



UK Government
Investments

UK STEWARDSHIP CODE REPORT

UK Government Investments

October 2023



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Chair's Introduction



UKGI marks its 20th year of operation in 2023. Our performance and delivery this year demonstrates how we have built on the foundations of The Shareholder Executive (ShEx, established in 2003).

Our Corporate Governance objective is to act as shareholder for, and lead establishment of arm's length bodies for the UK Government. We continue to challenge and support the governance, planning and performance of our Assets. We have also taken on new, complex Assets where we can be most impactful; and disengaged from Assets where the department can effectively perform the shareholder role. The combination of public and private sector experience of our colleagues enables us to be fundamental to effectively bringing Assets into public ownership and establishing government as the shareholder. We also share our expertise, providing governance advice to departments and contributing to government arm's length body governance policy.

During the year, UKGI has continued to embed best practice stewardship across our evolving Portfolio of Assets. We take our stewardship responsibility to our Clients, our Assets, and wider society very seriously. We continuously seek to refine and strengthen our processes, learning lessons from our experiences, as well as evolving best practice across private and public sector. Significant emphasis is placed on enhancing the governance and financial expertise of our colleagues as reflected in this report.

I am particularly grateful to my Board colleagues, for their ongoing insight and expertise, and extensive time commitment even outside Board and Committee meetings. I am also thankful to the UKGI Leadership team for their professionalism and commitment in the face of a challenging operating environment.

This report builds on the submissions from the previous two years, demonstrating where we have refined our activities, and our priorities for the future. 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.

A handwritten signature in black ink, appearing to read 'Vindi Banga'. The signature is stylized and includes a long horizontal stroke at the end.

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 is committed to remaining a signatory to the UK Stewardship Code and using our annual submission as a useful exercise to articulate our stewardship philosophy and activities, and to demonstrate how these are refined over time to enable us to better support our Clients.


Over the past year, we have continued to secure our status with government departments as a trusted, objective adviser. We perform the shareholder function on behalf of nine government departments for a Portfolio of 24 Assets. Our Portfolio Assets cumulatively employ over 158,000 people, generate around £30bn of gross income and manage over £1trillion of assets.

As Chief Executive, I am personally accountable for making sure that UKGI continues to live up to the stewardship standards that we have set for our organisation. This past year has been one of strengthening our proposition. We deliberately set out to focus on our core capabilities as an organisation and further professionalise across our core objectives to continue to offer expert advice to government departments and attractive development opportunities for our people.

UKGI is an organisation that seeks to learn from experience and stays alert to the latest practices in governance. One key area in the past year has been building the skills of our shareholder Non-Executive Directors and teams, engaging in specific training for those performing core stewardship functions across our portfolio, and bringing in external expertise to inform our thinking. At UKGI, our people are our greatest asset and we see investing in their learning and development as an essential part of our commitment to good stewardship and to continuous improvement. We are grateful to be able to access a network of experienced Chairs and other governance practitioners who were able to share what they had learned from their varied careers to prompt our thinking.

Ongoing review and improvement are at the core of our stewardship responsibilities, allowing us to challenge and support our Assets'

overall performance and sustainability more effectively. Whilst we are proud of our achievements, we realise that there is still much to be done. In the coming year we will be adapting as we learn from experiences to ensure our activities continue to meet the needs of our Clients and the Assets we work with.

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

Charles Donald
Chief Executive

Executive Summary

UK Government Investments (“UKGI”) is the government’s centre of excellence for corporate governance and corporate finance. We are committed to good stewardship practices including those in the Financial Reporting Council’s (“FRC”) revised 2020 UK Stewardship Code (the “Code”). Our response to the Code covers the FY2022/23 period. It outlines our stewardship values 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”). Our 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 the government’s interests in these ALBs.

We do not act as ‘Asset Owner’ or ‘Asset Manager’, rather we advise the government on the exercise of its rights and responsibilities as a shareholder. As with our last two responses, we have concentrated our response on our stewardship role as a service provider representing the government across a Portfolio of 24 ALBs that we provide services for (each, an “Asset” and collectively, our “Portfolio”) on behalf of seven¹ government departments (our “Clients”). In addition, we have now fully established our Contingent Liability Central Capability (the “CLCC”) unit. In this report we set out how the CLCC strengthens contingent liability expertise within government and improves how government manages its risk from contingent liabilities. This new capability helps government to effectively respond to market-wide and systemic risks to promote a well-functioning financial system.

We support and challenge our Assets’ governance and performance to promote their sustainable long-term success, as defined by the 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 government is part owner so we seek to follow best institutional shareholder practice and advise on a purely commercial basis, to Assets such as the National Nuclear Laboratory, where we undertake a more involved shareholder role commensurate with full government ownership. Collectively, our Assets employ over 158,000 people, generate approximately £30 billion of gross 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 FY2022/23. A high-level summary is as follows:

¹ Seven Departments were represented in the UKGI Portfolio on 31 March 2023. As of 31 October 2023, following Machinery of Government changes, nine Departments are represented in the UKGI Portfolio.

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. UKGI creates value for society from government's most complex commercial interests. UKGI seeks to achieve the following objectives:
 - act as shareholder for, and lead establishment of, UK government ALBs (promoting good governance of publicly owned businesses)
 - advise on all major UK government corporate finance matters, including financial interventions into corporate structures and corporate finance negotiations
 - analyse and advise on the UK government's contingent liabilities
 - manage and execute the sale of all significant UK government corporate assets
- UKGI's strategy concentrates on finding solutions that optimise outcomes for its Client departments and seeking long term sustainable success for its Assets. UKGI's strategy can be divided into three strands:
 - i. to be able to respond to the demands of government departments for expertise in corporate governance, corporate finance, contingent liabilities and transaction execution as they arise
 - ii. to provide the services and outcomes sought by its Clients to the highest standards
 - iii. to ensure that any assignment UKGI undertakes is clearly defined and assessed relative to UKGI's risk appetite
- Effective stewardship of Assets is at the core of everything UKGI does. UKGI's Target Shareholder Model is unchanged from 2021/22. However, UKGI continually learns from the activities performed across its Portfolio, including appointing, reappointing, or extending non-executives (impacting 42 NEDs across the portfolio in 2022/23) or updating the governance foundations of the Assets in its Portfolio. UKGI's Portfolio itself has also expanded to 24 Assets, with new roles on Sizewell C and a monitoring role on BBC Commercial.
- UKGI works to continually strengthen its proposition to continue to offer specialist advice across government departments. Within the Portfolio, UKGI has embedded a data-driven approach to management information, allowing it to identify key trends, outliers, and areas for improvement in its activities and the performance of its shareholder Assets. Outside of the Portfolio, UKGI has shared expertise across Whitehall including helping to develop an understanding of stewardship and contributing to best practice materials for all ALBs, such as the Cabinet Office

“Arm’s length body sponsorship code of good practice”², published in May 2022.

- UKGI believes that a diverse and inclusive workforce, and its values-led, supportive and non-hierarchical culture enables it to conduct its shareholder roles successfully. UKGI promotes effective stewardship by enabling its people to work at their best. By capturing a wide range of experience and perspectives to reflect in its work, UKGI gains a better understanding of the needs of its Clients and the wider public it serves. In 2022/23 UKGI made strides to meet the targets it sets itself, which includes 46% of senior management now being female, and 10% of senior management being from an ethnically diverse background, up from 5% the year before.
- UKGI continues to embed its values into everything it does. They are the lens through which all its decisions and actions are considered. UKGI’s values are embedded across UKGI, including its Board. UKGI is:
 - supportive and inclusive
 - open and honest
 - expert and professional
 - collaborative and outcome-focused
- Clearly defining its purpose, strategy, values and culture, and embedding these within its work, help UKGI to promote effective stewardship. It also ultimately makes it a more cohesive organisation, which is able to adapt to the evolving demands and requirements of its Clients. UKGI’s collaborative culture enables its shareholder teams

to share best practice, disseminate knowledge and identify opportunities to improve the governance of its Assets.

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

- As the government’s centre of excellence for corporate governance, UKGI understands that the foundation of good stewardship begins with a clear governance framework, UKGI’s own Board of Directors and a specialist skilled workforce, all operating together. At UKGI, the governance structures ensure appropriate information is escalated from the Portfolio and dedicated specialist teams (such as UKGI’s in-house legal team or risk reviewers) up to senior management and where necessary, to the Board. In 2022/23 UKGI changed the structure of its senior management reporting, to establish an Operations Sub-committee (“OpCo”) alongside its existing Executive Committee (“ExCo”). This change has allowed ExCo to focus its time on strategic matters, including stewardship, and for OpCo to focus on the effective day-to-day running of UKGI.
- Complementing this, senior oversight of UKGI’s stewardship activities is provided by the Board and senior executives through regular Portfolio Review processes and periodic deep dives. Portfolio Reviews are undertaken by senior personnel from across the organisation, who form peer support

2 Sponsorship Code of Good Practice: <https://www.gov.uk/government/publications/arms-length-body-sponsorship-code-of-good-practice>

and challenge panels. They provide internal review to shareholder teams on the performance of their role, as well as to assess consistency of stewardship and share best practice across the Portfolio.

- The UKGI Board provides strategic direction and ensures UKGI is equipped to perform its functions. The Board promotes UKGI's performance of its stewardship role by encouraging the development of a culture which allows UKGI to execute its strategy effectively and efficiently, equipping UKGI with sufficient resourcing, and the effective governance arrangements required to provide appropriate assurance of its activities. Over the past year, the UKGI Board has remained engaged with the activities of the Corporate Governance and Portfolio Management Programme.
- UKGI's people are highly skilled professionals drawn from a range of backgrounds, combining Civil Service and private sector expertise. Shareholder teams are resourced according to the skillsets and experience required to best serve UKGI's Clients and Assets, regularly drawing from colleagues across the organisation. 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 Client requirements.
- A core part of UKGI's stewardship offering is to provide experienced resources for its Assets, including Shareholder Non-Executive Directors ("NED") to sit on an Asset's Board. UKGI continues to develop internal Shareholder NED resource via its Shareholder NED development programme, now in its second year. UKGI also has a Shareholder NED succession process and development programme for aspiring Shareholder NEDs to ensure an effective pipeline of talent that can be deployed effectively across its Portfolio.
- UKGI has agreed a remuneration structure with its shareholder, HM Treasury, ("HMT") for the pay of its permanent staff. This includes performance-related pay to reward exceptional organisational and individual performance. A component of organisation-wide performance is related to the performance of our stewardship activities, while performance ratings of individuals in shareholder teams are related to their performance in that team 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 it works. The principles it expects staff to abide by are: integrity; honesty; objectivity; impartiality; compliance with law and professional standards; respect; protecting UKGI's interests; and managing conflicts of interest. UKGI's Code of Conduct brings

to life UKGI's values by setting out the responsibilities, duties and expected behaviours of its staff, who are all trained on and sign up to the Code of Conduct upon joining the organisation (whether on secondment or permanently).

- Given UKGI's role, it is incumbent on it to ensure that the interests of its Clients, Assets or other organisations that UKGI works 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 therefore includes guidance and well-defined procedures for avoiding, identifying, disclosing, reporting and managing conflicts of interest.
- To best support its Clients, UKGI performs its shareholder role as agreed in a Memorandum of Understanding with them, setting out how it will represent their best interests.

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

- UKGI's direct interactions with the financial system are rare and principally relate to its disposal programme for NatWest Group. However, a number of UKGI's Assets are involved in financial markets in other significant ways, for example the British Business Bank, UK Infrastructure Bank, and UK Export Finance. The stewardship of these Assets contributes to the maintenance of orderly markets through their activities.

- In addition to UKGI's interactions with financial markets from a Portfolio perspective, UKGI has a number of specialist teams providing expert advice, best practice, and risk management assistance to government departments. These include UKGI's Special Situations Group, Inward M&A team, and CLCC. UKGI also leads the Government Corporate Finance Profession and represents the UK at the OECD Working Party on State Ownership and Privatisation Practices.
- UKGI conducts a comprehensive and frequent risk review process which provides consistent and detailed oversight of its Portfolio. While this process principally identifies and analyses Asset-specific risks, it also considers market-wide and systemic risks which could lead to a significant impact on an Asset's ability to achieve its policy objectives. UKGI also conducts stress testing for macroeconomic and geopolitical risks at a Portfolio level, and in 2022/23 this included risks related to the ongoing conflict in Ukraine.
- UKGI is responding to the systemic risks caused by environmental issues and climate change through challenging and supporting its Assets' overall organisational performance and sustainability.

