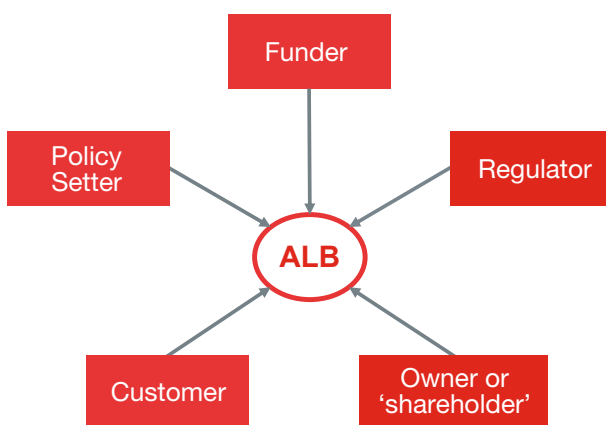


Figure 3: Areas of attention for government in its shareholder role



UKGI’s stewardship role

UKGI’s stewardship role is as a service provider, representing the government’s shareholder responsibilities across a Portfolio of 22 ALBs and seven government departments. These are primarily ALBs which have a significant commercial element, significant private sector interface and/or material governance complexities. 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 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"). 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.

How we carry out our stewardship services

We work on behalf of our Clients, performing our shareholder role as agreed in a memorandum of understanding and framework document 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:

- i. establish and maintain appropriate and effective corporate governance structure and documentation which govern the government department-asset relationship
- ii. promote effective objectives, business planning and performance against business plan

- iii. promote strong corporate capability
- iv. promote effective leadership through high quality boards and senior management
- v. promote effective relationships between the government department and the Asset

We work with the management teams 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 2 full time equivalent team members. Further detail on how we perform these activities in practice is provided under Principle 5.

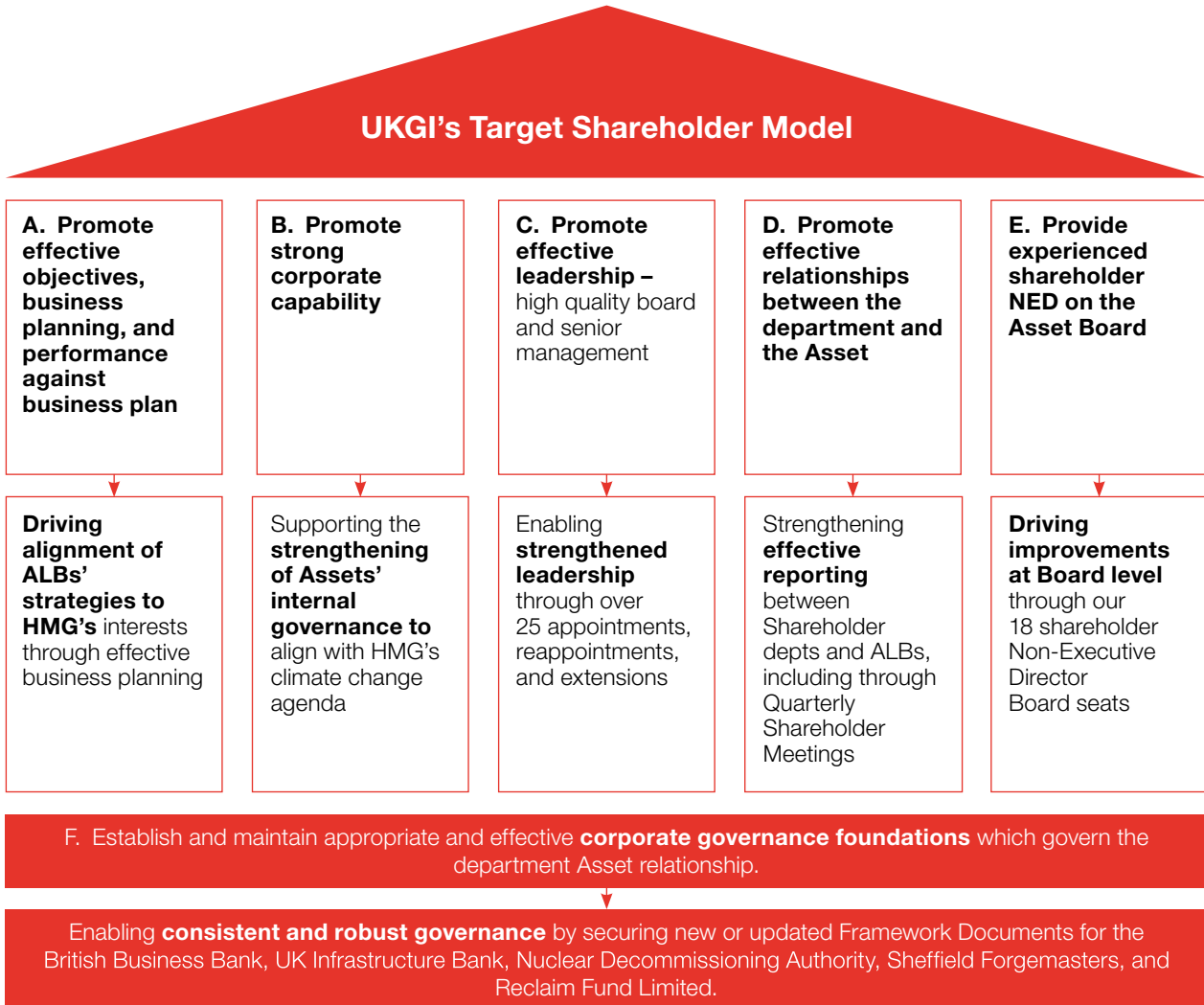
In practice, and in most circumstances, the activities above are provided through the appointment of an experienced UKGI shareholder non-executive director ("UKGI Shareholder NED") to our Asset's board, usually supported by a shareholder team. The role of the UKGI Shareholder NED is to:

- i. 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(s) whilst having appropriate regard to other stakeholder interests

- ii. contribute to the overall strength of the board by bringing appropriate skills and expertise
- iii. contribute expertise in best practice corporate and government governance
- iv. by virtue of their unique position, facilitate the relationship and understanding between the government department and the Asset, including:
 - 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
 - whilst fulfilling their duties of confidentiality as a board member, providing a direct line of sight to the department on Asset developments and the quality of the board and management in the performance of their functions
 - supporting wider relevant government stakeholder relationships

Figure 4: Our stewardship services.

UKGI acts as a shareholder on behalf of sponsor departments, promoting ALB’s organisational performance across key functions. The below figure details the 6 elements of the UKGI Target Shareholder Model in boxes A – F. We have also included practical examples of how we have delivered these during FY2021/22



There are certain activities UKGI does not do: setting government policy; assuring satisfaction of policy objectives; mediating between government 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 Corporate Governance and Portfolio Management Programme (“CG&PM”) which

we outline on page 39. Our CG&PM enables the sharing of our specialist expertise across government and our Assets in applying governance disciplines in a government setting, which is central 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 2020 UK Stewardship Code's definition and our shareholder role, this specialist expertise is available to our shareholder teams who can then apply it in the context of our Portfolio. This reinforces teams to support our Clients 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 role for a broad and diverse Portfolio of Assets. The Portfolio consists of non-ministerial departments⁵ through to private limited companies. They cover a range of sectors, with the main activities being finance, communications, transport, nuclear, defence, manufacturing and property and land.

Collectively, our Assets employ over 158,000 people, generate approximately £24 billion of income and manage gross assets of over £1 trillion.

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. The reason for these differences, particularly on whether or not UKGI holds a board seat, is largely related to how and when the Asset came into government control, and what

was considered feasible and appropriate for the Asset and the government at the time. At one end of this spectrum, for example, are Channel 4 ("C4C") and NatWest Group ("NWG"). We do not hold seats on the C4C board or NWG board, which are solely responsible for strategic and management decisions. 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, our role is to agree clear objectives and performance targets for our Assets with ongoing performance monitoring. Table 1 demonstrates the spectrum of how we implement our shareholder model.

In FY2021/22, we took on new shareholder roles on Reclaim Fund Limited ("RFL"), Atomic Weapons Establishment, Sheffield Forgemasters, UK Infrastructure Bank and the Government Property Agency, laying the foundations for effective stewardship functions for those Assets.

⁵ 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 greater financial autonomy (including its own estimate and accounts).

Figure 5: Our Portfolio by sector



Table 1: Our Portfolio of Assets

Asset	Government Shareholding	Client Department†	Cabinet Office Classification	Board Seat	Non-Executive Appointments ^o
NatWest Group	46.91%‡	HMT	Public Financial Corporation	No	Asset NomCo leads
URENCO	33%	BEIS	Non-public sector	Yes	Appoint 2 shareholder NEDs and lead appointment of Chair
OneWeb	19%	BEIS	Unclassified ⁺	Yes	UKGI leads appointment of 2 NEDs – NomCo leads other NED appointments
HM Land Registry	100%	BEIS	Non-Ministerial Department	Yes	UKGI lead
Post Office	100%	BEIS	Public Corporation	Yes	UKGI lead Chair appointment – NomCo leads other NED appointments
Channel 4	100%	DCMS	Public Corporation	No	UKGI supports DCMS and Ofcom who undertake the appointments
Atomic Weapons Establishment	100%	MoD	Non-Departmental Public Body	Yes	UKGI lead
Nuclear Decommissioning Authority	100%	BEIS	Non-Departmental Public Body	Yes	UKGI lead
British Business Bank	100%	BEIS	Unclassified	Yes	UKGI lead Chair appointment – NomCo leads other NED appointments
The Royal Mint	100%	HMT	Public Corporation	Yes	UKGI lead Chair appointment – NomCo leads other NED appointments
National Highways	100%	DfT	Non-Departmental Public Body	Yes	DfT lead
UK Asset Resolutions	100%	HMT	Central Government as a publicly owned company	Yes	UKGI appoints the Chair and 2 NEDs

Asset	Government Shareholding	Client Department [†]	Cabinet Office Classification	Board Seat	Non-Executive Appointments [□]
Ordnance Survey	100%	BEIS	Public Corporation	Yes	UKGI lead Chair appointment – NomCo leads other NED appointments
UK Infrastructure Bank	100%	HMT	Non-Departmental Public Body	Yes	UKGI lead
Defence Equipment & Support	100%	MoD	Executive Agency	Yes	UKGI lead
Reclaim Fund	100%	HMT	Non-Departmental Public Body	Yes	UKGI lead Chair appointment – NomCo leads other NED appointments
Network Rail~	100%	DfT	Non-Departmental Public Body	Yes	DfT lead
Sheffield Forgemasters International Limited	100%	MoD	Public Corporation	Yes	UKGI lead Chair appointment – NomCo leads other NED appointments
Government Property Agency	100%	CO	Executive Agency	Yes	UKGI lead
National Nuclear Laboratory	100%	BEIS	Public Corporation	Yes	UKGI lead
UK Export Finance	100%	N/A [§]	Ministerial Department	Yes	UKGI lead
BIS (Postal Services Act 2011) Company Ltd	100%	BEIS	Unclassified	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”).

□ UKGI’s involvement and oversight over appointments varies from Asset to Asset and often involves other parties, including ministerial approvals as final decision-makers. We follow the Governance Code for Public Appointments in respect of all regulated appointments, this can be found at: www.gov.uk/government/publications/governance-code-for-public-appointments.

‡ As of 15 September 2022

± Unclassified – Assets classified to central government by the Office for National Statistics, but not yet classified as an ALB by the Cabinet Office

~ UKGI does not perform a shareholder role for Network Rail. Our role is to provide and support a Director as a board member.

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

Case study: Reclaim Fund Limited



The case study below demonstrates UKGI's success in transferring a private company into public ownership without undermining operational provision and ensuring a smooth governance transition, and how UKGI helped the company adapt to public sector rules and processes.

RFL is a not-for-profit dormant assets company established pursuant to legislation, owned by Co-op Group since 2011. Its role is to safeguard the rights of dormant asset holders to be able to reclaim their funds, whilst enabling money from dormant accounts to be distributed to good causes via the National Lottery. Ownership was transferred to HMT in March 2021 after the ONS reclassified RFL to central government.

UKGI supported HMT in bringing RFL into the public sector and setting up future governance arrangements. UKGI has a full shareholder role including a seat on the RFL Board and Committees

Prior to March 2021 UKGI concentrated on setting up the new governance arrangements, including negotiations with Cabinet Office. This was an unusual situation as what had been a private company was potentially now to become subject to stringent requirements for public bodies. UKGI succeeded in providing a model and governance structure that ensured a balance between operational freedom and accountability appropriate to the specific circumstances of RFL.

Since then, UKGI has led the embedding of new governance arrangements in line with our best practice governance model. This has included:

- Drafting and implementing the new Framework Document
- The appointment of a UKGI shareholder NED to the Board and Committees
- Establishing good working relations with and between policy, shareholder, finance and commercial with RFL, including regular formal meetings
- Establishing regular interactions with the company (quarterly shareholder meetings and regular contact with Chair and CEO)
- Supporting a Board review and securing ministerial approval for proposed future Board structure and refresh
- Leading on new chair recruitment (ongoing)
- Supporting RFL's recruitment of up to four new NEDs (ongoing)
- Supporting RFL on development of new business plan and Remuneration Policy
- Providing ad hoc advice to the company on the expectations and requirements for ALBs within the public sector

RFL has made a successful transition to the public sector. With UKGI's support it has adopted public sector processes and is adapting well to having a pro-active public sector owner. UKGI's role and the appointment of a shareholder NED is also helping the company manage the expansion of the dormant assets scheme.