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

- In 2022/23 UKGI's Clients across the whole of its remit (not solely for shareholder roles) included (but were 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
 - the Cabinet Office
 - the Department for International Trade
 - the Department for Transport
 - the Department for Environment, Food and Rural Affairs
- UKGI has created a Target Shareholder Model which it applies to Assets in its Portfolio. The model sits alongside and is complementary to the work its Clients do to manage their policy and other interests in their Assets. UKGI's close working relationship with its Clients is central to enabling it to receive honest and open feedback from them, which it takes on board to better support them. UKGI ensures interactions between its Clients and UKGI are conducted through professional, efficient, and trust-based discussion:
 - i. Professional: people engaged in discussion relevant to effectively providing UKGI's objectives, with commitments provided on time and to specification
 - ii. Efficient: both parties ensuring a joined-up 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
- UKGI incorporates Environmental, Social and Governance considerations into its stewardship activities. These allow UKGI to more effectively challenge and support its Assets' overall performance and sustainability. For example:
 - to enable shareholder teams to challenge and support Assets on their journey to net zero UKGI has equipped them with guidance, and provided a successful programme of events to establish a community of environmental leads across its Portfolio and wider government
 - while many of UKGI's Assets exist to provide public services and are inherently concerned with social issues in the national interest, UKGI is devising a systematic approach to identifying and promoting social considerations for its Assets across its 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 run through all the core strands of UKGI's stewardship activities
 - UKGI communicates its activities through a range of media, for example the UKGI website and gov.uk. UKGI disseminates best practice through its events, for example the UKGI Corporate Purpose Networking Event in December 2022, within government guidance such as the Cabinet Office *"Arm's length body sponsorship code of good practice"*³, and through its publications, such as the 2020 report, *"UK government arm's length-bodies: a case for them in specialised delivery and how to optimise their use"*⁴. In 2023, UKGI published its second annual report detailing the role and activities of the UKGI Contingent Liability Central Capability. UKGI also publishes an Annual Report and Accounts and an annual response to the Stewardship Code.
- how it delivers its shareholder role and, in particular, the lessons it has learnt to date as a result of its engagement with the Post Office Horizon IT Inquiry. UKGI has sought to approach this Inquiry in the manner that the Sub-Postmasters, and the public at large, would hope and expect of a responsible public authority.
- UKGI is held accountable by the government departments for which it conducts an agreed role (as well as overall, by HMT as its shareholder) and is subject to audit by the Government Internal Audit Agency. At the time of publication, responsibility to account for the activities of UKGI in Parliament sits with the Economic Secretary to the Treasury. UKGI's 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.
 - UKGI welcomes the intense scrutiny it is subject to as a public body, not least as an opportunity to regularly review and assure its processes and activities, and account for itself – frequently in public forums.

Principle 6: Signatories review their policies and assure their processes

- UKGI has a number of internal mechanisms in place to review its policies and assure its processes. UKGI's Board and Executive Committee regularly conduct reviews of its core shareholder role, policies and processes and seek assurance as to their operation. UKGI strives for consistent, conscious and proactive reflection on

3 Sponsorship Code of Good Practice: <https://www.gov.uk/government/publications/arms-length-body-sponsorship-code-of-good-practice>

4 UKGI Publication: 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 work with different government departments (our “Clients”) to find solutions that optimise outcomes. Our annual strategy is aligned to achieving this
- **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 24 arm’s length bodies (“ALBs”) (collectively referred to as our “Portfolio” or “Assets”) and seven government departments (our “Clients”)
- **Our values and how we embed them in our culture:** the organisational culture in UKGI goes from strength to strength and we have continued to embed the UKGI values internally and externally
- **How our strategy, values and culture enable us to promote effective stewardship:** in line with our strategy, values and culture, we provide 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:** each year UKGI assesses its performance against the Board approved Business Plan, which includes a set of Key Performance Indicators (“KPIs”). This is done through a Board approved survey of feedback from our Clients, including departmental Permanent Secretaries and Asset Chairs, and a review of the achievements and challenges of each role. In FY2022/23 the Board agreed that UKGI met the KPIs for the year and endorsed areas of improvement for the year ahead
- **Our future:** we promote continuous improvement in our work and across our Portfolio as we deliver our role as the centre of excellence for corporate governance in government

What is UKGI and what is our purpose?

UKGI creates value for society from government's most complex commercial interests. We provide advice and solutions that inform the government's decisions so they can be translated into effective outcomes in the national interest.

UKGI is a company wholly owned by HM Treasury ("HMT") and acts as the government's centre of excellence for corporate governance and corporate finance. It has an agreed Framework Document with HMT which sets out the broad framework within which UKGI operates. This can be found on our website⁵.

UKGI seeks to achieve 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

UKGI's wider expertise

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. Although these activities are 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 broadens the support we offer our Clients and Assets. We have therefore provided detail of this work under Principle 4 where we view these additional services as being most relevant.

⁵ UKGI's website: <https://www.ukgi.org.uk/>

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 provide the services and outcomes sought by our Clients to the highest standards

- iii. to ensure that any assignment we undertake is clearly defined and assessed relative to UKGI's risk appetite

In contrast to the private sector, we cannot always choose what we work on and are prepared to take on complex, high-profile and challenging roles as they arise. We ensure we have the mix of skills to achieve our corporate objectives and to respond to the needs of our Clients. We maintain and develop our culture to ensure that we can attract and retain the people required to undertake this work.

Case Study: Strengthening our Proposition

This case study illustrates how UKGI's strategy enables us to promote effective stewardship

For UKGI, this past year has been one of strengthening our proposition, focusing on our core capabilities as an organisation and further professionalising across our four objectives so we can continue to offer specialist advice to government departments.

In the governance space this has involved building the skills of our shareholder Non-Executive Directors ("NEDs") and teams across our governance Portfolio, engaging in specific training, and bringing in external expertise to inform our thinking. This is covered further under Principle 2 on page 43. To further strengthen our Target Shareholder Model, we engaged with private sector asset managers to hear their perspective of best practice and are building in reflections and lessons learned in the year ahead to further enhance our stewardship practices.

Working with analysts from the Contingent Liability Central Capability team, we also enhanced our Portfolio management through a comprehensive Management Information pack, embedding a more data driven approach across the Portfolio, aiding shareholder teams and our Executive in their understanding of effective stewardship. This approach has enabled us to identify key trends, outliers, and areas for improvement – highlighting key areas of focus for our Assets. Our risk processes have also been adapted to better identify cross-Portfolio risk issues and implement actions to address these and mitigate. See page 58 for more information on this under Principle 4.

In the past year we enhanced our offering across government by providing departments with governance advice, for example we assisted the Treasury Officer of Accounts with revisions to Framework Document templates for all ALBs, based upon the updated Managing Public Money (“MPM”) principles. Alongside this we maintained core strategic relationships across government including with The Department for Business, Energy and Industrial Strategy Corporate Governance and Audit Reform Team, Cabinet Office Public Bodies Team, and through participation in the Cabinet Office’s Public Bodies Programme Board. This enables us to directly influence ALB governance policy, for example including UKGI best practice and practical know-how in the publication of the May 2022 Cabinet Office “*Arm’s length body sponsorship code of good practice*”⁶. In November 2022, we presented to the Cabinet Office Sponsorship Community Group of over 100 corporate governance professionals from across various government departments.

Through this work in strengthening our proposition, UKGI’s Corporate Governance and Portfolio Management (“CG&PM”) Programme has continued to embed stewardship best practice across our Portfolio and engage across Whitehall to promote effective governance.

Figure 1: Our purpose, mission and objectives hierarchy



6 Sponsorship Code of Good Practice: <https://www.gov.uk/government/publications/arms-length-body-sponsorship-code-of-good-practice>

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.

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 it 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

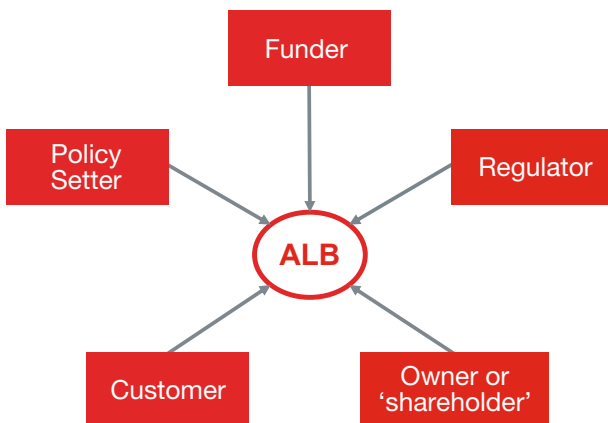


Figure 3: Government’s priorities in its shareholder role



UKGI’s stewardship role

UKGI’s stewardship role is as a service provider, representing the government’s shareholder responsibilities across a Portfolio of 24 ALBs. We act on behalf of the seven government departments that are responsible for these ALBs. 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 always to provide a financial return to government, 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 taxpayers and wider society. UKGI's shareholder role in relation to government-owned ALBs is referenced in 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 that government departments should seek UKGI's advice on the set-up of certain types of ALB and 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 a regular level of engagement maintained with both our Clients 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 to 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 regular meetings and detailed reporting requirements (including KPIs), to enable government's effective exercise of its shareholder levers. 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 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 two full-time equivalent team members. Further detail on how we perform these activities in practice is provided under Principle 5.

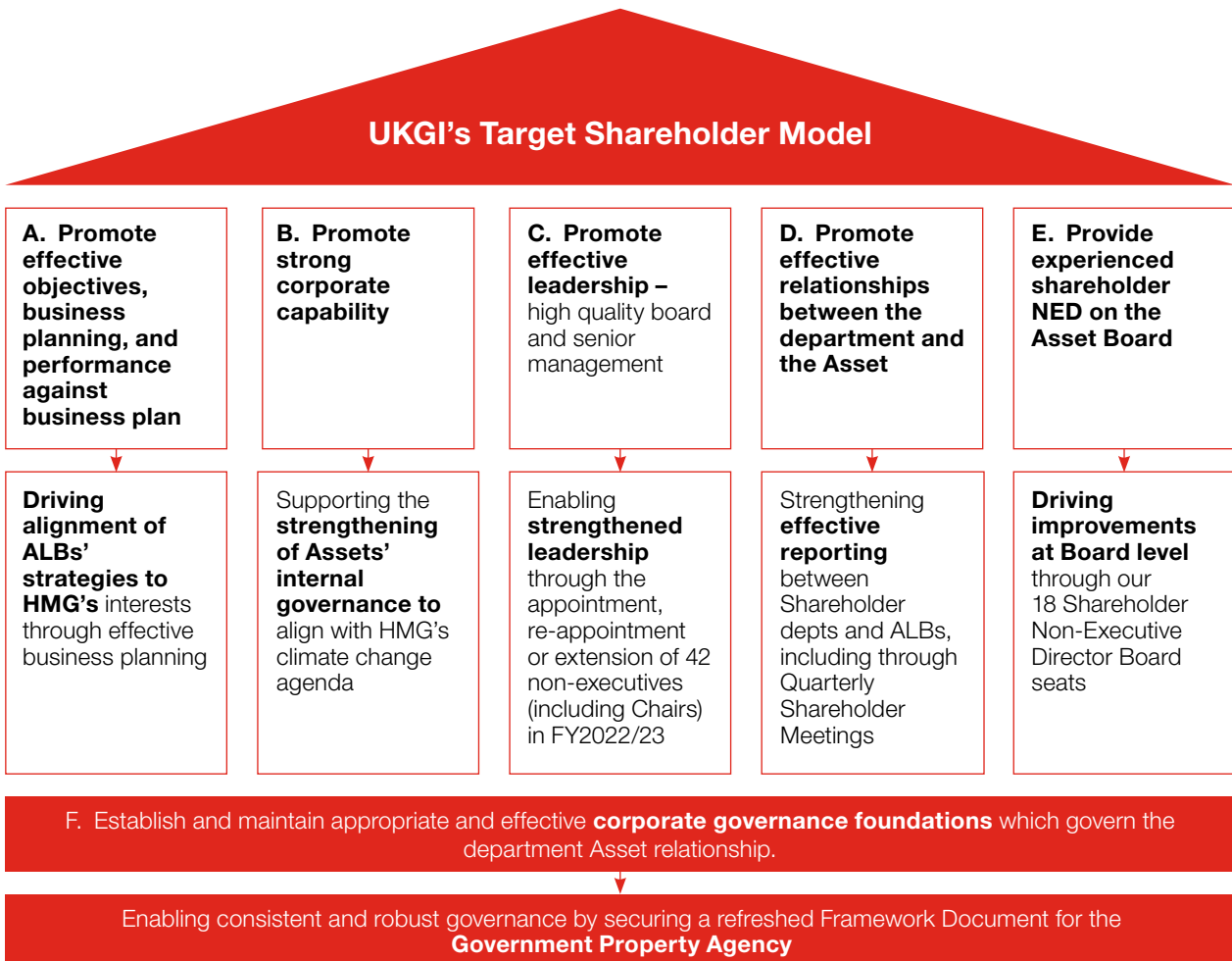
The role of the UKGI Shareholder NED is to:

- 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

The below figure details the six elements of the UKGI Target Shareholder Model in boxes A – F



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 CG&PM Programme, which we outline on page 38. 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.