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-focused

- 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

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, which enables 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 develop 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 our Board which observes these values in its work. We are cognisant of the particular expectations and responsibilities placed upon us and our Board given our public sector role and stewardship of public funds. To that end, we follow the "Principles of Public Life", commonly known as the "Nolan Principles" in everything we do. 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

Diversity and Inclusion (“D&I”) remain a strategic area of attention for UKGI this year and beyond. We aim to create an organisation with a diverse and inclusive workforce, where everyone feels comfortable to work and has a sense of belonging, and which brings together a diverse range of talents as we seek to serve our Clients across government and ultimately, the wider public.

UKGI is on track to meet both its formal diversity targets, which concentrate on gender and ethnic diversity at senior level. 42% of senior staff are women (target: 40%) and 5% identify as being from an ethnically diverse background (target: 10% by the end of FY2022-23). As reported in our 2020/21 Stewardship Code report, we procured a diversity and inclusion consultancy to conduct an external D&I audit of the organisation. Their report highlighted some areas for attention which formed the basis of ten workstreams each championed by a member of senior management. Over the course of the last year, we have made

significant progress on each of these, including:

- Improving our board recruitment process to further encourage diversity on UKGI’s Board, and appointing a Board member as D&I Champion. As at March 2022, our Board had 10 members with 40% women and 20% identifying as being from an ethnically diverse background⁶
- Creating a D&I network across UKGI’s Portfolio of governance Assets to share best practice
- Training c.20 staff Mental Health and Wellbeing champions from across the organisation to help provide support and promote awareness and best practice
- Continuing to embed the recently refreshed UKGI values formally and informally through office space décor, 360-degree feedback processes, as well as recruitment, induction and progression processes
- An expansion of UKGI’s talent sourcing strategy and tracking of data throughout the recruitment process
- Increasing the range of mentoring and sponsorship opportunities for staff, and providing career progression panel sessions for those seeking internal promotions
- A new, interactive induction session for new joiners to UKGI covering both values and D&I
- Becoming a signatory to Women in Banking and Finance. UKGI also continues to be a signatory to the Women in Finance Charter and Race

⁶ As at 31 October 2022, our Board had 10 members with 50% women and 30% identifying as being from an ethnically diverse background.

at Work Charter and is a Disability Confident Committed Employer

We believe that a diverse and inclusive workforce enables us to provide 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 Clients and of the wider public we serve.

Gender Pay

As an organisation with only 166 employees, UKGI is not required to publish the gender pay data required for companies with over 250 employees under the provisions of the Equality Act 2010 and associated regulations. 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 2022, our mean gender pay gap was 19% (31 March 2021: 23.7%) and our median gender pay gap was 22.5% (31 March 2021: 24.4%). Our mean and median bonus gap was 32% and 37.6% respectively (31 March 2021: 24.8% and 28.9%).

We have analysed the data collected to calculate the gender pay gap, and it is clear that our gender pay gap is influenced 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. The gender pay gap composition has gradually shifted throughout commitment to diversity and inclusion and the initiatives outlined above; however, we have more work to do on the gender bonus gap.

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:

- 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 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
- 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 ALB chairs, board members and management teams, as well as with specialist advisers

The effective stewardship of our Portfolio is supported by our assurance functions in the form of our Corporate Governance and Portfolio Management Programme, our Risk function 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 cohesive

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.

As detailed on page 27, our concentration 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.



Llanwern Solar Farm – supported by UK Investment Bank

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

We assess our performance through feedback from 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 FY2021/22, UKGI has continued to serve the best interests of our Clients, providing an active shareholder role across our Portfolio. We received feedback from 16 senior department sponsors and 11 chairs of our Assets, with the average response saying that UKGI performed our shareholder role extremely well.

Our future

We will look to strengthen our proposition in FY2022/23 by emphasising improvements to our core capabilities, further professionalising across our four objectives and, in particular for our Portfolio, building the skills of our Shareholder NED cadre. This includes implementing our newly devised Corporate Governance Development Framework which has specialised training aimed at Shareholder NED development, ensuring UKGI maintains its expertise as a shareholder. Further detail on the Corporate Governance Development Framework can be found on page 45. We will share our expertise in stewardship where we are able, providing input to government departments from a practitioner's perspective.

In order to realise our strategy and to enable effective stewardship and comprehensive corporate governance, our strategic priorities for FY2022/23 are to:

- Continue to embed our Target Shareholder Model and current know-how, drawing on feedback from our Clients
- Make progress on strategic themes to strengthen our know-how and position as the centre of excellence in government: environmental, social and governance, culture, diversity, and remuneration
- Enable more targeted interventions across our Portfolio by creating and embedding a comprehensive approach for understanding and reporting overall Portfolio performance
- Further professionalise our Shareholder NED cadre and strengthen the pipeline as outlined above

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: Governance, resources and incentives

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

We believe that the foundation of good stewardship begins with a clear governance framework, our own Board and a specialist skilled workforce. Our internal governance framework provides for timely 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 operate⁷.

Our Framework Document outlines UKGI's purpose, objectives, governance and accountability, shareholder relationship, Board and Committee responsibilities, annual report process, management and financial responsibilities, and staffing.

Our relationship with our sole shareholder, is underpinned by the principles of the UK Corporate Governance Code, in so far as is applicable. The UKGI Board provides strategic oversight of UKGI on behalf of HMT as the shareholder. Subject to our Framework Document, any decisions taken by the UKGI Board (or any Committee of

⁷ Available on our website: www.ukgi.org.uk (under ‘Transparency’, ‘UKGI Governance Documents’)

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 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 support 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

UKGI's Board has oversight of all our shareholder roles, as well as our Corporate Governance and Portfolio Management Programme which is outlined on page 39. On page 26, 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 – it is reviewed, updated and approved by the Board at least annually, with any changes over the year reflected as necessary. 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 10 members, including our CEO, as well as the Permanent Secretaries of two of our important stakeholder departments, the Department for Business, Energy and Industrial Strategy (UKGI's largest Client) and HMT (UKGI's shareholder)⁸, operating as ex officio Board members. This arrangement provides an essential line of sight to our Board from the government departments on whose behalf we operate. The remainder of our Board members, non-executive directors ("NEDs") who do not also work in government 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 Portfolio, and leverage their expertise and challenge in addition to the shareholder team.

⁸ HMT was represented by the Second Permanent Secretary (Charles Roxborough) until 30 June, thereafter HMT has been represented by the Director General, Growth and Productivity (Phillip Duffy).

Our Board meets at least six times per year and following the completion of an external board effectiveness review earlier in the year, a Board strategy session took place in October 2022 providing the Board with the opportunity to dedicate more time to strategy development outside the regular cycle of meetings. 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 summary dashboard providing narrative and quantitative data on each Asset within UKGI's Portfolio
- A Risk Heatmap setting out the risks to our services and reputation for each of UKGI's Assets. The Board considers the Risk Heatmap at each meeting to ensure it is concentrated on the right issues

The Board is responsible for:

- Reviewing and approving our Corporate Governance and Portfolio Management Programme's strategy and business plan across our Portfolio Assets (including resourcing for our shareholder role)
- Undertaking a performance assessment on our governance activities each year which includes an assessment against our shareholder objectives, informed by feedback from stakeholders and an assessment of performance against pre-agreed performance indicators for each of our Assets
- Challenging shareholder teams annually to evidence where they have made a difference and added value

- Commissioning lessons learned exercises in relation to elements of our stewardship activities and ensures the outcomes are embedded across UKGI

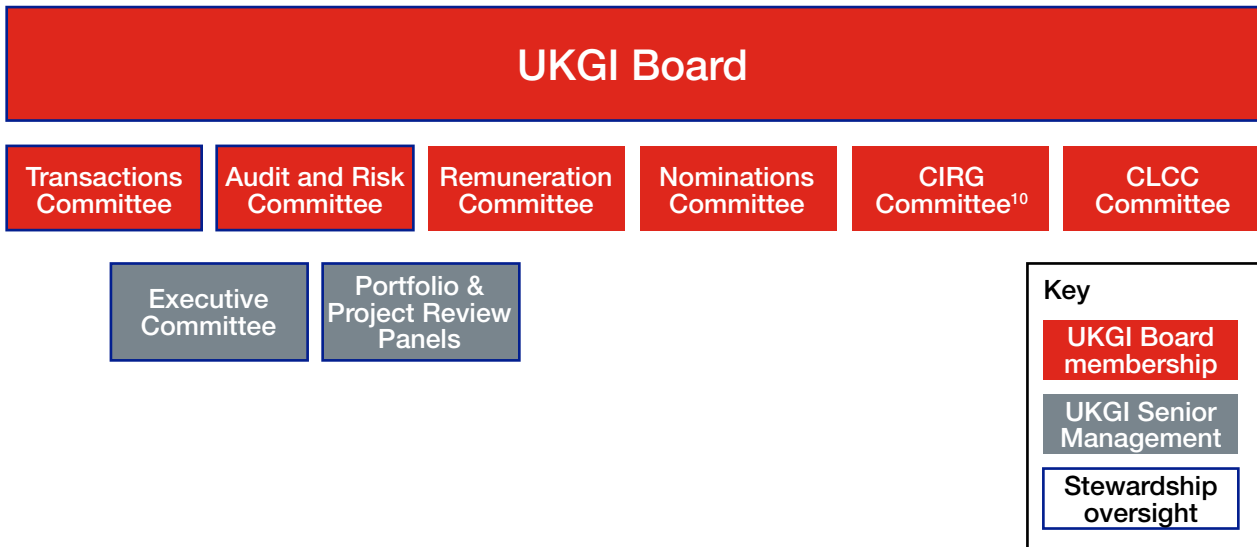
Board agendas are developed and informed by management's risk assessment, which itself is reviewed at each Board meeting. Projects with the highest risk rating must update the Board at each meeting, and projects which retain the highest risk rating for multiple reporting periods benefit from are periodic deep dive review. 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 comprehensive.

For further detail on our Board and their experience, please refer to our Annual Report and Accounts⁹.

⁹ UK Government Investments Annual Report and Accounts 2021-22: <https://www.ukgi.org.uk/2022/07/20/uk-government-investments-annual-report-and-accounts-2021-22/>

Our Committees

Figure 6: 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 6).

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 on behalf of ministers and government departments, the ARC seeks to maintain the highest standard in audit and risk management process and practice. We are supported in this through third-party independent audit from both the National Audit Office (“NAO”) and the Government Internal Audit Agency (“GIAA”). In particular, in the past year, the ARC has identified a need to develop an assurance map to understand best where assurance is provided to UKGI, and has been working

with the GIAA to define these areas. The risks UKGI must manage are those which arise as a consequence of discharging its mandate. UKGI seeks to achieve its objectives while minimising risk, including operational, execution and reputational risks. Risk is monitored and controlled on a regular basis and remains ‘live’ as opposed to static or historical. Holistic horizon scanning for risk change takes place on a regular basis or in respect of known global trends, for example 2022 inflation levels. The UKGI ARC also seeks to be an exemplar for other government bodies, providing a framework for best practice in arm’s length bodies (“ALBs”).

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. The activities of the Remuneration Committee have had two areas of work in the year.

¹⁰ The CIRG Committee was wound down in February 2022, at which point the governance of the project reverted to the UKGI Board until the end of the CCFF Scheme on 18 March 2022

The first has been on considering how to reconcile the strength of the private sector jobs market from which UKGI draws many of its recruits, with the need for pay restraint in the public sector, most visible through the temporary pause in public sector pay increases in FY2021/22. Against this backdrop, retention of high-quality people will become ever more important, and the Committee has been pleased with the continued emphasis on UKGI's culture and values, which support retention efforts as much as remuneration considerations. The second work area has been on reverting to the performance-related pay system which prevailed before the pandemic, which ensures UKGI's strongest performers receive recognition for their efforts.

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 and recently conducted a more in-depth review to account for the turnover in Board membership over the course of the year and into 2023. 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 undertaken, and where appropriate, making recommendations to the Board or 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 UKGI's work on 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.

Contingent Liability Central Capability (Board Committee)

The Contingent Liability Central Capability ("CLCC") Committee has responsibility for strategic oversight of the Contingent Liabilities team's activities and performance. It provides assurance that the team is pursuing its objectives as agreed with HMT as set out in the specific memorandum of understanding and Service Level Agreement ("SLA") between UKGI and HMT for CLCC.

The CLCC Committee Chair is a director of UKGI appointed by the UKGI Board. The Committee comprises no fewer than two non-executive directors of UKGI, the CEO of UKGI, and the CLCC Director and up to three external appointees. The external members have relevant experience which provides the Committee with a stronger knowledge base and allows for further depth of challenge.

The CLCC Committee provides support and challenge to the team on matters including the approach to provision of advice and

reporting (including an annual progress report to HMT on review of portfolio contingent liabilities), team resourcing and skills, and the management of risks to UKGI from the team's activities. The Committee first met in May 2021 and has met 6 times since. During the year the Committee reviewed and endorsed governance documents, such as the updated SLA, and the first CLCC progress report.

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

The CIRG Committee was established by the UKGI Board to focus on CIRG's operations, activities and governance. A description of the roles and responsibilities of CIRG and the CIRG Committee can be found on page 62.

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, HMG 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 then Chancellor of the Exchequer reaffirmed this intention with the programme of sales expected to be completed by 2025/26.

In line with Principle 2 of the 2020 UK Stewardship Code (the “Code”), UKGI's shareholder role for NWG is guided by two key documents in place between UKGI and HMT setting out our governance structure, which are available on UKGI's website:

- i. 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
- ii. the memorandum of understanding drawn up between UKGI and HMT relating to the management by UKGI of NWG, which 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 Code)

The UKGI Financial Institutions Group (“FIG”) is responsible for managing the government’s NWG shareholding and disposal programme on behalf of HMT. The UKGI Transactions Committee is responsible for overseeing this work and determining advice to HMT and ministers on the stewardship, and preparation and execution of disposal strategies, of NWG. During the period in review, the UKGI Deputy Chair was 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 and at least 3 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.

On page 74 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 all UKGI senior executives, 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 UKGI senior executives to carry out their duties effectively in supporting our Clients.

The Chief Executive is also accounting officer under Managing Public Money (“MPM”), 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 departmental assets,

in accordance with the responsibilities assigned to him in terms of Parliamentary accountability. Upon the recommendation of the ARC, the Board has adopted a formal risk appetite statement setting out the level of risk that UKGI is willing to bear, the system of internal control is proportionate to that statement. The Chief Executive is supported in this by the UKGI Risk Leader, a member of the Executive Committee. Please see the following case study 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 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 factors 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 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.

Corporate Governance and Portfolio Management Programme

UKGI's corporate governance strategic objective remains to "Act as shareholder for, and lead establishment of, UK government arm's length bodies, as required and in line with HMT priorities".

To better support UKGI to undertake this role, the Corporate Governance Programme established in 2018 has been expanded to include our Portfolio Management workstreams. This enables a more systematic approach to Portfolio monitoring, strategy, and resourcing, ensuring a more joined up interface between Portfolio assurance activities and the strategic activities across the Programme. The Corporate Governance and Portfolio Management Programme's

("CG&PM") purpose is "to drive best practice corporate governance and effective stewardship in UKGI".

The strategic priorities for the CG&PM Programme are:

- Continuing to embed our model and current know-how, also drawing on feedback to do so
- Progressing strategic themes to strengthen our know-how and position as the centre of excellence for culture, Environmental, Social and Governance ("ESG"), diversity, and remuneration
- Enabling more targeted interventions across our Portfolio by creating and embedding a comprehensive approach for understanding and reporting overall Portfolio performance

- Further professionalising our Shareholder NED cadre and adding more staff to the forward pipeline

Across the Programme we have looked to incorporate areas for continuous improvement identified from our most extensive feedback received to date from our senior department sponsors and ALB chairs, and will continue to build on the effective provision of our shareholder roles recognised by these important stakeholders.

A key enabler within the Programme for driving continuous improvement in corporate governance across UKGI is our tailored Learning and Development (“L&D”) training ladder. Maintaining and sharing our knowledge and expertise through L&D will always be an essential part of our commitment to good stewardship and to continuous improvement in our CG&PM Programme. On pages 44 and 45, we provide detail on the training we have provided to colleagues and our Shareholder NEDs over the past year.

In the future, we will concentrate on our existing offering for our shareholder teams and NEDs by continuing to provide our core training, alongside new opportunities on the strategic stewardship areas for FY2022/23: culture, ESG, diversity and whistleblowing. This will continue to be supplemented by other development opportunities including the sharing excellence seminar programme, and the new Shareholder NED and aspiring NED programme (as described on pages 46 and 47).

Portfolio Review Panels (Senior Management Panels)

The Director responsible for the CG&PM Programme has responsibility for the ongoing review of the health and performance of the UKGI Portfolio. Each assessment 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 the Asset team’s oversight) and any 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/ government department (for example, new equity funding)
- advice which is expected to be controversial (for example, recommending against a course of action favoured by the Client)
- advice with significant reputational risk for UKGI (for example, very high public interest, for instance the removal of a high-profile staff member on UKGI advice)

- approach to external inquiries (for example, NAO, independent inquiries)
- 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 ARC), in addition to facilitating the sharing of experience across our organisation and providing guidance, support and appropriate challenge to shareholder teams. The process also specifically helps us to:

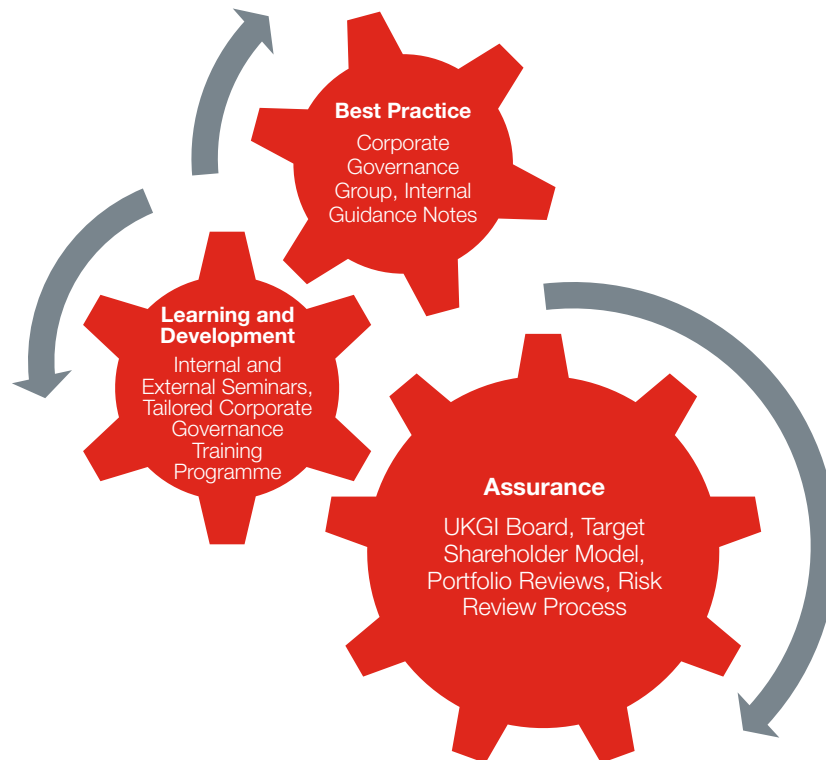
- avoid groupthink within the relevant Asset teams and across the Portfolio
- allow an objective view to be taken of risk grading and mitigations
- consider the capability and capacity of Asset teams to ensure that resource is allocated appropriately and efficiently
- consider whether we have appropriate departmental support to effectively provide these roles and are comfortable with the UKGI offering against our own best practice

In addition, we use intelligence from other Assets to help Asset teams consider what global or industry-specific challenges could emerge in the short to medium term and help them to adapt approaches to emergent risks.

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.

In addition to our regular Portfolio Review process, in FY2021/22 we also began NextGen Portfolios, a development exercise to allow more junior members of UKGI staff to build corporate governance expertise. The process is a mirror of a standard Portfolio Review, allowing junior members of staff to present on the Asset team side and their peers to provide critical appraisal of corporate governance approaches. The readout and actions from NextGen reviews are provided to the regular Portfolio Review Panels so that they can learn from a diversity of opinions and to improve our overall governance offering.

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 7: How we challenge and support our UKGI shareholder teams

Our people

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 2022, we had 166 employees with deep, specialist expertise in corporate governance, asset realisations, contingent liabilities, corporate finance and government engagement. 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. This is 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 8.

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. For example, our CLCC team comprises actuaries seconded from the Government Actuary's Department, credit risk experts, policy professionals and analysts – skillsets that have already been valuably used elsewhere in the organisation, offering those colleagues

a chance to engage in enriching and varied work across a range of different projects. These carefully nurtured 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

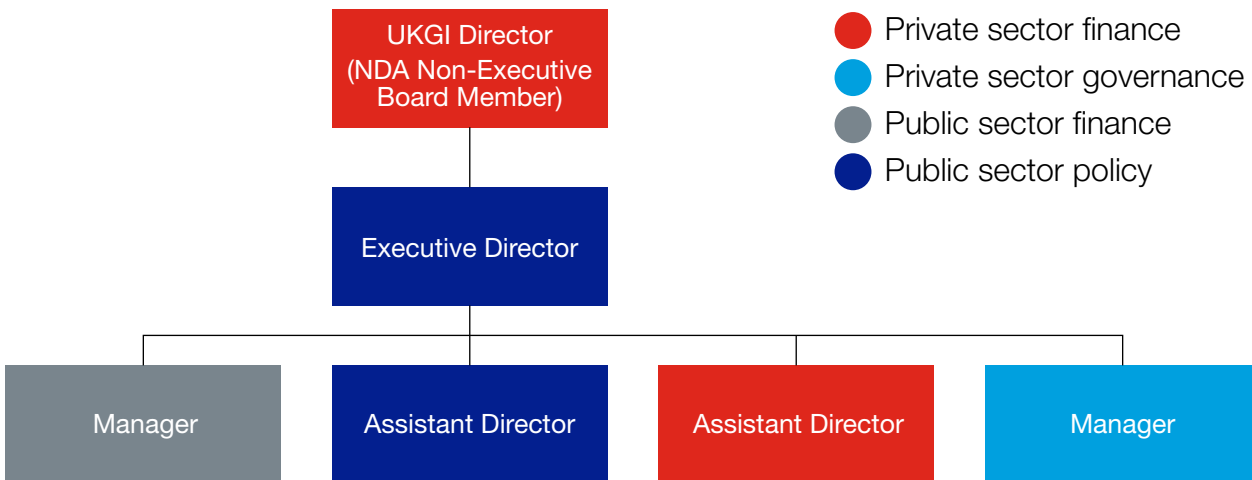
In comparison to most parts of government, we have a higher ratio of senior to junior staff and greater longevity in Asset teams. Our senior resourcing mix by FTE includes our Chief Executive, 10 Directors, 25+ Executive Directors and 50+ Assistant Directors (as of 31 March 2022). Our staff includes individuals with board experience gained in public and private sector organisations.

We aim to maintain a consistent Shareholder NED presence on Asset boards where possible and appropriate. A UKGI Shareholder NED succession planning exercise is undertaken at regular intervals throughout the year to actively manage this succession risk. It is also used to inform our targeted learning and development programme (at page 44) to ensure we have a continuous pipeline of suitable successors at all levels that can meet the ‘triple role’ that is required from our UKGI Shareholder NEDs (see page 45). In line with public appointments best practice, Shareholder NEDs are generally limited to no more than two terms or greater than ten years in post on an Asset.

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 provide expert resource at sufficiently senior levels to address the needs of our Clients is central 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 8: Nuclear Decommissioning Authority shareholder team

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



Maintaining and sharing our knowledge and expertise

L&D is and will continue to be an essential part of our commitment to good stewardship and to continuous improvement in our CG&PM Programme. We have invested significantly in the training programme 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 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.

All members of staff are asked to undertake at least 16 hours of continuous professional development across the reporting year and in the last year on average our staff completed 25 hours each. Each year we conduct a skills survey to identify and assess the range of skills across UKGI. This self-assessment is verified with line managers and moderated across UKGI. We use the analysis from the skills survey to enable more informed resourcing and to identify the required learning and development for the next financial year. This year we saw an increase in staff with high or medium corporate governance skills from 46% to 68%, which is testament to our targeted training and development programme.

Over the past year we have offered over 117 courses and seminars providing over 295 hours of training and development covering various topics including corporate finance, corporate governance, people management, well-being and self-development. Our strengthened version of people management training is closely linked to UKGI's values, so we can be assured they are truly embedded in everything we do. Course topics from the past year have included:

- succession planning
- going concern reviews
- public bodies reform
- risk in the boardroom
- lessons learned from major decisions taken with Assets
- role of the director and the board
- environmental considerations in governance
- insights and trends in pay and remuneration
- accountability and governance of ALBs

Furthermore, during the year we introduced the Corporate Governance Development Framework to support the continuous professional development of our people. The framework clearly defines the variety of corporate governance development opportunities available to our employees at different stages within their career and outlines a potential development pathway for shareholder team members as they develop their careers internally or externally. These development opportunities are available to all UKGI employees, where it forms part of their development plan or future career aspirations.

The framework begins with foundation level training which offers new UKGI employees up to 47 hours of CPD within their first year, with the option of 18 hours of specific government training if needed. This includes courses and seminars in areas such as accountability and governance for ALB's and UKGI's target shareholder model. Our colleagues with more experience can attend additional development opportunities, such as our Sharing Excellence Seminars, lessons learned sessions, Portfolio Reviews and our Corporate Governance Group meeting to share experiences.

The next stage of the Corporate Governance Development Framework provides specific training, resources and personal development to support and upskill staff who are aspiring to be future UKGI Shareholder NEDs, for either internal or external roles. The UKGI Aspiring Shareholder Development Programme is a long-term programme, which includes professional development days, NED Forum observation, mentoring and experiential learning equating to over 45 CPD hours per year.