Our Portfolio

At UKGI we perform the shareholder role for a broad and diverse Portfolio of Assets. The Portfolio consists of a range of structures from non-ministerial departments⁷ through to limited companies. The Assets cover a range of sectors, with the main activities being finance, communications, transport, nuclear, defence, manufacturing and property and land.

In FY2022/23 we responded to government requirements and increased our Portfolio to 24 Assets with new roles on Sizewell C and a monitoring role on BBC Commercial. We also successfully completed our role with the UK Green Investment Platform, with the corporate vehicle being liquidated following the successful disposal of its remaining entities.

Collectively, our Assets employ over 158,000 people, generate approximately

£30bn of gross 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 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 responsible for strategic and management decisions. On the other hand, for Assets such as the British Business Bank or The Royal Mint, where the government is a 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.

While we are not responsible for policy-setting for our Assets, our role is to agree clear objectives and performance targets including KPIs for our Assets with ongoing performance monitoring. Table 1 demonstrates the spectrum of how we implement our shareholder model.

⁷ 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 a high degree of financial autonomy (including its own estimate and accounts).

Figure 5: Our Portfolio by sector



Table 1: Our Portfolio of Assets (as of 31 March 2023)

Asset	Government Shareholding	Client Department [†]	Cabinet Office Classification	Board Seat	Non-Executive Appointments [□]
Atomic Weapons Establishment	100%	MoD	Non-Departmental Public Body	Yes	UKGI lead Chair appointment. NomCo leads other NED appointments
BBC Commercial	0%*	DCMS	Public Corporation	No	NomCo lead with 2 NEDs appointed from the BBC Board
BIS (Postal Services Act 2011) Company Ltd	100%	BEIS	Unclassified	Yes	UKGI lead
British Business Bank	100%	BEIS	Unclassified	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
Defence Equipment & Support	100%	MoD	Executive Agency	Yes	UKGI lead
Government Property Agency	100%	CO	Executive Agency	Yes	UKGI lead
HM Land Registry	100%	BEIS	Non-Ministerial Department	Yes	UKGI lead
National Highways	100%	DfT	Non-Departmental Public Body	Yes	DfT lead
National Nuclear Laboratory	100%	BEIS	Public Corporation	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”). The machinery of government changes which were announced on 7 February 2023 and came into effect from April 2023 are not reflected in Table 1 as they took effect after the end of the reporting period. The result of these changes in relation to the Portfolio has been that UKGI Assets sponsored by BEIS are now sponsored by one of the Department for Science, Innovation and Technology (“DSIT”); the Department for Energy Security and Net Zero (“DESNZ”); or the Department for Business and Trade (“DBT”).

□ 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.

* BBC Commercial Holdings Ltd is a private company wholly-owned by the British Broadcasting Corporation

Asset	Government Shareholding	Client Department [†]	Cabinet Office Classification	Board Seat	Non-Executive Appointments [‡]
NatWest Group	41.8% [‡]	HMT	Public Financial Corporation	No	Asset NomCo leads
Network Rail[~]	100%	DfT	Non-Departmental Public Body	Yes	DfT lead
Nuclear Decommissioning Authority	100%	BEIS	Non-Departmental Public Body	Yes	UKGI lead
OneWeb	17.6%	BEIS	Unclassified [±]	Yes	UKGI leads appointment of 2 NEDs – NomCo leads other NED appointments
Ordnance Survey	100%	BEIS	Public Corporation	Yes	UKGI lead Chair appointment – NomCo leads other NED appointments
Post Office	100%	BEIS	Public Corporation	Yes	UKGI lead Chair appointment – NomCo leads other NED appointments
Reclaim Fund	100%	HMT	Non-Departmental Public Body	Yes	UKGI lead Chair appointment – NomCo leads other NED appointments
Sheffield Forgemasters International Limited	100%	MoD	Public Corporation	Yes	UKGI lead Chair appointment – NomCo leads other NED appointments
Sizewell C	40.36%	BEIS	Unclassified	Yes	BEIS and EDF each appoint 2 NEDs. NEDs appoint Chair
The Royal Mint	100%	HMT	Public Corporation	Yes	UKGI lead Chair appointment – NomCo leads other NED appointments
UK Asset Resolution	100%	HMT	Central Government as a publicly owned company	Yes	UKGI appoints the Chair and 2 NEDs

‡ Government shareholding was 41.8% on 31 March 2023 and 38.5% on 11 October 2023

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

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

Asset	Government Shareholding	Client Department [†]	Cabinet Office Classification	Board Seat	Non-Executive Appointments [¶]
UK Export Finance	100%	N/A [§]	Ministerial Department	Yes	UKGI lead
UK Infrastructure Bank	100%	HMT	Non-Departmental Public Body	Yes	UKGI and HMT joint lead
URENCO	33%	BEIS	Non-public sector	Yes	Appoint 2 Shareholder NEDs and lead appointment of Chair

§ UK Export Finance is a Ministerial Department reporting to Ministers at the Department for International Trade

Case study: UK Infrastructure Bank (“UKIB”)



This case study demonstrates how UKGI uses its expertise and experience to support our Clients, by supporting new ALBs to become robust and resilient organisations.

UKGI acts as shareholder for the UK Infrastructure Bank (“UKIB”), on behalf of HMT. UKIB’s core mission is to partner with the private sector and local government to increase infrastructure investment to tackle climate change and promote economic growth across the UK.

Over the past twelve months, UKGI has supported UKIB on its journey from set-up into steady state, with a variety of key milestones achieved. UKGI utilised experience from the set-up of the Green Investment Bank and British Business Bank to inform this work.

Specifically, UKGI has supported UKIB to form a fully constituted Board – with extensive experience in UKIB’s areas of interest – through the appointment of four Non-Executive Directors (“NEDs”) as UKIB established its permanent executive team. UKGI also provides a NED to the Board, with Charles Donald (UKGI Chief Executive) appointed as the UKGI Shareholder NED. UKIB’s Board and its committees are now well established, and we have also helped to strengthen the robustness of UKIB’s governance processes. Operationally, UKGI has supported UKIB and HMT with building out UKIB’s funding arrangements and risk management processes.

Following the passage of the UK Infrastructure Bank Act in March 2023, UKGI has continued to support UKIB on its mission, for instance through the recruitment of a further NED to complement the expertise of the Board and in responding to recommendations arising from reports on UKIB’s set-up from the National Audit Office and Public Accounts Committee. UKGI has added to its considerable experience of the requirements of ALBs through the full span of their set-up and will be able to draw on this experience in future.

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. Most colleagues work in 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 values are the lens through which our decisions and actions should be viewed. At UKGI, our values guide the work of our colleagues, including our Board which observes these values in its tasks. We are cognisant of the particular expectations and responsibilities placed upon us and our Board, given our public sector role and our stewardship of public funds. To that end, we follow the "Principles of Public Life"⁸, commonly known as the "Nolan Principles" in everything we do. UKGI's Board Terms of Reference provides guidance to Board members about the culture and value of the Board and is reviewed annually. The Board Terms of Reference explicitly outline that the Board is responsible for

8 Principles of Public Life: <https://commonslibrary.parliament.uk/research-briefings/cdp-2022-0156/>

ensuring that appropriate values, ethics, and behaviours are agreed. They also require that appropriate procedures are in place to ensure that our values are observed throughout UKGI, and that reward and assessment include measurement against our values. Our values are also used in evaluating the effectiveness of the Board and contribution of all Board members. The Board Terms of Reference clearly outline 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”) remains 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.

In the last 18 to 24 months UKGI has changed materially and now has an even more diverse staff from a variety of backgrounds who bring a broad range of perspectives. Some of the significant achievements in addition to those reported in previous Stewardship Code submissions include:

- We have exceeded our formal gender diversity target with 46% of senior management (Executive Director and above) now female, against the Women in Finance target of 40%

- As at 31 March 2023, our mean gender pay gap was 6.6% (31 March 2022: 19%), and our median gender pay gap was 16.7% (31 March 2022 22.5%). Our mean and median bonus gap was 19% and 34% respectively (31 March 2022: 32% and 37.6%)

UKGI’s mean gender pay gap composition over the past five years has gradually shifted from 27.2% (31 March 2018) through our commitment to diversity and inclusion; and we are pleased to have made a significant change from 19% to 6.6% over the past year

- We also met our target to have 10% of the senior management cadre identifying from an ethnically diverse background, which doubled from 5% in the last financial year
- Whilst not a formal target, we continue to enable diversity of thought with a significant proportion of staff from an international background
- We have successfully piloted our graduate programme, recruiting from socio-economic tiers that have been under-represented in UKGI to date. We are now moving to a full launch with a second cohort of graduates to join shortly
- We have launched our apprentice scheme, also part of our social mobility focus, and this too will be developed further
- We have introduced a new toolkit for managers and guidance for colleagues on both the impact of the menopause and taking shared parental leave to support colleagues through

these different life stages that might impact them

- Colleagues can now elect to swap statutory bank holidays for dates that have a particular faith significance to them so that they do not need to take additional annual leave for these days. To keep the administration simple for those electing to do this, this just needs to be agreed between the individual and their manager
- In the recent staff survey we scored highly on inclusivity at 88%, which was an increase of 8% from last year, and the feedback shows that our people feel a valued part of UKGI

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. This means we can better understand of the needs of our Clients and of the wider public we serve, ultimately enabling us to more effectively meet those needs.

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:

- Specialist expertise in applying private sector governance disciplines to a government setting, typically in relation to some of the government's most challenging 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 advice across government. UKGI offers an understanding of stewardship of complex Assets which is unique in the government environment
- Senior and 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 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 public sector
- 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 CG&PM Programme, our Risk function and our commitment to Learning and Development – further detail of which is provided under Principle 2.

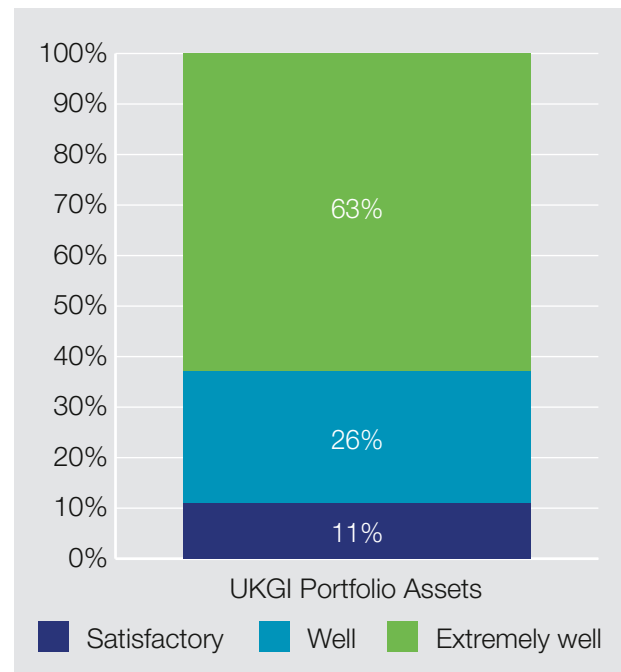
Clearly defining our purpose, strategy, values and culture, and embedding these within our work, helps us to promote effective stewardship. It also ultimately makes us a more cohesive organisation, which is able to adapt to the evolving demands and requirements of our Clients. Our culture of collaboration 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.

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

During FY2022/23, UKGI has continued to serve the best interests of our Clients, providing an active shareholder role across our Portfolio.

Amongst other measures, UKGI assesses its performance through a process of feedback from key stakeholders, including departmental Permanent Secretaries and Asset Chairs.

Figure 6: Chart showing overall rating received for UKGI’s performance in FY2022/23*



* Not all Assets that UKGI worked with in FY2022/23 provided feedback and therefore the chart only uses available data from feedback received.