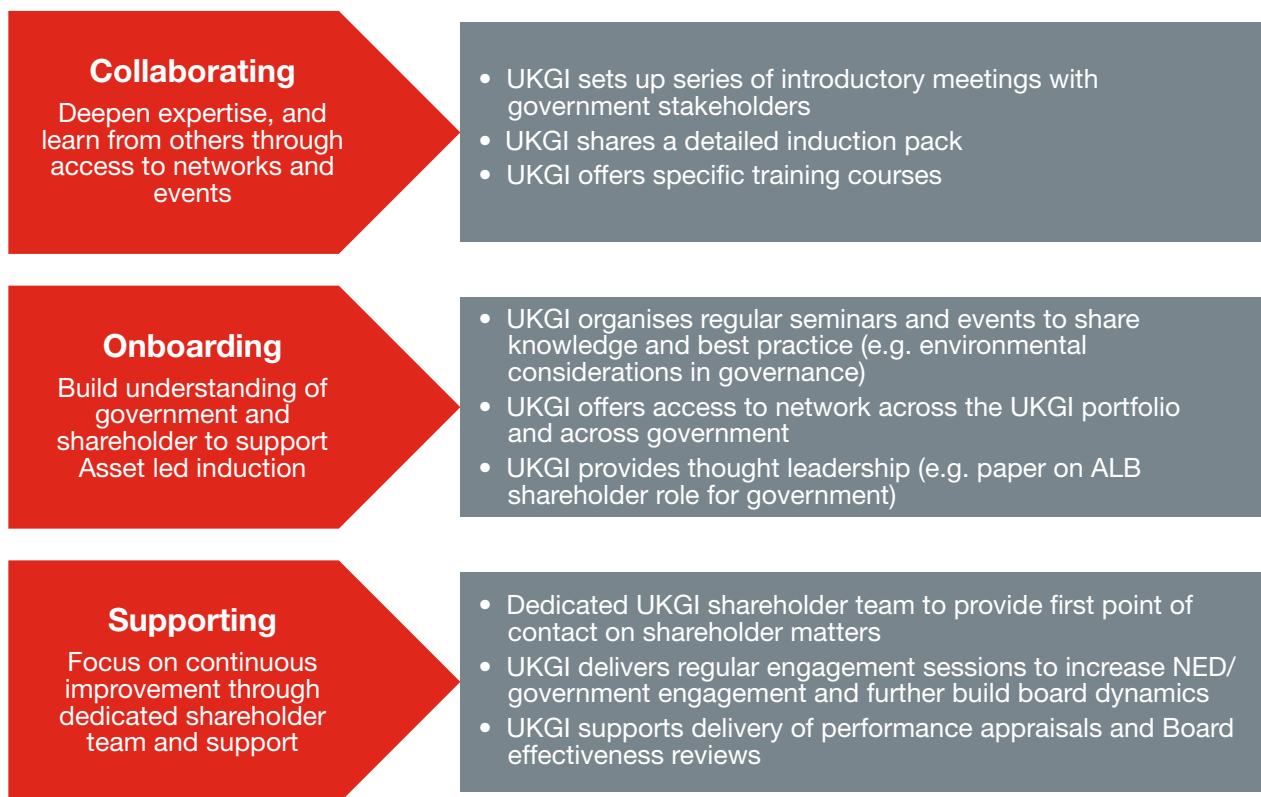
Shareholder NED Development is essential to ensure UKGI continues to act as a responsible steward and Shareholder NED Development is the final part of the framework. Through this tailored development, we ensure UKGI maintains its expertise as a shareholder, inviting existing Shareholder NEDs to attend professional development days hosted by industry experts within both the public and private sector, with topics such as "Assessing Board Performance". The programme also consists of masterclasses from chairs across industry as well as targeted personal development and board

coaching. In addition to the more formal development, NED Forums are held frequently for our Shareholder NEDs to readily share expertise and best practice as part of our commitment to continuous improvement. Through the entire framework, a Shareholder NED can expect an additional 47 hours of CPD a year to support them in their role, bringing the total CPD of a Shareholder NED to over 136 hours, (equivalent to 23 days). UKGI’s strategic

approach to promoting development of Shareholder NED capability is illustrated in Figure 9 below.

As a part of the public sector, UKGI is in a unique position in comparison to many financial sector bodies to not only have access to the Institute of Directors standard training but also access the best of training offered by the Civil Service, including the Future Leaders Scheme.

Figure 9: Developing Shareholder NED capability



Case study: The UKGI Aspiring Shareholder NED Development Programme

The UKGI Aspiring Shareholder Development Programme is a formal development programme for high performing, high potential employees who would like to develop towards becoming a Shareholder NED in the future. Whilst this development pathway will develop the skills of our aspiring Shareholder NEDs, it does not in itself guarantee a Shareholder NED role at UKGI but forms part of the UKGI employee value proposition.

The programme runs over at least a two-year period and consists of:

- Professional Development Days, with topics such as Adding Value through the NED Lifecycle, Making an Impact as a NED, Understanding and Building Effective Board Capability and Assessing and Challenging Organisational Performance through Effective Leadership, led by existing UKGI experienced Shareholder NEDs
- Corporate governance workshops, including the Institute of Directors' 'Role of the NED' and 'Finance for non-finance Directors'
- Observation of NED Forums
- Targeted Personal Development including coaching in some instances
- Mentorship from an experienced Shareholder NED
- Experiential Learner Board
- Support of volunteer Trustee or Governor roles for practical board experience
- Action Learning Sets, covering real case studies and working through solutions as a group

The programme has been well received, having so far achieved a Net Promoter Score of 9.1/10. Participants appreciate the blend of training alongside practical activities within the professional development days, having the opportunity to immediately implement their learning by working through case studies relating to the topic. In its entirety, the programme balances formal training, alongside practical experience and application through Learner Boards hosted by existing NEDs and additional support to volunteer for external Trustee or Governor roles. The mentoring and action learning sets allow for social learning, ensuring that training is successfully implemented in preparation for a potential NED role, either at UKGI or elsewhere.

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. 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 former National Security Adviser and Director General of the Security Service (MI5). UKGI has also established an alumni network to maintain links and share experiences between its current and past employees.

Fees

UKGI is funded by HMT under section 36 of the Enterprise Act 2016. UKGI does not seek to directly charge government departments or Portfolio entities for its services. UKGI's funding agreement for FY2021/22 and its anticipated funding in FY2022/23 are set out below.

UKGI may recharge for specific costs incurred on behalf of another government department, recharges may be via budget transfers or invoicing. During the financial year, UKGI received budget transfers from the Department for Transport, the Ministry of Defence, and the Department for Business, Energy and Industrial Strategy. These transfers were made through HMT and the transfers form part of the total UKGI budget, itemised below.

Table 2: UKGI's funding agreement

	2021-22 (£m)	2022-23 (£m)
HM Treasury	20.2	16.1
Department for Transport	0.4	0.4
Ministry of Defence	1.4	1.8
Department for Business, Energy and Industrial Strategy	0.6	2.8
Department for International Trade	–	0.2
Cabinet Office	–	0.2
Total Funding	22.6	21.5

How we can improve

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.

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 and Portfolio Management Programme considers feedback from our Clients', Assets and our shareholder teams, which

is incorporated into the wider corporate governance programme, including guidance notes and seminars which are disseminated across UKGI.

As part of our 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.

In FY2020/21, we invested in resource to support increased effectiveness across all of our work – by establishing a dedicated Project Management Office ("PMO"), with a staff of four. The PMO is UKGI's centre of expertise on project management to support successful project delivery across UKGI by establishing and

maintaining centralised project management expertise and ensuring a consistency of approach. The team also embed project management expertise within the larger and or more complex teams, such as the UK Infrastructure Bank shareholder team. In March 2021, the PMO developed a demand management process which is used to continuously challenge the overall priority of projects and the Portfolio throughout the year. The team plan to continue to review each of the four UKGI objectives (as set out on page 15) on an annual basis.

We also procured a new resource and portfolio management tool, Retain. Everyone in UKGI has access to Retain, which records the allocation of resources, project team members, scheduling and project and Portfolio activities in a single online platform. It manages and tracks resource allocation and Portfolio information by collating data uploaded by the organisation which can be used for bespoke reporting purposes, saving time and duplication of effort across teams. Training has been provided to all staff and is given to new joiners so that all staff can make use of the online tool.

Throughout the year UKGI has conducted regular resourcing audits to identify and manage issues, particularly as we adjust to hybrid working. The office environment was redesigned and launched in June 2021 with numerous enablers for effective hybrid working. These include collaboration spaces, 16 meeting rooms equipped with online meeting technology, expanded kitchen social space and 110 bookable vari-desks. The same technology is available to all staff in the office and from home, enabling effective working from both. Staff were engaged through a suite of communications on the benefits of hybrid

working, including through our hybrid working model handbook. The model was designed utilising our values and embedded into our culture, including through Line Manager training on how to manage a hybrid team.

Since hybrid working began in February 2021, on average 50 office desks were booked a day across the c.150 staff showing a good mixture of working methods. From time to time, our employees also work offsite at our Assets, particularly those who perform the Shareholder NED role. We will continue to look for ways to use technology to enable effective resourcing capacity and capability, and continuous improvement for our staff.

A man with short brown hair, wearing a blue and white checkered shirt and a red lanyard, is seen from behind, sitting at a desk in an office. He is looking at a large computer monitor displaying a web application. The office is modern with other desks and people in the background, though they are out of focus. A red banner is overlaid on the top left of the image, containing the text 'Principle 3: Conflicts of interest'.

Principle 3: Conflicts of interest

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 cover the following:

- **Code of Conduct:** how our Code of Conduct serves to minimise and avoid conflicts of interest to ensure the interests of our Clients are protected.
- **Conflicts of Interest:** it is incumbent on us to ensure that the interests of our Clients, 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.

UKGI's Code of Conduct

UK Government Investments ("UKGI") does not generate a profit for its services as all of our Clients are government departments, 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. Our memorandums of understanding agreed with our Clients outline our reporting processes for each Asset or project we work on.

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 principles we expect staff to abide by. These are based on the 'Seven Principles of Public Life' (known as the 'Nolan Principles')

and covers: 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 UKGI's values to life (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
- 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. UKGI takes non-compliance with the Code of Conduct very seriously and 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 Clients, 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
- 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 relevant 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 Clients, 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 Clients, 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
- 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, three illustrative conflict of interest scenarios that may arise within UKGI and the corresponding mitigation measures that have, or could, be used are set out below:

Illustrative conflict Scenario 1:

Conflicts between the UKGI Shareholder NEDs 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, for instance 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.

Illustrative Conflict Scenario 2:

External appointments of UKGI's Board or Executive Committee:

- Conflict: members of our Board or Executive Committee often have external appointments, for example directorships of companies, which allows them to apply a broad range of experience from other boards to our own. 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: we may use two important measures in these circumstances. Firstly we may limit the disclosure of information to the relevant member of the Board or Executive Committee (which, depending on the materiality and possible effects could include a written protocol around information sharing) and secondly, potentially ask them to recuse themselves from certain agenda items to avoid even the perception of possible conflict.

Illustrative Conflict Scenario 3:

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.

A person is silhouetted against a bright light source at the end of a long aisle in a server room. The person is wearing a headset and appears to be interacting with a server rack. The aisle is formed by rows of server racks on both sides, with blue vertical bars in the foreground. The floor is made of large, light-colored tiles.

Principle 4: Responding to risk and promoting a well-functioning financial system

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

In this section we cover the following:

- **Identifying risk:** we both identify and respond to market-wide and systemic risk through a comprehensive and frequent Risk Review process reporting up to the UKGI Board which provides consistent and detailed oversight over our Portfolio.
- **Special Situations and Inward Mergers and Acquisitions (“Inward M&A”):** when there are market-wide and systemic risks to the financial system, UKGI’s Special Situations Group (“SSG”) is called upon from across government to provide our specialist corporate finance and governance expertise and provide advice to government departments and our Assets. Similarly, our Inward M&A team has been engaged to respond to significant sector trends in M&A and also prepare for the implementation of the National Security and Investment Act 2021 (“NSI Act”).
- **Responding to Climate Change and Environmental Risk:** we will reduce our effects on the environment wherever possible. We have set up an internal team to explore areas in which UKGI can make small changes that collectively make a difference, considering procurement contracts, behavioral initiatives and measuring and managing our use of resources.
- **Working with others:** we support good governance practices and a well-functioning financial system by sharing our expertise across government and externally, to support continuous improvement in wider government governance both in the UK and overseas.

UK Government Investments’ (“UKGI”) Asset Portfolio is mainly comprised of 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”). Moreover, our wider obligations under Managing Public Money (“MPM”) 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 influences, such as that on the financial system.

Though not directly related to our stewardship activities (deriving from our shareholder role) in the context of the 2020 UK Stewardship Code (“the Code”), we also 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. We hire people with specific, deep commercial and financial 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. In addition, we support good governance practices and a well-functioning financial system by sharing our expertise across government and externally, to support continuous improvement in wider government governance both in the UK and overseas. The case study provided on page 63 is an example of this work.

How we identify risk

We both identify and respond to market-wide and systemic risk through a comprehensive and frequent Risk Review process reporting up to the UKGI Board 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, but also includes consideration of market-wide and systemic

risks which could lead to a significant effect on our Assets’ ability to achieve their policy objectives, or which could affect the wider market. Our risk processes have been updated to adhere to the latest (2020) version of the government’s Orange Book on Risk Management¹¹ 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
- iv. learning from experience to continually improve the successful delivery of outcomes

When there are market-wide and systemic risks to the financial system, UKGI is called upon from across government to provide our specialist corporate finance and governance expertise and provide advice to government departments and our Assets.

¹¹ 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 bodies with responsibility derived from central government for public funds <https://www.gov.uk/government/publications/orange-book>.

We currently have a number of mechanisms in place to manage UKGI's risk, summarised below:

1. UKGI's Executive Committee, Board and Audit and Risk Committee ("ARC") work together to define risks across the organisation and ensure that strategies and processes are in place to mitigate those risks. The ARC can also access expertise from our independent auditors, the National Audit Office and the Government Internal Audit Agency
2. Our Board has expertise from NEDs that are risk professionals, plus comprehensive access to risk approaches from other boards that our NEDs and Executives are members of
3. UKGI's values and culture – to ensure employees act in a collegiate manner, to have open and honest communication

so that individuals feel comfortable raising risks and know that they will receive support in managing those risks, to provide continuous professional development and bettering our people. This approach seeks to mitigate the risk of UKGI's advice not being professional and to the required standard


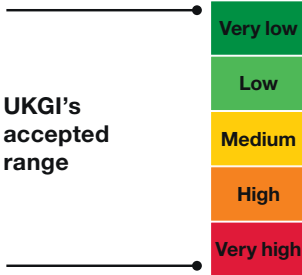
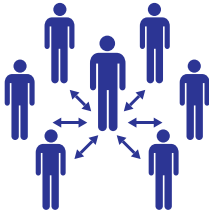
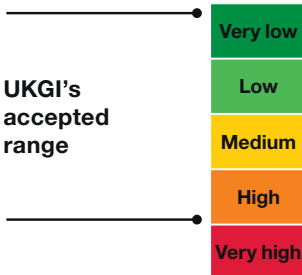

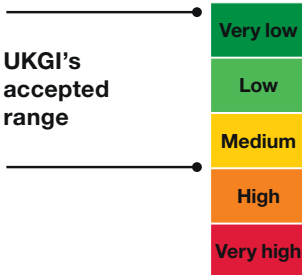
4. Portfolio and Project Reviews allow for independent consideration of the risk posed to Assets both individually and in comparison to the rest of the Portfolio as well as the opportunity to conduct risk horizon-scanning exercises

UKGI's approach to risk is summarised in Figure 10 below. The very high-risk appetite for provision of our objectives reflects our role and purpose to be at the heart of some of government's most challenging programmes.



Aerial image of Dounreay nuclear site operated by the Nuclear Decommissioning Authority (2019)

Figure 10: UKGI’s approach to risk

Key Risk	Risk Appetite Range	Rationale
<p>STRATEGIC DELIVERY</p>  <p>Delivery of our four strategic objectives</p>	 <p>UKGI's accepted range</p>	<p>As government’s centre of excellence for corporate finance and governance, UKGI’s purpose is to take on large, complex projects which require its specialist expertise and withdraw from smaller, simpler projects that can be performed by departments. It is recognised that many of the issues UKGI’s staff deal with are complex and require judgemental decision-making. For all four of our strategic objectives, UKGI will seek to deliver its advice to high standards.</p>
<p>PEOPLE</p>  <p>Right people deployed to the right activities</p>	 <p>UKGI's accepted range</p>	<p>UKGI’s reputation and performance is dependent on its people, in order to ensure UKGI can deliver the high-profile and complex work it undertakes. UKGI takes the physical and mental wellbeing and health and safety of its staff very seriously. UKGI also places great importance on having a diverse and inclusive workforce, and has developed a clear strategy and Board policy to promote diversity and inclusion throughout the organisation.</p>
<p>OPERATIONS</p>  <p>Breach of controls, including IT, data, legal and compliance</p>	 <p>UKGI's accepted range</p>	<p>UKGI will seek to balance the need for agility and flexibility with the need for a robust control framework. It will take a risk-averse approach to legal and compliance matters, both within UKGI and its partner bodies. There is a low risk appetite regarding data security, which is a vital component of UKGI’s controls due to the sensitivity of the work performed.</p>

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 in 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 to help them support our Clients as needed, ultimately contributing to achieving value for money for the taxpayer. For this reason, we have provided an overview of the work we do in one of these areas to demonstrate how our wider UKGI services respond to market-wide and systemic risk.

Special Situations Group

SSG provides expert and practical advice to support effective responses by government to financially stressed corporate situations, as an active trusted adviser to stakeholders across government. We can provide our expertise in significant negotiations between the government and the private sector, including, for example, when the government considers its response to corporate distress, where firms are of potential strategic significance to the UK.

The team, which is made up of corporate restructuring practitioners, including qualified insolvency practitioners, experienced restructuring bankers, lawyers and civil servants, helps government departments to understand the signs of financial stress and distress, and the implications of these for government. They support government departments to contingency plan for company and sector-wide failures, and advise government departments when they are considering intervention to further policy objectives.

SSG acts as a bridge between the private and public sectors, applying deep understanding of the objectives and workings of both the public and private sectors. SSG's objectives are to:

- **Contingency plan:** to support stakeholders across government to contingency plan for company and sector-wide failures
- **Advise:** to advise government departments when they are considering intervention in the private sector to further policy objectives
- **Educate:** to help stakeholders across government to understand the signs

of financial stress and distress and the implications of these for government. SSG also helps to educate private sector partners facing financial stress or distress on HMG's aims and objectives in such circumstances

The team works extensively with colleagues across HMG, including in HM Treasury ("HMT"), Cabinet Office, Department for Business, Energy and Industrial Strategy ("BEIS"), Ministry of Defence ("MOD"), Department of Transport ("DfT"), Ministry of Justice ("MOJ"), Department for Health and Social Care ("DHSC"), Department for Culture, Media and Sport ("DCMS") and the Department for Environment, Farming, and Rural Affairs ("DEFRA") on specific projects and sectors on a varied portfolio of matters where work is always determined by criticality rather than size.

In the last year the team took a lead advisory role in some of the most high-profile situations facing government including:

- Where major corporates face financial stress and distress arising from the aftermath of the coronavirus (COVID-19) pandemic
- Supporting BEIS and HMT with the effects of dislocation in the energy markets, for instance, both pre and post appointment on the first Energy Supply Company Special Administration in respect of Bulb Energy Limited, providing expert restructuring and insolvency advice across a wide range of workstreams
- Advising DHSC on the unprecedented stresses on the Adult Social Care sector
- Supporting DfT on pressures in the aviation and maritime sectors

- Supporting Cabinet Office in relation to strategic suppliers to HMG
- Supporting BEIS, DEFRA, HMT and Cabinet Office with the effect of the war in Ukraine

Inward M&A

UKGI's Inward M&A team is a source of corporate finance expertise for government departments in relation to major corporate finance transactions. The team has supported a range of government departments over the past year, including in relation to:

- **Responding to significant sector trends in M&A:** The Inward M&A team has worked with government departments to prepare plans in response to transactional activity involving strategic UK corporates. The team supports cross-government consideration of potential transactions and an understanding of the M&A landscape to ensure readiness in the event that transactions occur. The team provides corporate finance advice and commercial negotiation expertise in relation to specific transactions where government may have an interest (national security related or economic)
- **Preparing for implementation of the NSI Act 2021:** The team has worked closely with BEIS and other government departments ahead of the NSI Act entering into force in January 2022, supporting government's level of preparedness for the implementation of the regulatory regime, and continues to work across government to help others to assess transactions under the Act

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, 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. Further detail can be found on page 76. 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 has fewer than 200 members of staff and shares office facilities with BEIS¹², so our discrete environmental impact in terms of emissions, waste or consumption is both comparatively minimal, and is not currently quantified. However, we will reduce this impact wherever possible. To that end, we have set up an internal team to explore areas in which UKGI can make small changes that collectively make a difference, considering procurement contracts, behavioral initiatives and measuring and managing our use of resources. These will be captured in an environmental strategy due to be published within the next year.

¹² Full sustainability data for BEIS, which leases the majority of the office building, is reported in its annual report and accounts, available at gov.uk

Covid Interventions Resolution Group

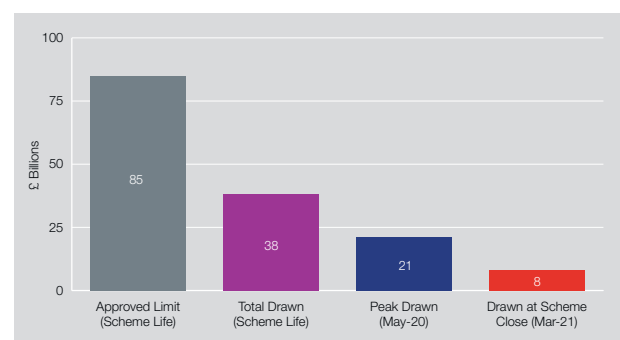
During the pandemic, the Bank of England’s Covid Corporate Financing Facility (“CCFF”) approved over £85 billion of borrowing limits, ultimately providing almost £38 billion of support to more than 100 of the UK’s biggest employers who collectively employ almost 2.5 million people. A range of sectors were directly supported covering the car industry, travel, hospitality, and high street stores – household names such as Gatwick Airport, the Football Association and the National Trust were among the employers that benefitted from the scheme.

UKGI established the Covid Interventions Resolution Group (“CIRG”) in September 2020 to support the Advisory Credit Committee (“ACC”) which was set up by HMT to provide advice on the assessment of the government’s credit risk from certain applications to borrow through the CCFF. In addition to supporting the ACC, CIRG provided stewardship of the CCFF loan portfolio out to final maturities in March 2022. The scheme provided a quick and cost-effective way to raise working capital for large firms and came to an end on 18 March 2022 with every penny repaid, generating a profit of £68 million. Please see Figure 11 for the usage of the CCFF support facility.

The scheme was hailed as a success by the Chancellor and highlights how UKGI’s corporate finance expertise can be utilised in advising and supporting government. CIRG evolved as a team from set-up to operations, with the steady-state team responsible for monitoring the loan portfolio from scheme close in March 2021 until the final maturities. Drawing on UKGI’s unique mix of skills, the team was made

up of a mixture of corporate financiers and civil service secondees which allowed for continuous learning and development across the team and provided opportunities for all to upskill in areas outside of individual core skill sets. Following the final repayments, both CIRG and the “CIRG Committee” (which was established by the UKGI Board to focus on CIRG’s operations, activities and governance) have since been wound down. Further detail on the success of the scheme can be found on gov.uk.

Figure 11: CCFF Summary



Working with others

We support good governance practices and a well-functioning financial system by sharing our expertise across government and externally, 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.

UKGI has represented the UK at the OECD’s Working Party on State Ownership and Privatisation Practices (“WPSOPP”) for over ten years and has provided expertise and support to the WPSOPP in numerous ways. This has included fielding UKGI colleagues to participate in speaking and training events, as well as sharing SOE governance and privatisation best practice with counterparts in foreign governments. Since January 2021, our Chief Executive, Charles Donald, has been Chair of the WPSOPP and Lucie Lambert, our General Counsel, sits on the WPSOPP’s Bureau which has oversight for the WPSOPP’s workstreams, and currently acts as its UK delegate.

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 provides a framework for governments to assess and improve the way they exercise ownership of SOEs. Members of the WPSOPP include all 38 OECD Member countries and the EU Commission.

The objectives of the WPSOPP are:

- To start and promote policy discussions and information exchange among members and partner countries with the purpose of improving corporate governance of SOEs and practices for implementing privatisation policies
- To encourage and assist the application of the G20/OECD Principles of Corporate Governance to SOEs
- To act as an international standard setter promoting disclosure, transparency, integrity and a level playing field through the implementation of the OECD Guidelines on Corporate Governance of SOEs

Through the COVID-19 pandemic, WPSOPP meetings were largely held virtually, although our Chief Executive was able to chair the March 2022 meeting from Paris alongside the WPSOPP Secretariat. We have contributed fully to the WPSOPP in a number of ways, drawing on UKGI’s Portfolio experience:

- Providing an overview of UK practices in regard to ownership and governance of SOEs

- Providing high-level assistance to the WPSOPP Secretariat on various SOE reviews
- Providing data and outlining practices in relation to remuneration of boards of directors and executive management within UKGI's Portfolio of SOEs
- Contributing and sharing UK-specific know-how on the role SOEs can take in relation to climate change and low-carbon transition policies, drawing on experiences of the UK government's Net Zero plan

In addition to our WPSOPP representation, UKGI continues to engage internationally and share best practice reflections and lessons learnt on a variety of corporate governance topics related to SOEs and privatisation practices. For example, this year we presented at a Foreign, Commonwealth & Development Office/British Deputy High Commission Mumbai-hosted session with the Indian Department of Privatisation on UKGI's asset realisation work. This followed a meeting between the Chancellor and India's Finance Minister on 2 September 2021 where they agreed to deepen the UK-India economic and financial dialogue and do more to share experiences on privatisation. We discussed two specific areas – the sale of the Green Investment Bank and the sale of financial assets acquired at the time of the global financial crisis.

We also engaged with our counterparts within the Irish government about UKGI's experience working on Post Office Limited and, among other topics, how public funding for the UK post office network is determined.

In July 2022, UKGI hosted the Premier of Sarawak, Malaysia, and a delegation of senior officials to discuss the UK's approach to government corporate assets and the lessons that might be applicable to the development of a sovereign wealth fund.

Government Corporate Finance Profession

The government corporate finance profession (“GCFP”) is one of the 28 recognised professions across government. It is led by UKGI with our Chief Executive acting as Head of Profession. GCFP is open to anyone working in government and is targeted at those whose role or background involves corporate finance and/or corporate governance. It has over 200 members, the majority of whom work outside UKGI across a wide variety of government departments. The GCFP’s purpose is to promote skills development, knowledge sharing, networking, collaboration and career development in corporate finance and governance. It does this by providing access to relevant training (for example, a Fitch valuation and modelling training) and seminars, holding networking events and maintaining the GCFP competency framework.