Image courtesy of the Atomic Weapons Establishment

Our future

In FY2023/24 we will look to adapt to the changing landscape in which we deliver and ensure we continue to learn so we can effectively manage our Portfolio and other governance activities to deliver excellent stewardship on behalf of government departments. The key areas UKGI is looking to develop are:

- Continue to embed our Target Shareholder Model (outlined on page 19) and current know-how, drawing on feedback from our Clients
- Continue to evaluate how we might refine and strengthen our processes, in light of best practice we have developed, as well as experiential lessons. Ongoing review and improvement are at the core of our stewardship responsibilities
- Embed Portfolio performance and risk monitoring criteria, including standard and Asset-specific measures to enable effective management, while also promoting continuous improvement in key areas including quality leadership, operational performance and effective management of high-risk situations
- Continue to better identify cross-Portfolio risks and issues, and implement actions to mitigate them
- Build on our corporate governance expertise for the UKGI Portfolio, through establishing, expanding, and communicating UKGI house views and standards
- Continuously improve our Portfolio expertise by building internal capability, and more systematically and effectively managing and training our people including our Shareholder NEDs and aspiring NEDs

UKGI's working culture enables colleagues to choose the best workplace for their and their team's priorities, with an aim of 50% of their time working in the UKGI office and 50% elsewhere, including at home, in offices of other government departments or offsite with our Assets, particularly those who perform the Shareholder NED role. As UKGI prepared to vacate its current office and move to a new office environment in mid-2023, we consulted staff and invited their views on the design and features of the new environment, and we will monitor and take on board staff feedback going forward.



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 Document⁹ with HMT which outlines UKGI's purpose, objectives, governance and accountability, shareholder relationship, Board and

Committee responsibilities, annual report and accounts process, management and financial responsibilities, and staffing.

As a non-listed, government-owned entity, UKGI is not required to apply the UK Corporate Governance Code, but draws on the Code as a source of best practice in its reporting and governance arrangements. UKGI does not hold an annual general meeting, but holds quarterly shareholder meetings, and its sole shareholder HMT is represented on the Board.

⁹ Available on our website: www.ukgi.org.uk (under ‘Transparency’)

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 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 ("CG&PM") Programme which is outlined on page 38. On pages 25-26 we describe

our Board's Terms of Reference ("ToR") and how they seek to enshrine our culture and values into every decision taken by the Board. The ToR further outline 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 supports UKGI to perform its stewardship activities, including enabling a culture which allows us to execute our strategy, maintain sufficient resourcing and have 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. As at 31 March 2023 our Board comprised 9 members¹⁰, including our CEO, as well as the Permanent Secretaries of the Department for Business, Energy and Industrial Strategy¹¹ and HMT (UKGI's shareholder)¹², operating as ex officio Board members. This arrangement provides an essential line of sight to our Board from key government departments on whose behalf we operate. The remainder of our Board members, Non-Executive Directors ("NEDs") who do not work for government

10 Jane Guyett, UKGI Senior Independent Director, stepped down from the Board on 11 August 2023.

11 Following machinery of government changes, in April 2023, the Department for Business, Energy and Industrial Strategy and Department for International Trade were split into the Department for Science, Innovation and Technology and Department for Business and Trade, the Permanent Secretaries of which now sit on the UKGI Board. A third department was created as part of these changes, the Department for Energy Security and Net Zero.

12 Philip Duffy, HMT Director General, Growth and Productivity stepped down from the Board on 8 June 2023.

departments, are assigned one or more sponsorship oversight roles over our Assets. These arrangements allow for a deeper insight for our NEDs into the work of the Portfolio, and provides the opportunity for UKGI's NEDs to contribute more directly to the work UKGI does for its Clients.

Our Board meets at least six times per year and our Committees meet as regularly as required. In May 2022 an externally facilitated review of the Board's effectiveness concluded the Board to be 'effectively constituted and efficiently run'. Recommendations included allotting more time for strategy discussions, and an annual Board and Executive strategy session took place for the first time in October 2022. This provided the Board with the opportunity to dedicate more time to strategy development outside the regular cycle of meetings. For more information on this review, see page 84.

The Board receives extensive data allowing it to make informed judgements and reach decisions. 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 areas

The Board is responsible for:

- Reviewing and approving the UKGI Business Plan each year, which includes

our Corporate Governance and Portfolio Management Programme's strategy across our Portfolio

- 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

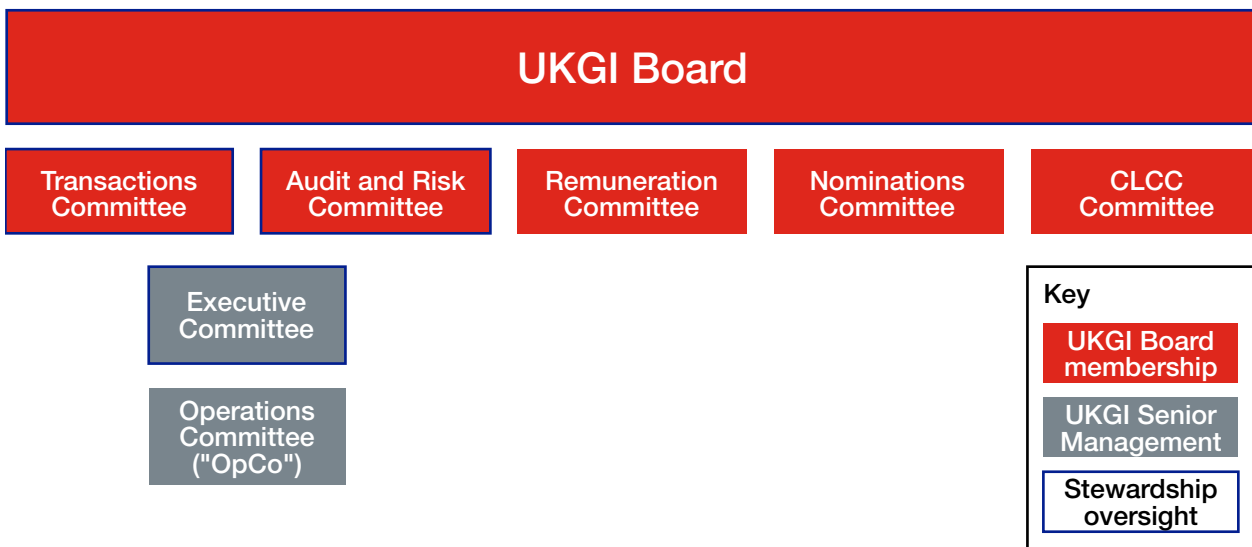
Board agendas are developed and informed by management's risk assessment, which itself is reviewed at each Board meeting. Projects or Assets with the highest risk rating must update the Board at each meeting. Those that retain the highest risk rating for multiple reporting periods benefit from a periodic deep dive review. At the end of each meeting the Board agree the forward look and any required deep dives, with the draft agenda provided 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 Accounts¹³.

13 UK Government Investments Annual Report and Accounts 2022/23: <https://www.ukgi.org.uk/2023/07/18/uk-government-investments-annual-report-and-accounts-2022-23/>

Our Committees

Figure 7: 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 and Operations Sub-Committee (see figure 7).

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 financial sector Assets which the government has determined it has no policy reason to retain. Specifically, the Transactions Committee provides oversight solely for UKGI’s work on managing HMT’s shareholding in NatWest Group plc (“NWG”) and UK Asset Resolution Limited (“UKAR”). For all the other Assets in UKGI’s Portfolio, oversight is provided directly by the UKGI Board.

Audit and Risk Committee (Board Committee)

The aim of the Audit & Risk Committee (“ARC”) is to provide oversight of the audit and risk functions within UKGI. It is an important part of the corporate governance and assurance process, conducted within a clearly defined mandate of roles and responsibilities.

UKGI seeks to maintain the highest standard in audit and risk management process and practice, complying with all applicable regulation as well as best practice in Corporate Governance. 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”). The ARC has focused on continuous improvement and ensuring that other aspects of internal control systems, processes and quality management are similarly well developed. The ARC works with senior management, the Board, the Government Internal Audit Agency and the National Audit Office (“NAO”) in carrying

out its mandate. To this end, in FY2022/23, the ARC has:

- provided robust challenge to the identification of, and measurement of, key risks and mitigating factors
- undertaken regular horizon scanning to consider emerging and developing risks
- reviewed UKGI's risk appetite and approach to risk
- ensured UKGI appropriately mitigates the changing risk profile by managing and aligning the risk processes to UKGI's Assurance Map

Remuneration Committee (Board Committee)

The responsibility of the Remuneration Committee centres on approving the pay of Director-level staff at UKGI, and of the performance-related pay award for UKGI as a whole. The key focus of the Remuneration Committee over the last year was balancing the need to attract and retain the best talent in the competitive market for specialist corporate finance skills within the budgetary constraints imposed by the 2021 spending review settlement. The Committee has been pleased with the continued emphasis on UKGI's culture and values, which support retention efforts as much as remuneration considerations.

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

has focused on identifying the required skills and experience for Board vacancies in 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 undertaken, and where appropriate, making recommendations to the Board or to HMT.

Contingent Liability Central Capability Committee (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 delivering its objectives agreed with HMT as set out in the specific Memorandum of Understanding and Service Level Agreement between UKGI and HMT for CLCC.

The CLCC Committee Chair is a NED appointed by the UKGI Board. The Committee comprises no fewer than two NEDs of UKGI, the Chief Executive of UKGI, 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. Specialists are invited to attend as required.

The CLCC Committee provides support and challenge to the team on matters including the approach to provision of advice and reporting (including an annual report on the review of government's contingent

liabilities), team resourcing and skills, and the management of risks to UKGI from the team's activities. The Committee has focused on embedding the CLCC's remit in alignment with HMT objectives, provided advice on the CLCC's future reporting, including its second annual report endorsing its cross-government data commission on contingent liabilities.

Executive Committee (Senior Management Committee)

The Executive Committee ("ExCo") is responsible for UKGI's overarching corporate strategy and developing an annual business plan for Board approval. 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 fortnightly to discuss UKGI business, including the stewardship of our Assets. Further detail on the Executive Committee can be found in the case study on page 37.

The Chief Executive is also Accounting Officer under Managing Public Money, and so is responsible for maintaining a sound system of internal controls which supports the achievement of UKGI's objectives whilst safeguarding public funds and departmental Assets, in accordance with the Parliamentary accountability responsibilities assigned to him. 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.



Office at 100 Parliament Street

Case Study: Change in structure of UKGI's Executive Committee

This case study demonstrates how UKGI reviewed and improved its own governance by establishing a new Operations Sub-committee.

The senior leadership team at UKGI regularly review internal organisational and governance structures to ensure they are fit for purpose and operating at an optimal level for UKGI's size.

In FY2022/23, the weekly ExCo meeting, comprising the Chief Executive Officer ("CEO"), Directors, the General Counsel, the Chief Financial Officer ("CFO"), and Chief Operating Officer ("COO") moved to a longer fortnightly meeting. On the alternate weeks to ExCo, the COO now chairs a smaller Operations Sub-Committee ("OpCo") comprising the COO, CEO, CFO, one permanent Director and occasional invited Directors. The rationale for this change was to maximise the time available for ExCo to consider strategic matters and overall performance against UKGI's objectives. OpCo is then used to focus on the effective running of the organisation, with an emphasis on finance, people, procurement and remuneration issues. A brief verbal report of the previous OpCo meeting is provided to ExCo at the following meeting, with action points recorded in the ExCo minutes.

To facilitate this change in UKGI's governance processes, Terms of Reference were updated for ExCo, reflecting the newly focused purpose and scope of the committee and to delegate authority to the newly formed OpCo. In addition, Terms of Reference were drafted for OpCo to establish its purpose, scope and explicit obligation to consider whether any decisions made in the sub-committee require escalation back to ExCo for final approval.

In tandem with this structural governance change, greater use has been made of ad hoc ExCo committees charged with resolution of specific strategic and management issues. These ad hoc committees are comprised of members of ExCo who have significant experience and skills in the areas relevant to the issues in question and are intended to further explore proposals for significant new work and projects, or proposals to exit existing projects. Greater use has also been made of the weekly Directors and Executive Directors meeting on issues that are of general interest and require discussion and input from a wider group of people. This also enables Executive Directors to be included in wider leadership responsibilities.

In making the operation of ExCo more efficient, the establishment of OpCo has enhanced UKGI's overall oversight for promoting effective stewardship, enabling ExCo to focus its time on Portfolio priorities and emerging issues.

Internal organisation

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".

To support UKGI to undertake this role, the CG&PM programme was established in 2018. Its purpose is "to drive UKGI as the centre of excellence for corporate governance in government".

To strengthen our position as the centre of excellence we made good progress against the FY2022/23 strategic stewardship areas of organisational culture, environmental, social and governance, and remuneration and appointments. We provided best practice advice for our teams and Assets on each of these areas.