For UKGI, leadership of the profession provides a route to share our knowledge, raise awareness and develop relationships with colleagues across government.

Over the last year, the GCFP successfully hosted a rolling programme of monthly seminars to address competencies for members on corporate finance technical matters, including government case studies to support members to further develop their skills and knowledge. The profession has also increased engagement with members through a quarterly newsletter featuring subject matter articles, and continued development of the Knowledge Hub as the central portal for all members to access information about the profession, including sharing ideas, updates and information on events, vacancies and training. GCFP is

also working with the Institute of Chartered Accountants in England and Wales to review the Institute’s Corporate Finance qualification and potential to tailor modules for government which will be made available for members.

Over the course of the coming year, we will look to strengthen the engagement with our network of colleagues working across government in corporate finance roles.



Principle 5: Supporting clients' stewardship

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 ("Clients"). UK Government Investments' ("UKGI") shareholder teams develop close and effective relationships with our Clients, meeting with colleagues at all levels.
- **How our services best support our Clients:** we have created a bespoke shareholder role for government-owned assets, via our Target Shareholder Model. The application of this bespoke shareholder role sits alongside and is designed to be complementary to how our Clients manage their wider policy and other interests in our Assets.
- **Continuously improving our shareholder practice and 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.

Our Clients

In FY2021/22 we acted as shareholder across central government on behalf of the following government departments:



Department for
Business, Energy
& Industrial Strategy



Department for
Digital, Culture,
Media & Sport



Ministry
of Defence



Department
for Transport



Department for
International Trade



HM Treasury



Cabinet Office

Working with our Clients

UKGI has substantial engagement with both Clients and Assets. Whilst UKGI has established activities which we perform for each Asset, codified within UKGI's memorandums 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 Clients and UKGI are conducted through professional, efficient, and trust-based discussion:

- i. Professional: professional people engaged in discussion relevant to effective provision of UKGI's objectives, with commitments provided on time and to specification
- ii. Efficient: both parties ensuring a joined-up and efficient approach amongst their respective constituent elements
- iii. Trust-based: open discussions, based on a shared commitment to providing UKGI with the ability to realise its role effectively

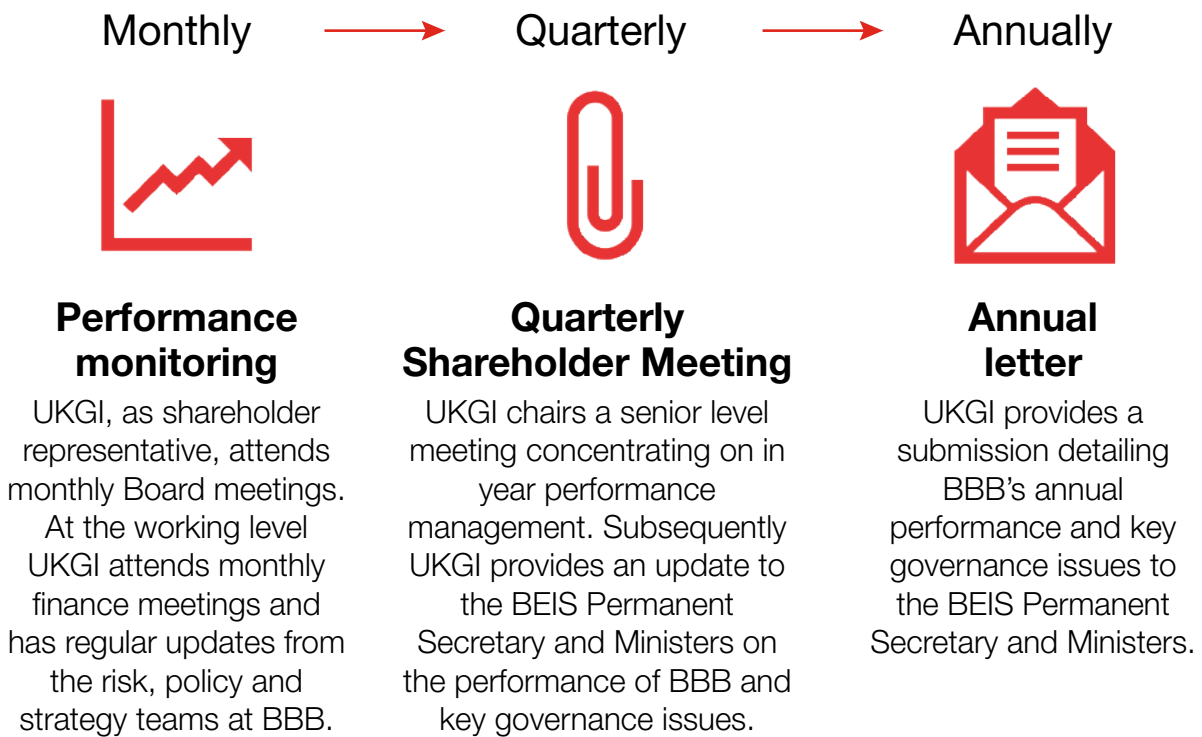
Our UKGI shareholder teams each work alongside our Clients' policy teams, who remain responsible for setting policy in the area in which the Asset operates. Clients and ministers can expect the same degree of confidentiality from UKGI staff as they expect of their own officials, in accordance with the Civil Service Code. We maintain a close working relationship with these teams, and often coordinate reporting into the Client department among other tasks. For an example of this coordinated relationship, please see our case study on the Atomic Weapons Establishment ("AWE"), a UKGI Asset within the Ministry of Defence ("MoD"), on page 70.

As well as maintaining strong functional working level relationships with Clients, 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. Figure 12 further demonstrates our communication with BEIS in relation to the British Business Bank (“BBB”).

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 Clients at least once or twice a year, barring any pressing issues precipitating an urgent meeting. These stakeholder relationships are reviewed periodically as part of the UKGI Portfolio Review process (as outlined on page 40). 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 12: UKGI reporting to BEIS on British Business Bank performance



Case study: Atomic Weapons Establishment



This case study provides an example of our shareholder role in respect of the Atomic Weapons Establishment (“AWE”) and demonstrates how we work alongside our Clients who are responsible for setting policy in the area in which the Asset operates.

UKGI supported the MoD to bring the Atomic Weapons Establishment into government in July 2021, to protect and enhance effective provision of the UK’s nuclear deterrent. UKGI supported the original transaction and now performs a joint shareholder role with MoD.

Drawing on best practice set out in the UKGI Target Shareholder Model, UKGI sought to recruit a new AWE Board to improve the decision-making and oversight at Board level in its new position as an arm’s length body. This role was previously carried out by the private sector shareholders under contract from MoD.

UKGI’s first task was to appoint a Chair of the Board to shape the Board and identify the necessary mixture of skills required of the NEDs. Aware that a major element of transition would be successful integration into government, UKGI recruited an independent Chair who combined experience of both leading at the highest levels of government and an understanding of operating a complex industrial and safety critical enterprise.

To capture the areas of support the executive team would require, UKGI worked with the new Chair to map out the future Board committees and the most valuable skills required to chair these committees. Using this map of committees and expertise, UKGI supported the recruitment of five non-executive directors, covering a range of safety, remuneration, audit, infrastructure and technical nuclear experience, and the reappointment of two independent non-executive directors from the original Board who brought continuity and understanding of AWE. UKGI and MoD also placed two NEDs representing the joint UKGI-MoD shareholder role on the Board.

Throughout, there was an emphasis on diversity in Board and executive leadership. The new board has 36% women directors, including the CEO, and all forms of diversity are priorities in future Board recruitment and succession planning.

Alongside building a strong board, UKGI has developed a close and effective relationship with MoD on AWE, creating a joint shareholder team between the two organisations. This allows UKGI, for the future, to continue to support best shareholder practice within the MoD.

How our services best support Clients' stewardship

The UKGI Corporate Governance and Portfolio Management Programme 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 Clients 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. We undertake an annual review of the application of our Target Shareholder Model to each of our Assets. The outcome of this activity is then discussed at Portfolio Review meetings as appropriate.

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 structures and documentation which govern the government 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

5. Promote effective relationships between the government 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. Further information regarding the roles and responsibilities of the UKGI Shareholder NED can be found on page 18.

UKGI encourages the UKGI Shareholder NEDs to draw upon the assistance of the UKGI shareholder team and best practice across the Portfolio, including supporting on live issues relating to 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. A figure showing our strategic approach to promoting development of Shareholder NED capability can be found at page 46.

In 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 advisers

Case study: UK Infrastructure Bank

This case study demonstrates how we support our Clients through setting up an arm's length body utilising experience gained from across our Portfolio.



On behalf of HMT, UKGI acts as shareholder for the UK Infrastructure Bank ("UKIB"). UKIB exists to help tackle climate change and support regional and local economic growth across the UK.

After taking on the shareholder role in May 2021, we have been successfully establishing the core building blocks to effectively carry out the shareholder role, utilising our existing ALB set-up experience from organisations, such as Green Investment Bank and British Business Bank, to support HMT.

Over the last year some of our significant achievements have included establishing regular monitoring and reporting through quarterly shareholder meetings. UKGI played a central role in the preparation and execution of the UK Infrastructure Bank's Financial Framework Document and related financial set-up aspects which underpin the Bank's financial capability (including £10 billion guarantees, £7 billion debt and £5 billion equity). Working closely with HMT and the UKIB Chair, UKGI continues to build effective leadership at UKIB through establishing a full Board, including recently appointing four non-executive directors with the required expertise to enable UKIB to meet its objectives.

Case study: Developing a new governance structure: Sheffield Forgemasters



This case study demonstrates how we engaged with Sheffield Forgemasters and the MoD, its sponsoring government department, to define and implement a new, best practice governance structure and establish a strong reporting and monitoring regime.

In August 2021, the MoD acquired Sheffield Forgemasters to preserve critical capabilities in support of UK defence programmes. With this, the MoD also announced its intention to invest up to £400 million in defence critical plant, equipment and infrastructure over the next ten years. UKGI supported the acquisition and now performs the shareholder role on behalf of the MoD.

From the outset, prior to acquisition, the UKGI shareholder team worked closely with both the company and the MoD to develop a sustainable target governance structure, striking a balance between providing the MoD with suitable assurance and scrutiny of company operations without hindering the company's ability to operate efficiently and effectively.

Drawing on governance best practice as set out within the UKGI Portfolio Operating Principles and wider government guidance, the shareholder team led the development of new governance arrangements, including the Articles of Association and the Framework Document. These define the governance relationship between the shareholder and the company and sets out their responsibilities, from Board and CEO accountability through to reporting expectations. Similarly, the UKGI team worked with the company to revise its Board and Committees' terms of reference. This included establishing a new committee specifically to scrutinise the company's capital investment programme, as assuring the effective use of this investment is a priority for the MoD. UKGI has also worked with the company to secure the appointment of two new independent non-executive directors to strengthen the Board's expertise, particularly in managing large-scale capital investments.

The shareholder team implemented a new reporting regime with the company, supporting the Board in improving governance and ensuring the MoD has good oversight of company performance, but not over-burdening the company. Associated work has included supporting the company in developing its first ever 10-year strategy built on the shareholder's strategic objectives for the company. This, together with the business plan and performance metrics, will provide the shareholder and company with a shared view of outcomes sought, and means through which the company can encourage and report performance.

Case study: Our shareholder role in respect of NatWest Group



As outlined on page 17, 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.

UKGI is mandated to develop and execute a strategy for disposing of NWG shares in an orderly and active way, to protect and enhance value for the taxpayer. We manage the shareholding, on behalf of HMT, at arm's length and on a commercial basis following best institutional shareholder practice. 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 its strategic and management decisions.

Given the nature of UKGI's mandate for NWG, UKGI's Financial Institutions Group ("FIG") spends a significant amount of time focusing on stewardship duties. 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. As outlined on page 37, the UKGI Transactions Committee is responsible for overseeing UKGI's stewardship responsibilities for NWG.

Throughout the year, the Transactions Committee supported FIG to engage with NWG on a range of topics as part of UKGI's stewardship programme. UKGI's CEO, the Director of FIG, and other members of the team met with NWG's CEO and CFO, as well as various NWG Board and Executive team members. The team constructively engaged with NWG in a shareholder role on topics such as purpose, values and culture; sustainability; and technology and innovation. This engagement assists us in meeting 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.

Ahead of NWG's 2022 Annual General Meeting ("AGM"), the Transactions Committee made recommendations to ministers with regard to the government's shareholder responsibilities, including lodging votes at the AGM. In total, there were 28 resolutions to vote on, with the majority being procedural. One new resolution put forward by NWG was a 'Say on Climate'. The Resolution sought shareholder support for:

- a) the presentation of NWG's climate strategy as set out in the Climate Related Disclosure Report and Annual Report including the previously announced commitments to achieve net zero by 2050 in accordance with the 2015 Paris agreement and to provide £100 billion of climate and sustainable financing

- b) the intention of the Board to publish a climate transition plan for NWG to support alignment with the 2015 Paris agreement
- c) the intention of the Board to publish annual statements on development of the transition plan

FIG assessed the proposal against NWG's peers and the wider market and considered the risks and benefits of the proposal. Based on this analysis and following due consideration, the Transactions Committee recommended that HMT vote in favour of the Resolution. The Resolution received strong support from shareholders (92.58%).

As in prior years, UKGI did not register a vote on Resolution 26 (the renewal of the authority for NWG to buy back shares from HMT), given that the vote pertained to HMT's shareholding. Votes on all other resolutions were lodged in line with UKGI's memorandum of understanding with HMT, UKGI's Framework Document with HMT and the 2020 UK Stewardship Code (the "Code"). For full transparency, UKGI has published its votes on our website.



A branch of NatWest

How we support stewardship that takes into account material ESG considerations

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 government department.

We seek continuous improvement in how we provide our stewardship role, constantly looking across the private and public sector for new developments in best practice which apply to our shareholder role. Environmental, Social and Governance (“ESG”) considerations are at the heart of effective stewardship in both a private and government context. UKGI considers a number of ESG factors as part of our shareholder role, such as strong corporate governance practices, board diversity, and environmental issues. However, over the past year we have taken a step change toward thinking of ESG as a collective whole. ESG has been designated as a core pillar of UKGI’s corporate governance strategy; as part of this, we have created an ESG team that sits within our wider Corporate Governance and Portfolio Management Programme and has responsibility for bringing together a coherent ESG strategy for our Portfolio.

To inform decision making and a consistent approach to ESG across our portfolio, the team have undertaken a number of activities throughout the year, including Client engagement and data collection.

The following sections provide additional detail on our individual ESG workstreams.

Environmental

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 provide best practice corporate governance.

In FY2021/22 we set ourselves a Key Performance Indicator (“KPI”) for each Asset in the Portfolio to evidence that they have an environmental strategy, either in place or in development, which includes a commitment to deliver net zero by 2050 or earlier.

In September 2021, we undertook a comprehensive baseline data review to establish our understanding of the current environmental position of our Assets and to assess our performance against our KPI. We found that the majority of our Assets were already meeting the requirements of the KPI, and there was some positive activity on the environmental stewardship indicators we measured.

To enable our shareholder teams and Shareholder NEDs to better support and challenge our Assets to improve environmentally and meet their legal and regulatory requirements, UKGI has worked hard to increase knowledge across the business. This has included regular seminars and a recently refreshed UKGI Environmental Governance guidance note.

To support this work, last year we successfully provided a programme of events to establish a community of environmental leads across our UKGI Portfolio – enabling efficient sharing of best practice to raise standards across our Portfolio. This included establishing a Cross-Government Environmental Considerations Working Group, which UKGI chairs to share information and best practice on environmental considerations with the UKGI Portfolio, arm's length bodies ("ALBs") and partner organisations, as well as private sector contacts. The group has discussed topical areas such as the latest developments in regulation, biodiversity monitoring, environmental strategies, risk management, board governance & strategic decision making, reporting and many others.

In March 2022 we held our third event on environmental considerations for our Portfolio chairs, CEOs and environmental leads, which discussed working practices in the journey towards Task Force on Climate-related Financial Disclosures ("TCFD") reporting and net zero. Building on our previous events, we provided Assets in our Portfolio with the opportunity to hear from experts and practitioners on current guidance and best practice, as well as share their experiences and practical suggestions as they navigate this area.

Amy Jenkins from the Department for Business, Energy and Industrial Strategy outlined the latest policy landscape; Emma Howard Boyd, Chair of the Environment Agency, gave her perspective on how the Environment Agency has developed its Net Zero by 2030 strategy; and Meg Nicolaysen from UK Export Finance gave a detailed view of their organisation's work in this area. The presentations were followed by a Q&A and then breakout sessions for the attendees to discuss their own organisation's challenges and priorities as they develop their environmental strategies and reporting. The event was a valuable opportunity for attendees to discuss some of the challenges they are facing regarding environmental sustainability.

Case study: Environmental recycling



This case study illustrates how UKGI supported The Royal Mint ("TRM") as it sought shareholder approval for capital investment in a new business area of recycling precious metals from electronic waste. UKGI provided comprehensive and constructive challenge and scrutiny of the business case which contributed to an improved quality of product and resulted in rapid ministerial approval for expenditure in a novel area.

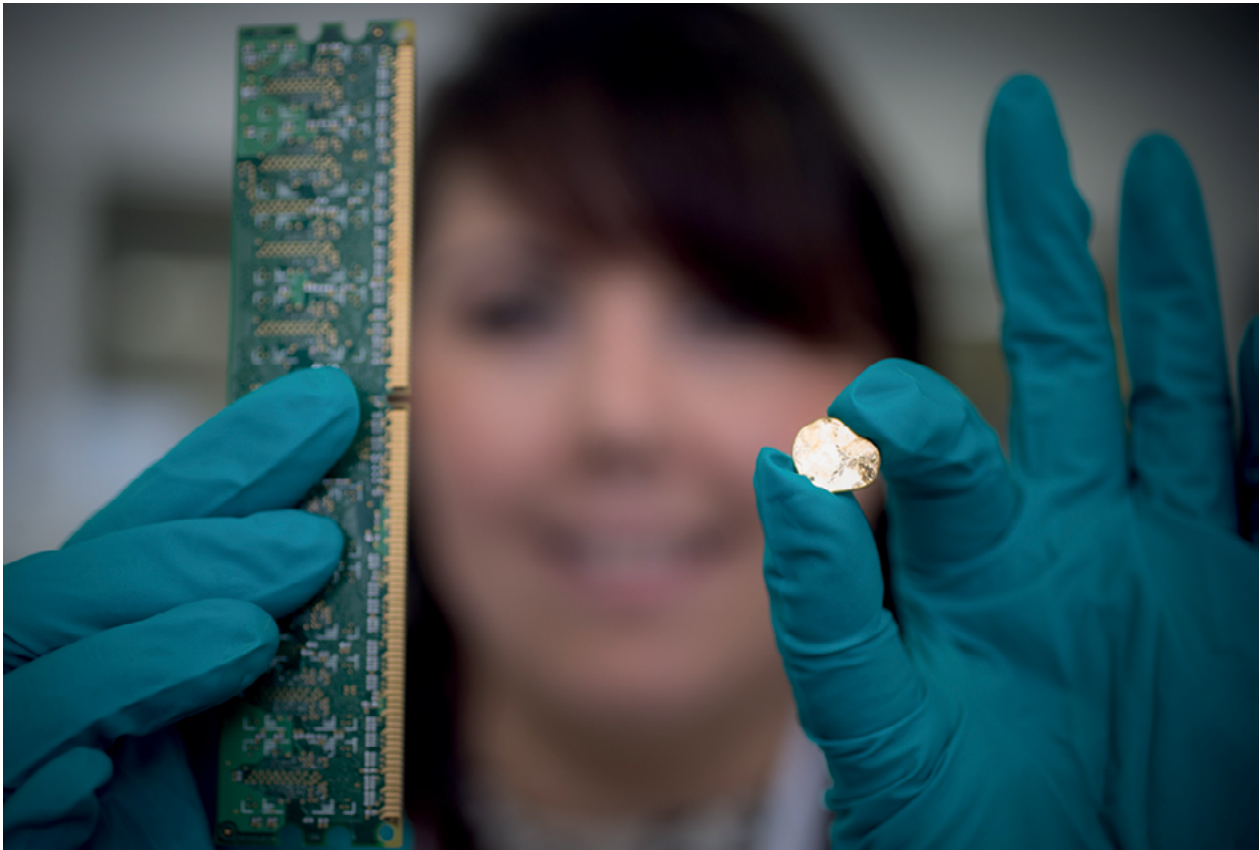
UKGI performs the shareholder role on behalf of HMT in relation to TRM. TRM, which had a turnover of £1.1 billion and profit before tax of £12.4 million in FY2021/22, manufactures all coins used within the UK and a further 20 countries around the world. It also operates as a portfolio business, with divisions in aligned areas such as commemorative coins and other collectables, precious metals and investment products. However, as coin circulation is gradually declining, UKGI has worked closely with TRM and HMT to reset TRM's objectives and operating freedoms to allow it to broaden its range of activities in a structured manner.

TRM is reinventing for the future, diversifying into new areas which are all strategically linked to precious metals and British craftsmanship. This includes some entirely new ventures such as the recovery of gold and other precious metals from discarded electronic waste and the introduction of 886, a precious metals jewellery range.

Each year, more than 50 million tonnes of electronic waste is produced globally, with less than 20% currently being recycled. If nothing is done, this is set to reach 74 million tonnes by 2030. To avoid this situation and to access a secure, domestic supply of recycled gold to satisfy TRM's commercial needs, TRM obtained a licence to develop and commercialise a novel metal recycling process developed by a Canadian start-up company.

Instead of electronic waste leaving UK shores to be processed at high temperatures in smelters, the approach will see precious metals recovered at room temperature at TRM. Currently working at lab-level, TRM announced a world-first plant to scale up the recovery of precious metals, due to open in 2023. Embracing the principles of a circular economy, the plant will be able to process the entire circuit board – preserving natural resources for longer, helping to reduce the environmental impact of electronic waste and fostering new skills and employment in the UK.

UKGI was centrally involved in the review and subsequent approval process to support the required capital investment which was completed by TRM's Board, leading on the structure of the review meeting. This input prepared TRM's team to navigate the further challenge and stress testing required by HMT as shareholder. The collaborative approach with early and regular engagement led to a smooth and efficient passage through shareholder and ministerial approval enabling TRM to make progress on the novel project on time.



An employee of The Royal Mint with recovered gold from discarded electronic waste

Social

Culture

In the future, the 'S' of ESG is an area where we want to develop a better understanding of the current position of our Portfolio and devise an increasingly systematic approach to identifying and promoting social considerations for our Assets.

During the year, we set up a culture workstream within the Corporate Governance and Portfolio Management Programme to primarily work on developing an approach to social matters with the ESG team. The objectives of the culture workstream are to ensure that UKGI shareholder teams understand the importance of culture and are applying this

understanding effectively to the stewardship of their Assets. The workstream also aims to provide a supportive space in which UKGI Shareholder NEDs are able to share expertise and draw on mentoring and coaching to help navigate issues of culture in their Assets. In areas where there have been previous issues around organisational culture amongst our Assets, lessons learned exercises have been conducted and shared so that solutions can be implemented across the Portfolio. In the future, the team will continue to provide our shareholder teams with guidance on how to monitor and improve organisational culture within our Portfolio, including how our Assets treat employees, customers and stakeholders.

Diversity and Inclusion

We believe that a diverse and inclusive workforce enables us to provide 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 Clients and of the wider public we serve.

Pages 27-28 set out how we support our culture through building a diverse and inclusive workplace. In addition, UKGI seeks to improve the D&I outcomes for our Portfolio Assets at both board level and for wider staff in the organisations.

The importance of achieving D&I outcomes has been recognised for many years. The current and intense competition for talent in the workplace has also placed renewed emphasis on the need to create an environment that is attractive to the broadest cross-section of people as possible. There have been many initiatives over the years in both the public and private sectors and most recently the Financial Conduct Authority has set out minimum diversity targets for listed companies with read across to the UKGI Portfolio.

While some Assets in the UKGI Portfolio are making considerable efforts to improve the diversity of their workforces, practice and outcomes are mixed across the Portfolio. To address this, we are taking a more proactive approach to providing better diversity outcomes in the Portfolio including wider dissemination of good practice and a greater degree of scrutiny applied through the Portfolio Review process.

At the start of 2022, UKGI set out the minimum D&I expectations from our Assets in four areas, (1) D&I strategy, (2) Culture, (3) Board composition and (4) Reporting, and also suggested actions which shareholder teams should be taking to support their Assets. Further to this, we undertook a baseline D&I survey for each of our Assets as part of the strategy for UKGI to ascertain the current D&I 'state of play' across the Portfolio. We will use the results of the survey both to look at trends across the Portfolio and also to inform Portfolio Review discussions.

An important of UKGI's work has also been to establish a network for D&I leads across our Portfolio. This provides an opportunity for our Assets to open a discussion, hear from experts and practitioners on relevant guidance and best practice, and learn from one another by sharing best practice as well as discussing the challenges they face in developing future improvements to D&I.

Case study: UKGI D&I Network Event

This case study provides an example of UKGI promoting best practice across its Portfolio at regular networking events.

The inaugural event of the UKGI D&I network was held on 8 December 2021, featuring keynote presentations from UKGI Chair Vindi Banga and Paul Monekosso Cleal OBE. Eleven organisations were represented which allowed for a useful discussion of common and individual challenges and some interesting themes emerged which we can pursue.

Paul Monekosso Cleal OBE shared valuable insights from his core leadership roles in developing a culture of inclusivity throughout his distinguished career at PricewaterhouseCoopers and latterly through his various non-executive roles across the public and private sectors. Specifically, Paul emphasised the criticality of inclusive and proactive leadership in D&I initiatives coming from the very top of an organisation's management structure and the importance of comprehensive data collection in driving informed D&I decision making.

Paul's talk was followed by a roundtable discussion covering several broad themes including specific recruitment challenges in challenging sectors such as engineering, enhancing employee value propositions in the post-pandemic job market, and strategies in encouraging employees to be proactively forthcoming in critical data collection exercises. The feedback from the discussion demonstrated how valuable the network was in prompting and provoking some thoughtful considerations amongst each of the represented Portfolio bodies.