Across the programme we have looked to incorporate areas for continuous improvement identified from regular feedback received from our senior department sponsors and ALB Chairs and will continue to build on the effective provision of our shareholder roles recognised by these stakeholders. After reflecting on feedback and the issues facing our Portfolio, the Board and our Executive approved the FY2023/24 Programme priorities as:

- Improving the quality of leadership, both within our Shareholder NED cadre and on our Asset Boards and Executive
- Monitoring and managing Asset operational performance
- Enhanced management of high-risk situations

A key enabler within the Programme for driving continuous improvement in corporate governance across UKGI is our tailored Learning and Development ("L&D") framework. 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 page 43, 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 FY2023/24. This will continue to be supplemented by other development opportunities including sharing excellence seminars, and our Shareholder NED and aspiring NED programme.

Portfolio & Project Review Panels

The Director leading the CG&PM programme also has responsibility for the ongoing review of the health and performance of the UKGI Portfolio. This review on an individual Asset basis is principally undertaken via the UKGI Portfolio Review process. This consists of a review of the performance of an Asset and of the Asset team's oversight and consideration of any issues arising. Review Panels comprise a group of UKGI Directors and senior managers from across the organisation alongside UKGI Board members, who are also invited to attend for the Assets that they have a senior oversight role for.

UKGI Portfolio Review Panels provide internal peer review to shareholder teams

on the performance of their role, oversight on the consistency of stewardship and an opportunity to share best practice across our Portfolio. In addition to a regular 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 or 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, high public interest, or the removal of a high-profile staff member on UKGI advice)
- Approach to external enquiries (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 ExCo 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:

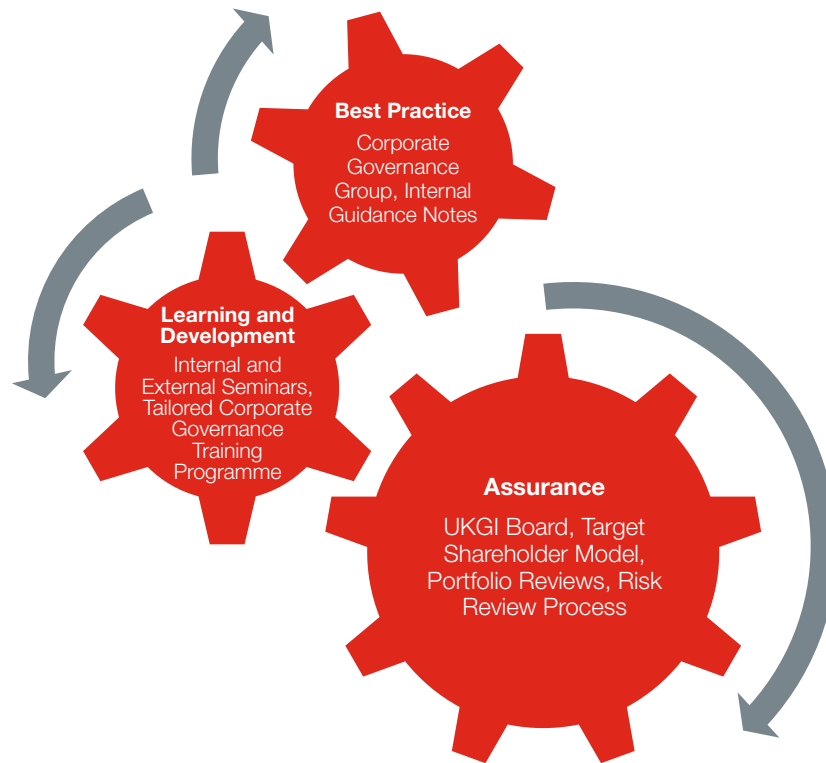
- avoid groupthink within the relevant Asset teams and across the Portfolio
- consider the scope and definition of our role in relation to the Asset
- allow an objective view to be taken of risk grading and mitigations

- 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, Portfolio Review panels 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, we also conduct 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.

Figure 8: 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 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 2023, we had 163 employees with 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, drawing from colleagues across the organisation. 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 9.

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 ("GAD"), credit risk experts, policy professionals and analysts – skillsets that can be 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.

During FY2022/23 we also successfully piloted our graduate programme, with the aim of recruiting from socio-economic tiers that have been under-represented in UKGI to date. We are now moving to full launch with a second cohort of graduates to join in April and October of 2024. We have launched our apprentice scheme, also part of our social mobility focus, and this too will be developed further.

By bringing together these individuals, we can provide high-quality advice in undertaking our shareholder role to government departments.

Senior and experienced resource

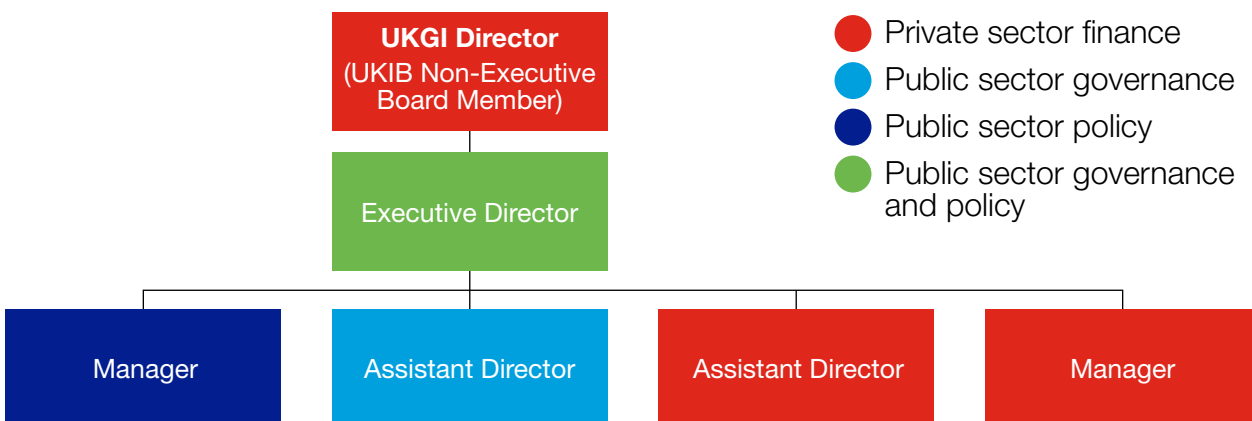
In comparison to most parts of government, we have a higher ratio of senior to junior staff and greater longevity in Asset teams. Our senior resourcing mix includes our Chief Executive, 10 Directors, 30 Executive Directors and 60 Assistant Directors (as of 31 March 2023). Our shareholder teams and Shareholder NEDs bring a unique blend of specialist corporate governance and corporate finance expertise, supported by senior resource and infrastructure.

Our staff includes individuals with Board experience gained in public and private sector organisations, and on average our Shareholder NEDs have 6 years 8 months of Board experience each (as of March 2023). In addition to their own experience, UKGI Shareholder NEDs and teams have access to both UKGI's training offering and the shared experience of UKGI's senior leadership, which shares over 130 years of Board experience. We aim to maintain a consistent Shareholder NED presence on Asset Boards where possible and appropriate (for more information, see case study on page 45).

UKGI can mobilise swift and targeted assistance to our Clients both on ad hoc assignments 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, in order to enhance future stewardship by maintaining a corporate memory.

Figure 9: UK Infrastructure Bank shareholder team

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



Maintaining and sharing our knowledge and expertise

Our L&D offer

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 meet the needs of our people. 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.

On average, colleagues completed 27.5 hours of continuous professional development (“CPD”) over the last year, compared to 25 hours the previous year. Everyone at UKGI receives a development and career conversation to support their aspirations and plan their development activities for the year ahead. Each year we also 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.

We continue to expand our development offer based on the needs of our colleagues. Over the past year we have offered over 80 courses and seminars providing over 270 hours of training and development, covering various topics including corporate finance, corporate governance, people management, well-being and self-development. Course topics from the past year have included:

- Role of the Director and the Board
- Environmental considerations in governance
- Accountability and governance of ALBs
- An introduction to Accounting
- An overview of Subsidy Control
- Collective responsibility
- Lessons learnt
- Security classifications
- An outlook for corporate distress
- Gaining Board experience through a Trustee role
- Appointing a Non-Executive Director

Figure 10: Learning and development delivered in 2022/23



Corporate Governance Development Framework

The Corporate Governance Development Framework supports 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. The development opportunities are available to all UKGI employees, where these form part of their development plan or future career aspirations. This Development Framework has received excellent feedback internally.

The framework begins with the foundation level training which offers new UKGI employees up to 55 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 ALBs and UKGI's Target Shareholder Model. Our colleagues with more experience can attend other available development opportunities, such as our Sharing Excellence seminars, lessons learned sessions, Portfolio Reviews and our Corporate Governance Group meeting to share experiences.

Sharing our knowledge

UKGI has a culture of knowledge sharing between colleagues within the organisation and has put in place mechanisms to facilitate this. These include a specific NED forum, established as an opportunity for UKGI colleagues who have NED roles to get together periodically to share experience on some of the issues they face in this capacity; regular updates provided to all governance colleagues to raise awareness of key developments, helpful resources and best practice; and our internal guidance on a range of key governance topics.

Shareholder NED Development

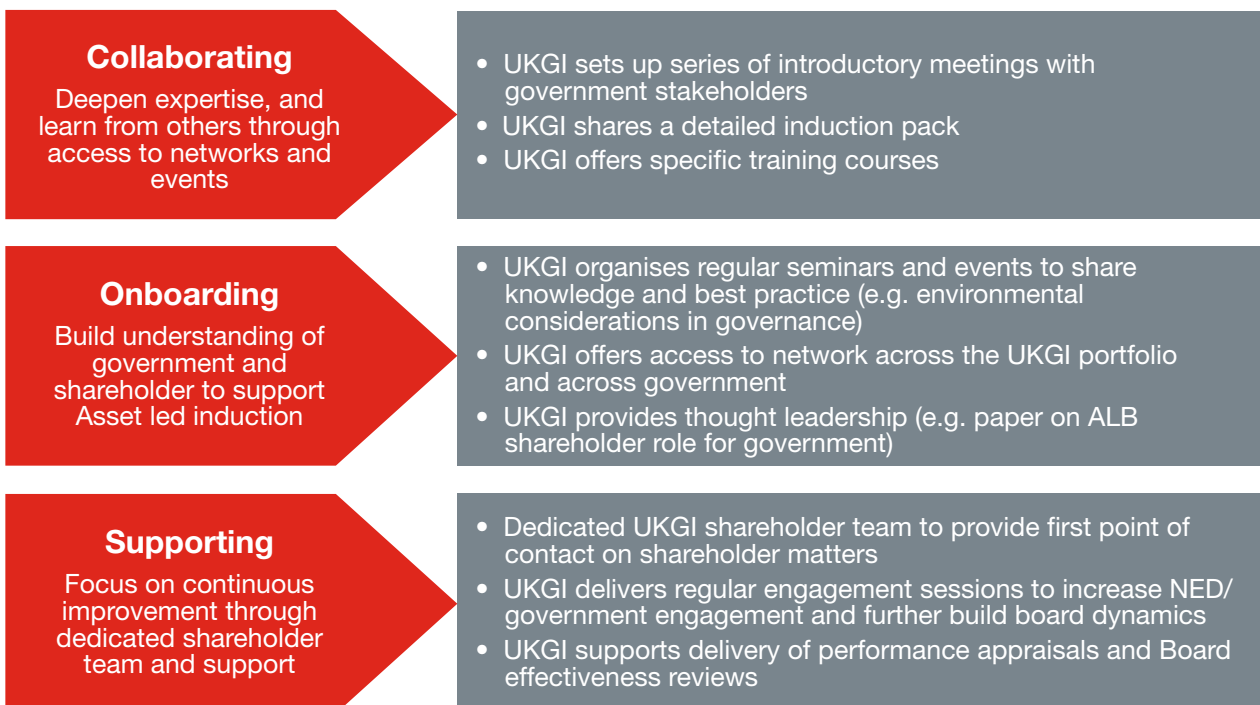
Shareholder NED Development is essential to enable UKGI to continue to act as a responsible steward and is the final part of the Corporate Governance Development Framework. Shareholder NEDs can access both UKGI's training offering and the shared experience of UKGI's senior leadership, which comprises over 130 years of Board experience. 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 the public and private sector. This year saw the introduction of the 'View from the Chair' series – various Chairs of private and public sector organisations were interviewed by the UKGI Chair and shared their experiences with UKGI colleagues followed by Q&A. This is in addition to targeted personal development and Board coaching. The more informal development via our frequently held NED Forums continues to be an excellent platform for our Shareholder

NEDs to share expertise and best practice. Through the entire framework, a Shareholder NED can expect an additional 47 hours of CPD a year to support them in their role.

In addition, the Corporate Governance Development Framework provides specific training, resources and personal development to support and upskill staff aspiring to be future UKGI Shareholder NEDs, for either internal or external roles. The UKGI Aspiring Shareholder NED Development Programme is a multi-year programme, which includes professional development days, NED Forum observation, mentoring and experiential learning equating to over 47 CPD hours per year.

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 to the best of training offered by the Civil Service, including the Future Leaders Scheme.

Figure 11: Developing Shareholder NED capability



Case Study: Shareholder NED succession planning

This case study demonstrates how UKGI continuously manages its resources to enable the promotion of effective stewardship.

When conducting a shareholder role, UKGI typically provides an experienced Shareholder Non-Executive Director (“NED”) to an Asset’s Board. In FY2022/23 we had 22 Board seats held by 18 Shareholder NEDs. We aim to maintain a consistent Shareholder NED in our Board seats where possible. 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.

The Chief Executive leads the Shareholder NED succession planning process at regular intervals throughout the year to actively manage these resources and reduce risk in this area. Succession planning for the Portfolio as a whole is a key component, including consideration of the individual skills and expertise that may be needed for each Asset in the immediate and longer-term future. The pipeline of potential Shareholder NEDs is also considered to enable a holistic succession planning process. Over the last three financial years the average turnover rate among Shareholder NEDs on the Boards of our Assets has been 19%. This is a suitable and sustainable long term rate maintained through effective succession planning and allocation of resources to the Asset Boards. This process has reduced risk in this area, therefore enabling more effective stewardship.

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 FY2022/23 is 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

	FY2022/23 (£m)
HM Treasury	17.4
Department for Transport	0.4
Ministry of Defence	1.5
Department for Business, Energy and Industrial Strategy	2.8
Department for International Trade	0.2
Cabinet Office	0.2
Department for Culture, Media and Sport	1.5
Total Funding	24.0

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.

We seek to build and maintain a culture 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 helping us to take on board our Clients' feedback. Our Board and Executive Committee considers this feedback and that of our Assets and shareholder teams.

We then seek to incorporate this into our wider CG&PM programme, including internal guidance 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. We have launched an internal lessons learned database, with colleagues contributing and benefitting from past work. Lessons learned sessions are conducted regularly with learnings added to the database and shared across UKGI. We also enhanced our Portfolio management through a new Management Information pack. Through this more robust data-driven

approach, our shareholder teams and Executive are able to identify key trends, outliers, and areas for improvement leading to more effective stewardship.

We continue to invest in resource to support increased effectiveness across all of our work. Our dedicated Project Management Office (“PMO”), which was established in 2021, enables successful project delivery across UKGI by maintaining centralised project management expertise and ensuring a consistency of approach. The team also embed project management expertise within larger and or more complex teams, such as the UK Infrastructure Bank shareholder team. The PMO uses a demand management process to enable the Executive to continuously challenge the overall priority of projects and the Portfolio. The team reviews each of the four UKGI objectives (as set out on page 16) on an annual basis, taking forward recommendations for improvement by the Board and Executive.



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"):

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 and purpose statement (as referred to under Principle 1) to life by setting out the responsibilities, duties and expected behaviours of all of our staff.

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.

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 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 and the Official Secrets Act
- Cabinet Office's Civil Service Management Code
- HMT's Managing Public Money
- HMT's Corporate Governance Code for Central Government Departments

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.

UKGI's Board has arrangements in place to manage any personal conflicts of interest. As part of this each UKGI Board member is required to disclose, at the outset of their term as a Board member, and again subsequently at the start of each financial year, any direct or indirect conflicts of interest they are aware of and may have in connection with being appointed a Board member of UKGI. Directors' key external roles are set out in their profiles on the [UKGI website](#).

Avoiding Conflicts

Under our Code of Conduct, all UKGI 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, or 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

Identifying and Disclosing Conflicts

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.

Reporting Conflicts

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.

Managing Conflicts

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

Illustrative conflict Scenario 1:

Conflicts between the UKGI Shareholder NED's 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 are 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 allow 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, 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 use two important measures in these circumstances. Firstly we 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 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 employs 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

Case Study: Government Property Agency

This case study highlights how UKGI managed a conflict between the responsibilities of a UKGI senior member of staff acting as a NED of a portfolio Asset and as management of UKGI itself.

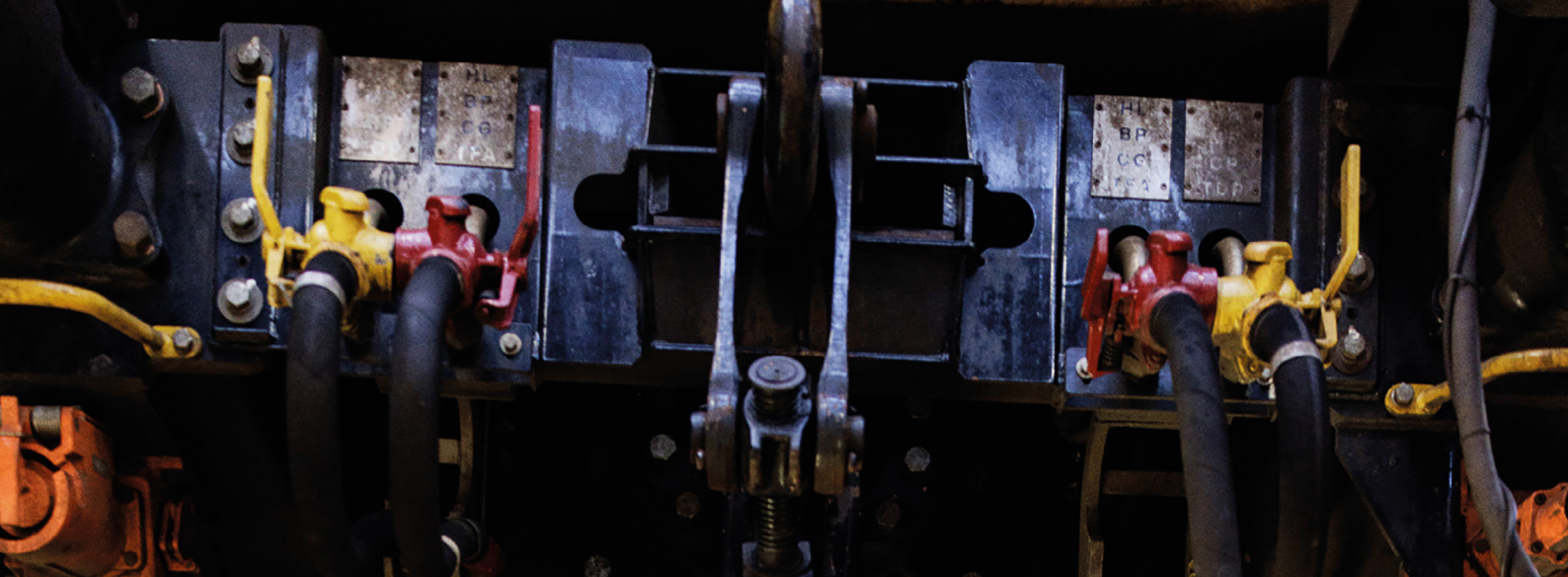


**Government
Property
Agency**

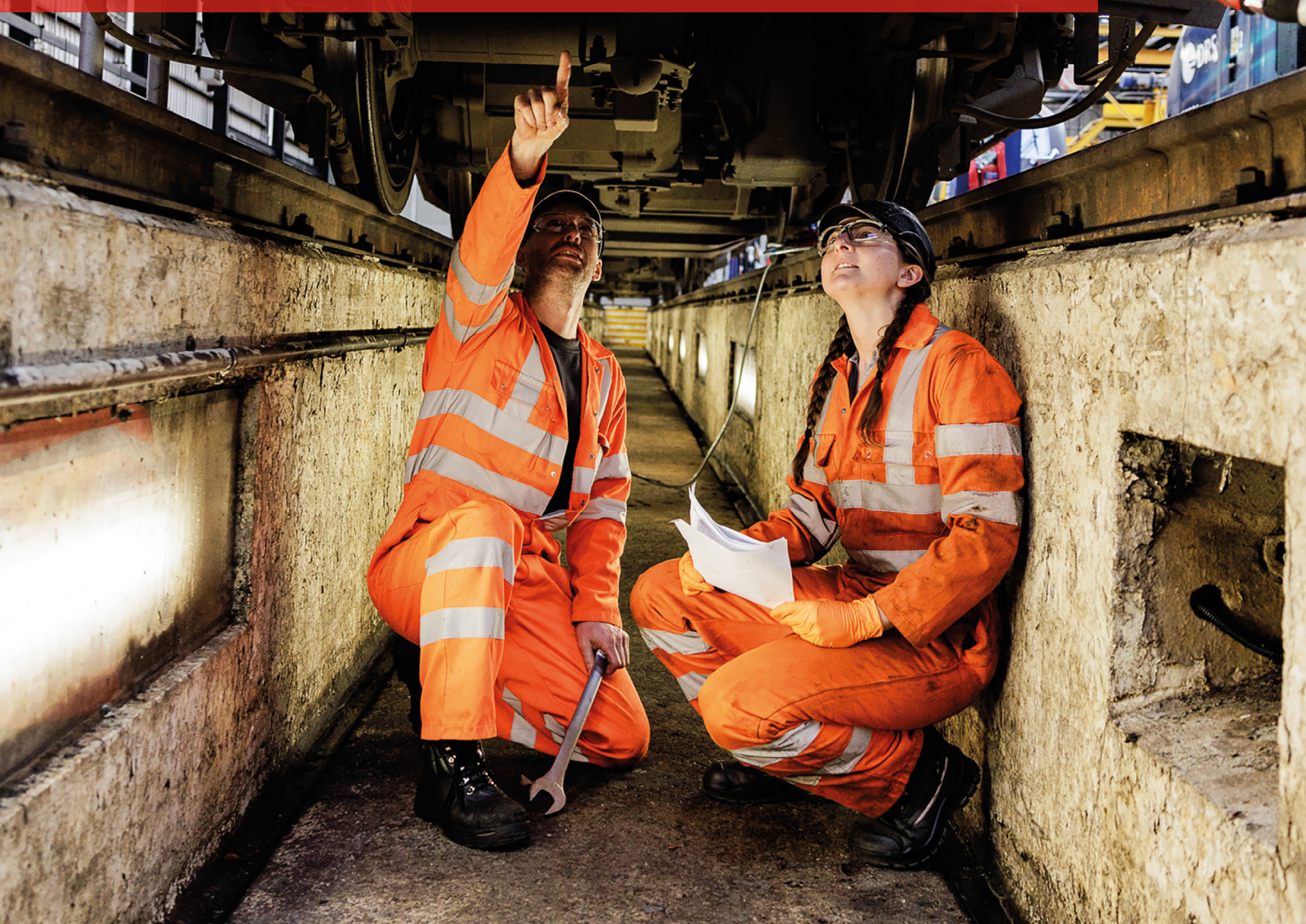
The UKGI shareholder model is that most senior members of UKGI staff act as Shareholder NED on one or more Portfolio entities, alongside their corporate roles within UKGI. Accordingly, the Chief Financial Officer (“CFO”) of UKGI also acts as the Shareholder NED for the Government Property Agency (“GPA”).

The GPA owns and operates the central government general purpose estate, and as such, is UKGI’s landlord. In 2022, the GPA notified UKGI that its lease of its then existing office was being terminated and that a new lease would be granted for alternative accommodation.

This matter would ordinarily have fallen into the CFO’s remit. To avoid any conflict of interest which might have arisen given the CFO’s role as the Shareholder NED for the GPA, the CFO formally delegated his financial approval authority for this specific transaction to UKGI’s Chief Operating Officer, who accordingly led negotiations and discussions with GPA on the new lease and existing lease termination, and associated costs such as fit out and dilapidations, and in due course signed the new lease. The Board of UKGI was notified of this change in approval routes. The Board agreed that in the context this was the appropriate mitigation for any potential conflict.