Governance

Good governance runs through all the core strands of our approach to our shareholder role and as such, we describe our work on governance considerations throughout this report. To provide additional detail to our core governance role, this section outlines further governance issues that we consider and address as responsible stewards of our Assets. UKGI has designed much of our Target Shareholder Model (further detail on page 87) around ensuring effective corporate governance within our Portfolio to enable our Assets to carry out their missions effectively. As well as encouraging our Assets to follow the UK Corporate Governance Code, our further governance considerations include:

- Board composition and appointments, as UKGI believes that boards are most effective if they are diverse and inclusive, and the creation of effective boards is best achieved through a speedy and effective public appointments process
- We also consider fair executive remuneration to be of significant importance for our Portfolio, particularly given current macroeconomic challenges. We appreciate the need for our Portfolio to operate within a public sector context but also be sufficiently competitive to attract and retain talent. A large amount of work has been undertaken throughout the year on benchmarking and developing a more coherent approach to executive pay across the Portfolio

Other governance areas within ESG include work to ensure our shareholder teams are sufficiently able to challenge the risk management of their Assets and the increasing importance of understanding risks such as the supply chain and cybersecurity, which have both been the subject of internal working groups or external seminars

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

Appointments

Over the course of FY2021/22 UKGI supported the appointment, re-appointment or extension of 40 non-executives (including chairs). Within UKGI's Portfolio, non-executive appointments are either led by the Asset board itself or by UKGI (both often subject to final ministerial approval – see Table 1 on page 23). In the former, UKGI works as a critical friend of the board to ensure that the process and approach aligns as far as practicable with the practice defined in both the FRC Governance Code and the Governance Code for Public Appointments. We ensure that appointments are made following an open and fair competition and that the UKGI shareholder NED is always a member of the nominations committee running the competition. We will also help to achieve ministerial approval, when required.

When UKGI is responsible for leading the appointment, we look after all elements of the recruitment process. We will work with the board and ministers to develop selection criteria that are appropriate and enable a

diverse set of candidates to put themselves forward for consideration. We will design and oversee a programme of activity with the aim of presenting ministers with highly qualified candidates from which to make their final choice. We identify potential interview panel members, looking for those with relevant expertise to assess candidates for the role. Often, we engage executive search firms, actively encouraging them to attract a diverse set of qualified candidates to apply. We also work to ensure that ministers as well as other stakeholders are kept informed throughout the process.

Over the last year we have developed internal guidance to ensure a consistency of practice across all shareholder teams. Learning from recent due diligence failure cases in government departments, we updated our approach to due diligence, which has subsequently been adopted by some Clients as best practice. We have increased the size of our internal expert team which now meets regularly with teams to ensure that lessons learned from one campaign can quickly be disseminated across the organisation. We have established a new formalised lessons learned process that is run by the central appointments team after every campaign. Finally, we have identified a programme of work for FY2022/23 that will concentrate on developing best practice across a number of activities including developing effective selection criteria, attracting diverse candidates and also further improving our management of head-hunters.



Principle 6: Review and assurance

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 UK Government Investments (“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, assuring our processes and learning lessons

We are constantly looking 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 the 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.

This year we established a lessons learned database for our teams to take advantage of existing experience, avoid making the same errors, make better use of our time by not reinventing the wheel, and minimise risk and uncertainty by enabling effective knowledge management and improved performance. To identify the lessons our central Project Management Office conducts lessons learned sessions for teams at significant

project stages and share these learnings through the new database and in regular communications across the organisation. An extensive review was conducted to identify all historical lessons learned documents from across the organisation and to centralise them in the database to enable better accessibility for all UKGI staff. This has been well received across the organisation and is a core way in which we have continued to embed our know-how and expertise across our shareholder teams and enable continuous improvement.

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. Our second line of assurance, the Portfolio Review process, is outlined on page 40, under Principle 2. In summary, 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 2021/22, 40 Portfolio Review Panel meetings were held supporting the teams on our 22 Assets.

In 2022, the Portfolio Review team carried out a second 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 regular reporting to the UKGI Board.

Our third line of assurance is our Board which regularly review our core shareholder model, policies, and processes. The UKGI Board has oversight of our stewardship activities as outlined under Principle 2.

Our fourth line assurance of our stewardship activities can be undertaken by the Government Internal Audit Agency (“GIAA”). For example, GIAA may, on behalf of our Clients, review UKGI’s role in the sponsorship of the government departments’ ALBs.

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.

UKGI continuously reviews and improves its corporate governance programme. To enable this, a review of the Corporate Governance and Portfolio Management Programme will be built into the internal audit plan in FY2022/23.

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.

Case study: UK Asset Resolution

This case study highlights how UKGI has worked with the shareholder and stakeholders to redesign the governance model of UK Asset Resolution following the sale of its remaining assets and legal entities to ensure effective, proportional oversight. The example covers internal and external assurance arrangements resulting in continuous improvement.

UKAR was formed in 2010 to bring together the government-owned businesses of Bradford & Bingley plc and NRAM Limited. Following the return to private ownership of both entities and their remaining assets in October 2021, which saw the taxpayer fully repaid, UKAR has remained in government ownership. UKAR’s overarching objective is to manage any liabilities and other strategic matters arising out of these former investments in a way that represents value for money. This includes administering



any contractual obligations to buyers, monitoring that contractual obligations such as customer protections agreed in previous asset sales are complied with, and managing legacy employee liabilities. The overall aim is to resolve the legacy liabilities, including transferring the legacy pension schemes and obligations to government, to allow for the wind-down of the company in a timely fashion. The residual UKAR company (“ResiCo”) has no employees, and this work is undertaken on behalf of, and with oversight from ResiCo’s Board, by PricewaterhouseCoopers LLP (“PwC”), following a competitive tender.

Acting on behalf of UKAR’s sole shareholder, HM Treasury (“HMT”), UKGI worked with UKAR to design and implement a new ResiCo governance structure, approved by HMT and documented in the revised UKAR-UKGI Framework Document and the Accountability Framework Agreement between UKAR and HMT. Taking appropriate account of the Wates Principles, the Framework Document aims to balance adequate oversight and resourcing. As such, the reduced Board, comprising of non-executive directors, has undertaken all committee activities itself, including audit, risk, remuneration and nominations.

Key risks for meeting the shareholder’s objectives pertain to the quality and effectiveness of outsourced operations, and to the effectiveness of the Board’s oversight of UKAR’s activities. In line with the new governance framework, UKGI mitigates these risks via a UKGI shareholder NED with support from the UKGI shareholder team, providing the company secretariat function, a monthly schedule of governance and supplier performance review meetings, regular working level engagement; and quarterly Board meetings. UKGI appoints the Board Chair and one or more NEDs and is required to consent to the appointment of other Board members and agree the terms on which the directors (or advisers) are appointed. The Board has the freedom to act to deliver the overarching objective, save as provided in the framework document (for example, UKGI must be informed and provide consent if the Company proposes to take certain significant actions).

The GIAA’s first audit of UKAR’s governance arrangements in March 2022 determined that the framework of governance, risk management and control is adequate and effective across all areas reviewed.

In addition to annual governance review processes, UKGI succeeded in embedding a culture of continuous improvement through extensive ongoing engagement with the shareholder, Board and outsourced provider (PwC). Further oversight enhancements were identified and subsequently implemented in the areas of budget and performance reporting.

Our Target Shareholder Model

As outlined on page 18, 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 on a regular basis. 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
- 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 on latest practices, 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
- UKGI Guidance Notes

These are reviewed by UKGI on a regular basis to ensure they are enabling effective stewardship.

In 2022, in response to the fiscal outlook, we undertook a review of economic stress on the UKGI Portfolio in relation to rising interest rates and strains on the supply chain associated with the supply of materials following the UK's exit from the European Union and the Ukraine war. The results of this stress test and further monitoring were approved by the UKGI Board in July 2022, and businesses exposed to materially increased risks will be subject to additional assurance activities, as detailed on page 59.

In addition and 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 UKGI Board effectiveness

In January 2022, external consultants, Socia, commenced an external review of the effectiveness of UKGI's Board. During the review all Board members and other members of the executive were interviewed, Board and Committee meetings were attended and Board papers, minutes and the core governance documentation of the Board and its Committees was reviewed. The review described the Board as being 'effectively constituted and efficiently run', and the NEDs were noted as being committed to the purpose of the organisation. Board dynamics, the efficiency of Board process, and the relationships with stakeholders were also noted as strengths.

Further to the regular business planning cycle, the review recommended that additional time be dedicated to strategy discussions throughout the year. The Board has agreed to hold an off-site meeting over the autumn once the current NED recruitment campaign has completed and the new NEDs have been duly inducted. Similarly, noting the expected change to Board membership over the course of the next year, the review reinforced the importance of the NED induction process to ensure the positive dynamics of current Board interactions are maintained for the future.

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 Financial 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.

How UKGI assured its Stewardship Code report

The UKGI Stewardship Code report was prepared by members of the Corporate Governance and Portfolio Management team, representing expertise from across the UKGI Portfolio and a variety of workstreams.

Throughout the production of the report the UKGI senior management team and Board have been involved in its preparation and assurance. During its development, oversight of the report was specifically provided by the UKGI Audit and Risk committee, before being presented,

reviewed, and approved (subject to minor amends) by the UKGI Board at the September 2022 Board meeting.

In addition, this year, during the development of another significant publication ‘Exploring the UK government’s contingent liabilities’¹³, UKGI established an internal but independent panel to assess the document. Gaining such views on the readability and accessibility to all audiences was invaluable, and we have used the same independent panel technique to assess this report.

UKGI has also engaged stakeholders from across government, including at ministerial level, in the production of this report. The final version of this report was approved by the UKGI Chief Executive and General Counsel in October 2022.

13 Exploring the UK government’s contingent liabilities: <https://www.ukgi.org.uk/download/5172/>

Reporting requirements and glossary

Principles Reporting Requirements

The 2020 UK Stewardship Code (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 motivated appropriately to provide 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

Accounting Officer	The person in a public sector organisation who Parliament calls to account for stewardship of its resources (usually its most senior official)
ACC	His Majesty's Treasury's Advisory Credit Committee
AGM	NatWest Group's 2022 Annual General Meeting
ALB(s)	Arm's Length Body/Bodies
ARC	UK Government Investments' Audit and Risk Committee
Asset(s)	The entity/entities in relation to which UKGI performs the shareholder role
Asset board/board	The board of the asset
AWE	Atomic Weapons Establishment
BBB	British Business Bank
BEIS	Department for Business, Energy and Industrial Strategy
Business Plan	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
C4C	Channel 4 Corporation
CCFF	the Bank of England's Covid Corporate Financing Facility
CG&PM	UK Government Investments' Corporate Governance and Portfolio Management Programme
CIRG	UK Government Investments' COVID Interventions Resolution Group
CLCC	UK Government Investments' Contingent Liability Central Capability team
Client(s)	The department(s) 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
CO	Cabinet Office
Code	Financial Reporting Council's 2020 UK Stewardship Code
COVID-19	The coronavirus, colloquially also referring to the recent pandemic
DCMS	Department for Culture, Media and Sport

DEFRA	Department for Environment, Food and Rural Affairs
DfT	Department for Transport
DHSC	Department of Health and Social Care
D&I	Diversity and Inclusion
ESG	Environmental, Social and Governance; standards measuring a business's impact on society, the environment, and how transparent and accountable it is
FIG	UK Government Investments' Financial Institutions Group
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
FTE	Full Time Equivalent
GCFP	Government Corporate Finance Profession
GIAA	Government Internal Audit Agency
HMT	His Majesty's Treasury
Inward M&A	UK Government Investments' Inward Mergers and Acquisitions team
KPI(s)	Key Performance Indicator(s)
L&D	UK Government Investments' learning and development programme
MPM	Managing Public Money (published by HMT)
MoD	Ministry of Defence
MoJ	Ministry of Justice
MoU	Memorandum of Understanding – between UKGI and the Department
NAO	National Audit Office
NEDs	See: Shareholder Non-Executive Directors
NWG	NatWest Group plc
OECD	Organisation for Economic Co-operation and Development
PMO	UK Government Investments' Project Management Office
Portfolio	The group of 22 arm's length bodies for whom we perform the shareholder role

Principle(s)	One or more of the six principles of the Financial Reporting Council's 2020 Stewardship Code
PwC	PricewaterhouseCoopers LLC
ResiCo	The residual UK Asset Resolution company
RFL	Reclaim Fund Limited
Shareholder Non-Executive Director(s)/ Shareholder NED(s)	UKGI representative(s) on the Board of a portfolio asset, nominated by the Shareholder department
SLA	Service level agreement between UK Government Investments and His Majesty's Treasury for the Contingent Liability Central Capability team
SOE(s)	State Owned Enterprise(s)
SSG	UK Government Investments' Special Situations Group
Target Shareholder Model	UK Government Investments' best practice in respect of our shareholder offering
TCFD	Task Force on Climate-related Financial Disclosures
TRM	The Royal Mint
UKAR	UK Asset Resolution Limited
UKEF	UK Export Finance
UKGI	UK Government Investments
UKGI Board/Board	The Board of UKGI (including UKGI's own NEDs)
UKIB	UK Infrastructure Bank
WPSOPP	the Organisation for Economic Co-operation and Development's Working Party on State Ownership and Privatisation Practices

The images used on divider pages are credited to the following sources:

Principle 1: National Nuclear Laboratory

Principle 2: Nuclear Decommissioning Authority

Principle 3: UK Government Investments

Principle 4: Atomic Weapons Establishment

Principle 5: Sheffield Forgemasters

Principle 6: Ordnance Survey

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