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 and responding to risk:** we both identify and respond to risk to our Portfolio through a comprehensive and frequent Risk Review process reporting up to the UKGI Board which provides consistent and detailed oversight. This includes Asset-specific and cross-cutting systemic risk
- **Promoting a well-functioning financial system:** the Contingent Liability Central Capability (“CLCC”) works to improve the management of the government’s portfolio of contingent liabilities where the government takes on fiscal risk from the private sector, including by providing transparency about where risk lies across government. 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 specialist corporate finance and governance expertise and provide advice to government departments and our Assets
- **Working with stakeholders:** UKGI’s position as the centre of expertise in corporate governance and corporate finance means our best practice and practical know-how are brought to bear on some of the most pressing issues both in the UK and overseas
- **Industry initiatives:** UKGI’s role is to provide advisory services to government departments on the execution of a range of complex commercial and financial initiatives, including implementation of new schemes and responding to the implications of Acts of Parliament. Our Inward M&A team has been engaged to advise departments following the implementation of the National Security and Investment Act 2021 (“NSI Act”)

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

therefore rare. However, several 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.

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.

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, executing sales for all significant UK government assets and providing advice and analysis on government’s contingent liabilities. We hire people with specific 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. For this reason, we have provided an overview of some of the work we do in these areas to demonstrate how our wider UKGI services respond to market-wide and systemic risk.

How we identify and respond to 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.

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. In FY2022/23 UKGI’s risk processes were aligned with the latest principles and guidance within government’s Orange Book on Risk Management, including version 2.0 of the Risk Appetite Guidance Note which was introduced in August 2021¹⁴:

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 considerable experience managing risks across a wide range of different asset types and risk approaches
3. UKGI’s values and culture ensure employees act in a collegiate manner, and have open and honest communication so that individuals feel comfortable raising risks and know that they will receive support in managing those risks. We also provide continuous professional development seeking to mitigate the risk of UKGI’s advice not being professional or to the required standard


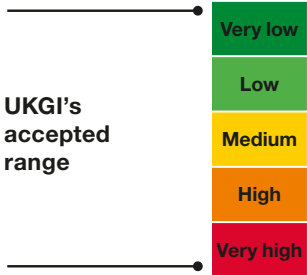
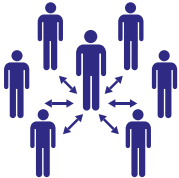
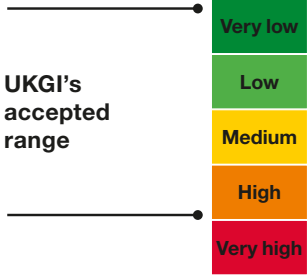

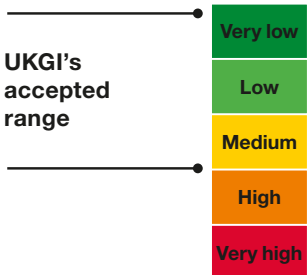
¹⁴ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1012891/20210805_-_Risk_Appetite_Guidance_Note_v2.0.pdf

- 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

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, but where 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.

UKGI’s approach to risk is summarised in Table 3 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.

Table 3: UKGI’s approach to risk

Key Risk	Risk Appetite Range	Rationale
<p>STRATEGIC DELIVERY</p>  <p>Delivery of our four strategic objectives</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 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 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>

UKGI has continued to operate proactively as shareholder representative for our Portfolio to respond to emerging risks. We provide best practice advice to Boards on reporting and managing risk, informed by UKGI's own risk management processes.

UKGI requires Assets to have a risk appetite in line with their sponsor Department.

In most cases, we will have a Shareholder Non-Executive Director on the Board of the Asset who sits on the relevant Risk Committee. We will encourage that risk is reviewed on a regular basis at the asset Board, meaning that we are regularly sighted on risk mitigation. In addition, UKGI's Framework Documents require Assets to report regularly on legal risk.

The principal responsibility for the reporting of Asset risks into the relevant Department sits with the Asset itself, and the Asset Boards have responsibility for ensuring the right processes are in place to set an appropriate risk appetite, and identify, mitigate and report on risk.

UKGI's Assets meet transparency and reporting requirements by publishing a number of documents on an annual basis, including their annual reports and accounts, their business plans and a number of other regular publications.

Cross-cutting risk

UKGI's Portfolio Reviews process (covered in Chapter 2) supports asset risk management and identifying cross-cutting risk.

Case study: Managing risk – Portfolio stress testing

In FY2022/23 we conducted Portfolio stress testing across the following five areas to assess preparations for macroeconomic and geopolitical risks, including from the ongoing war in Ukraine. This showed areas of good practice and some opportunities for improvement, which was expected due to the diversity of Assets within our Portfolio. Teams used the information to enable improvements through sharing best practice and engaging with their Assets on the areas identified.



Our environmental stewardship work continues to enable improvements across our Portfolio and wider government through our regular Cross Government Environmental Considerations Working Group. 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. Our environmental stewardship workstream supports UKGI to contribute to the government's goals for tackling climate change.

Case study: Improving environmental stewardship – UKGI Cross Government Working Group

Since 2021 UKGI has Chaired a Cross-Government Environmental Stewardship Working Group for our Portfolio and other government leads to share information, experiences and best practice on environmental considerations in governance.

In the past year the group discussed topics such as regulatory and reporting updates on the government's Green Finance Strategy, Taskforce on Nature-related Financial Disclosures, the UK Transition Plan Taskforce and Net Zero Strategy. Further information is contained in Principle 5.

Promoting a well-functioning financial system

The CLCC was formed in UKGI in April 2021 to improve the management of the government's portfolio of contingent liabilities and enhance taxpayers' value for money.

Contingent liabilities are an increasingly important policy tool, used to support growth and safeguard the economy in times of stress. Government often takes on the role of the insurer of last resort, additionally, government is in a unique position to strategically use contingent liabilities to meet policy objectives and take on risk which the private sector and general public cannot.

Contingent liabilities do not often impact departmental budgets at the point of use but may present potential future expenditure to government, so rigorous analysis is required to understand this risk.

The HM Treasury ("HMT") publication¹⁵ responding to the Office for Budget Responsibility's ("OBR") Fiscal Risks and Sustainability Report outlines why fiscal risk management helps to ensure the stability and long-term sustainability of the public finances and specifically highlights the CLCC in this respect, in helping government to understand the risks it is exposed to, improve compensation for the taxpayer where appropriate, reduce the probability of risk materialising and reduce the cost when it does.

¹⁵ Government Response to the 2022 Fiscal Risks and Sustainability Report [M5418 Government Response to Fiscal Risks and Sustainability Report FINAL .pdf](https://publishing.service.gov.uk/government/uploads/attachment_data/file/105418/Government_Response_to_Fiscal_Risks_and_Sustainability_Report_FINAL.pdf) (publishing.service.gov.uk)

Protecting the sustainability of public finances ensures that there is sufficient headroom to cushion against future shocks, thereby promoting market confidence which supports a well-functioning financial system. This is in line with the OBR's conclusion in its 2021 Fiscal Risks Report that "fiscal space may be the single most valuable risk management tool".¹⁶

The CLCC fulfils a key analytical function to government by providing advice and analysis to policy teams across government on structuring, managing, and charging for contingent liabilities. Working with departments, the CLCC also identifies and conducts thematic and strategic reviews in discreet areas. Thirdly, the CLCC is working to build a portfolio view of government's exposure to different forms of risk and improve how these are managed.

Case study: Mortgage guarantee scheme

Towards the end of 2022, the Contingent Liability Central Capability ("CLCC") at UKGI started working with HMT on its [Mortgage Guarantee Scheme](#), which aims to increase the availability of high loan-to-value lending to creditworthy customers.

The successor 2021 Mortgage Guarantee Scheme ("MGS") was scheduled to close in December 2022, and this planned closure was considered to pose a material risk to the sustained availability of 95% LTV products. As a result, extension of the scheme to the end of 2023 was considered. To extend the scheme, a decision needed to be reached on the appropriate pricing for the scheme to compensate for government's fiscal risk and to ensure a scheme extension was commercially viable for participating lenders. CLCC worked with HMT to provide expert technical and credit opinion in engagement with Government Actuary's Department ("GAD") and reassurance to HMT that GAD's pricing model was fit for purpose by opining on the methodology used. Engaging GAD and CLCC over the private market when updating PwC's pricing model (initially used when the scheme was launched in 2021) potentially led to large financial savings.

The CLCC has additionally supported HMT's oversight and risk management of the scheme, with specialist advice on the potential impact of higher interest rates, inflation and movements in house prices.

Special Situations Group ("SSG")

SSG provides expert and practical advice to support effective responses by government to financially stressed corporate situations, as a 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 and lawyers and

16 Fiscal Risks Report, Office for Budget Responsibility, July 2021 [Fiscal risks report \(obr.uk\)](#)

civil servants, helps 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 them when departments are considering intervention to further government policy objectives.

The team works extensively with colleagues across government, on specific projects and sectors on a varied portfolio of matters where work is always determined by criticality rather than size. In FY2022/23 the team took a lead advisory role in some of the most high-profile situations facing government including:

- Continuing to support the (now) Department for Energy Security and Net Zero (“DESNZ”) and HMT 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
- Supporting the Department for Culture, Media and Sport (“DCMS”) on distressed situations impacting the DCMS Covid Sport and Cultural Loan Book
- Working with the Department of Health and Social Care (“DHSC”) on the unprecedented stresses in the Adult Social Care sector
- Supporting Cabinet Office in relation to strategic suppliers to government
- Supporting the (now) Department for Business and Trade (“DBT”) on the offer made to Britishvolt under the Automotive Transformation Fund and the company’s subsequent entry into administration
- Supporting DESNZ, DBT, Department for Environment, Food, and Rural Affairs (“DEFRA”), HMT and Cabinet Office on the effect of the war in Ukraine
- Working with the Bank of England, HMT, the Financial Conduct Authority and Ofgem on the launch of the Energy Markets Financing Scheme

Case Study: Energy Markets Financing Scheme (“EMFS”)

On 8 September 2022 HMT and the Bank of England (“the Bank”) announced a joint scheme to address the extraordinary liquidity requirement faced by energy firms operating in the UK gas and/or electricity markets.

Energy firms and their commercial lenders were able to apply to the scheme for a 100% government guarantee that would apply to an additional tranche of an existing specified credit facility to ensure that commercial lenders have the capacity to support the UK energy sector.

UKGI Special Situations Group were involved in supporting and advising the Bank and HMT on scheme design and process. In particular, we designed procedures for managing scheme applicants through the approvals process.

Working with others to share best practice

We support continued improvement of 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.

Over the year, UKGI's Corporate Governance and Portfolio Management ("CG&PM") Programme has continued to embed stewardship best practice across our Portfolio and engage across Whitehall to promote effective governance. In 2021 our shareholder approach and role within government was anchored through an update to Managing Public Money ("MPM") which requires government departments to seek our advice on the set-up of certain types of ALBs and to also consider whether we should carry out the shareholder role for such bodies.

In the past year we enhanced our profile and reputation by providing departments with governance advice, for example we assisted the Treasury Officer of Accounts with revisions to Framework Document templates for all ALBs, based upon the updated MPM. Alongside this we maintained core strategic relationships across government including with the then Department for Business, Energy and Industrial Strategy ("BEIS") Corporate Governance and Audit Reform Team, Cabinet Office Public Bodies Team, and through participation in the Cabinet Office's Public Bodies Programme Board. This enables us to directly influence ALB governance policy, for example including UKGI best practice and practical know-how in the publication of the May 2022 Cabinet Office *"Arm's length body sponsorship*

code of good practice". In November 2022, we presented to the Cabinet Office Sponsorship Community Group of over 100 corporate governance professionals from across various government departments.

To enable the sharing of experiences and perspectives across our Portfolio, the CG&PM team hosts a series of virtual events and roundtables for senior leaders from our Assets, grouped by their roles (for example, Chairs and CEOs, Remuneration Committee Chairs, Risk Committee Chairs and D&I leads). During these events we engage expert practitioners from the public and private sectors to focus on key governance areas of relevance to the group and facilitate discussion across the Portfolio leadership. This is in addition to our Cross-Government Environmental Stewardship Working Group outlined above.

The UK continues to be seen by the international community as an exemplar of best practice in the corporate governance of state-owned enterprises ("SOE"), and as such is often approached by international delegations for advice and 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.

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 UKGI's shareholder model for state-owned companies and privatisation practices. For example, in FY2022/23 we met with the Azerbaijan Investment Holding, at the request of the World Bank; Saudi Arabia's Public Investment Fund, and the Premier of Sarawak, the largest state of Malaysia.

As well as advising departments on their specific contingent liabilities the CLCC also promotes best practice for contingent liability management across government. The team aims to drive standardisation, reducing inconsistencies and inefficiencies in monitoring and reporting of contingent liabilities. During FY2022/23, CLCC has published guidance notes for use cross-government on topics such as contingent liabilities in procurement and estimating losses for guarantees and indemnities.

A key part of the CLCC's remit is connecting professionals across government and sharing best practice. As part of this, the CLCC has established the Contingent Liability Advisory Network. This network seeks to connect finance, policy, and specialist colleagues from across government who are working with contingent liabilities.

The SSG team also works extensively with colleagues across government to help departments 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 government's aims and objectives in such circumstances.

One of the core ways UKGI shares best practice across government is through its stewardship of the Government Corporate Finance Profession, one of the 28 recognised professions across government. For UKGI, leadership of the profession provides a route to share our knowledge, raise awareness and develop relationships with colleagues across government.



Image courtesy of National Nuclear Laboratory

Case Study: Government Corporate Finance Profession

UKGI leads the Government Corporate Finance Profession (“GCFP” or “the Profession”) with UKGI’s Chief Executive the Head of the Profession. The GCFP’s purpose is to promote skills development, knowledge sharing, networking, collaboration and career development in corporate finance and currently has 220 members across Whitehall.

Following the appointment of a new Chair (a UKGI Executive Director) the Profession evaluated its purpose and vision, utilising a series of surveys to understand the existing skills and knowledge of the membership and its future needs. The Profession focussed on technical skills development, targeting civil and public servants undertaking corporate finance work across government to help them develop an understanding of the wider external market and provide an opportunity to support profile raising for Corporate Finance practitioners.

The GCFP achieved a significant milestone in FY2022/23, as the Institute of Chartered Accountants in England and Wales (“ICAEW”) corporate finance certificate was added to the Government Campus learning curriculum, removing existing barriers for practitioners across government to upskill and work towards a professional qualification. The Profession continues to engage with the ICAEW as it looks to create bespoke modules that include public sector context into the qualification.

A key target for the Profession was to increase the frequency and applicability of seminar and training schedules available to members. Over the last year the GCFP has arranged a series of sessions for members, with contributions from both the private and public sector, drawing on recent case studies to promote best practice and share learnings. This rolling programme of seminars specifically seeks 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 was also able to leverage its network for a cross-Whitehall panel event on the growth of the Global M&A market, with panellists from the public and private sector providing their views.

UKGI, through its leadership of the GCFP, has played a significant role in the success of the Profession and will continue to promote skills development, increase knowledge sharing and facilitate better networking and collaboration for practitioners across government.

Responding to initiatives

The National Security & Investment Act 2021 came into force in January 2022, which considerably expanded the number and types of transactions subject to UK national security reviews, as well as introducing, for the first time, mandatory notification requirements alongside voluntary filings.

Our Inward M&A team has been working closely across Whitehall, focused on the economic and national security assessment of transactions, leveraging our expertise to support negotiations between government and transacting parties.

In the last year the team undertook a key advisory role in some of the most high-profile national security transactions facing government, across aerospace, space, telecoms and digital sectors.

Major cases involving high profile economic interests included:

- Legally binding economic commitments offered by Parker-Hannifin Corporation to protect the future of Meggitt plc in the UK and secure the important role it plays in the UK's world-leading defence sector
- Undertakings offered to mitigate national security concerns and legally binding economic commitments offered by Cobham Ultra Acquisitions Limited to protect the future of Ultra Electronics Holdings plc in the UK, including increases across engineering research and development expenditure, highly skilled employees and apprentices
- Sale of Chelsea Football Club to a new consortium of investors, helping protect the integrity of the UK sanctions regime and ongoing investment into grassroots football in the UK



Stamford Bridge, stadium of Chelsea Football Club

Case Study: Sale of Chelsea FC

Following the invasion of Ukraine, Roman Abramovich announced his intention to sell Chelsea F.C., publicly stating:

1. He would not be asking for any loans to be repaid
2. A charitable foundation would be set up for the benefit of victims of the war in Ukraine
3. All net proceeds from the sale would be donated to the foundation

Government subsequently sanctioned Roman Abramovich, with Chelsea F.C. granted a General Licence allowing the club to complete its fixtures. A further licence from government was therefore required to permit the sale of the club. The government objectives were:

1. No proceeds from the sale to benefit sanctioned designated persons/entities
2. The proceeds of the sale should ultimately be for the benefit of Ukraine
3. Preservation of Chelsea F.C. as an asset of cultural importance

UKGI provided the (then) Department for Digital, Culture, Media and Sport (“DCMS”) and the Office for Financial Sanctions Implementation in HMT with advice on the transaction, in the context of an asset sale by a sanctioned entity. We were involved in a number of key workstreams such as document review and negotiation, sanctions leakage and licensing, contingency planning and ongoing operational support.

The sale was subsequently cleared and signed off on 24th May 2022, with the Secretary of State for DCMS commenting:

“We are satisfied the proceeds of the sale will not benefit Roman Abramovich or other sanctioned individuals. I want to thank everyone, especially officials who’ve worked tirelessly to keep the club playing and enable this sale, protecting fans and the wider football community”.

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

In this section we cover the following:

- **Our Clients:** we are a trusted provider of the shareholder role across central government and work on behalf of government departments ("Clients").
- **How our services best support our Clients:** UK Government Investments' ("UKGI") shareholder teams develop close and effective relationships with our Clients, meeting with colleagues at all levels. 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 FY2022/23 we acted as shareholder across central government on behalf of the following government departments¹⁷:



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: people engaged in discussion relevant to effectively providing UKGI's objectives, with commitments provided on time and to specification
- ii. Efficient: both parties ensuring a joined-up 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 UK Export Finance ("UKEF"), on page 71.

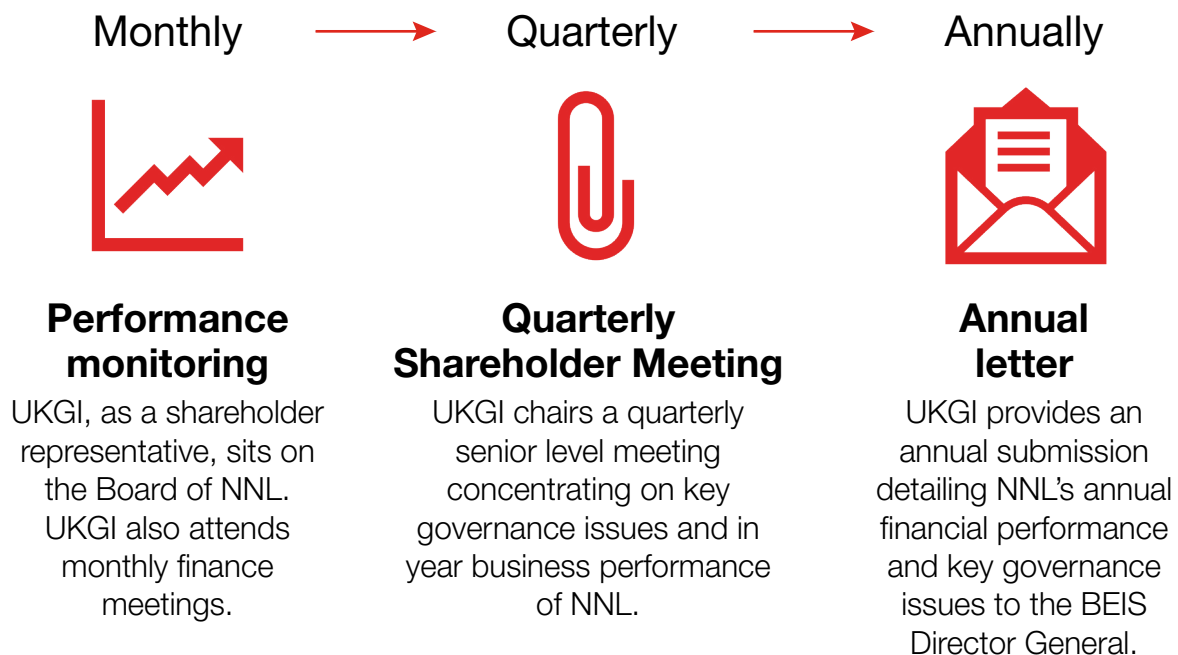
¹⁷ Machinery of government changes made after the effective date of this report have not been reflected.

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 demonstrates our communication with The Department for Business, Energy and Industrial Strategy ("BEIS")¹⁸ in relation to the National Nuclear Laboratory ("NNL").

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, during FY2022/23, our Chief Executive met with the Permanent Secretary of BEIS¹⁹ and the Second Permanent Secretary of HM Treasury ("HMT") at least monthly, and the Permanent Secretaries of other Clients on a regular basis, barring any pressing issues precipitating an urgent meeting. These stakeholder relationships are so important as to be reviewed periodically as part of the UKGI Portfolio Review process (as outlined on pages 38-39). More broadly, in FY2022/23 UKGI had specific relationship leads (Executive Directors and Directors within UKGI) for each government department, whether or not we were actively working with that department.

Figure 12: UKGI reporting to BEIS¹⁸ on National Nuclear Laboratory performance



18 Following the machinery of Government changes in April 2023, the Department for Business, Energy and Industrial Strategy ceased to exist. The shareholder team for NNL now reports to the Department of Energy Security and Net Zero ("DESNZ").

19 Following the machinery of Government changes in April 2023, the Permanent Secretary of BEIS is now Permanent Secretary of DSIT.

Case study: UK Export Finance (“UKEF”) CEO recruitment



UK Export
Finance

This case study provides an example of our shareholder role in respect of UKEF and demonstrates how we work alongside government departments and take on board their views when carrying out stewardship.

On behalf of Ministers, UKGI performs a shareholder role for UKEF. UKEF seeks to advance prosperity by ensuring no viable UK export fails for lack of finance or insurance, doing that sustainably and at no net cost to the taxpayer.

Over the course of FY2022/23 UKGI oversaw the competition to find a new CEO for UKEF. Upon being informed that the incumbent CEO was planning to leave, UKGI worked closely with UKEF’s HR function and Chair, and engaged HMT and the Department for International Trade (“DIT”) to take on board their views. This allowed us to develop a process that would encourage the best possible candidates to apply for the role.

In preparing an updated role specification, we carefully considered the advertised selection criteria, given that the competition was to be run under Civil Service Commission recruitment principles, which are designed to ensure that candidates are only assessed against published criteria. We also worked to secure an attractive salary to support market viability. We actively managed the procured executive search firm to deliver a diverse pool of candidates for consideration.

We developed a bespoke programme of pre-interview activities that adhered to relevant recruitment rules and enabled the panel to differentiate between the high-quality shortlisted candidates.

With UKGI’s support, the competition resulted in a successful recruitment process, adhering to HMT and DIT’s agreed selection criteria. Ultimately, the result of the process was that UKEF’s Director of Business Group was promoted to the CEO role having demonstrated that he was the best candidate throughout the process.

How our services best support clients’ stewardship

The UKGI Corporate Governance and Portfolio Management (“CG&PM”) Programme has led the establishment of a Target Shareholder Model which defines how we typically perform our shareholder role across our Portfolio and provides guidance and assistance to individual shareholder teams. This model sits alongside and is designed to

be complementary to the way in which our Clients manage their wider policy and other interests in our Assets. As outlined under Principle 1, 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 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 on the Asset's Board, 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 regarding the Asset which require input at Board level. The UKGI Shareholder NED and shareholder team further provide the Asset with a government perspective and assistance in navigating central government processes.

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

- Specialist expertise in applying private sector governance disciplines to a government setting, typically in relation to some of the government's most challenging 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 and 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 ever-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
- length bodies' Chairs, Board members and management teams, as well as with specialist advisers
- Strong networks within government and across the private sector including arm's

Case Study: Sell-down of NatWest Group (“NWG”)



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.

UKGI is mandated by HMT 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. While HMT remains a shareholder, UKGI manages the shareholding on its behalf, at arm's length and on a commercial basis. We do not get involved in the day-to-day decision making of NWG and are not represented on the NWG Board which is responsible for its strategic and management decisions.

This important work is overseen by UKGI's Transactions Committee, which underwent change during the period under review, as previous members rotated off the UKGI Board. The Committee welcomed a new Chair (the UKGI Board Chair, who was already a Committee member) and two new independent Non-Executive Directors, who joined existing members including the UKGI Chief Executive and the Financial Institutions Group (“FIG”) Director.

During the reporting period, the existing Committee members and FIG team spent time on ensuring a smooth handover to allow the continuous operation of the Committee's oversight role.

The smooth functioning of the Committee helped UKGI to deliver significant progress on the sell-down of the NatWest shareholding over the year. The Committee notably advised HMT Ministers on two extensions to the government's Trading Plan in NatWest shares. This ensured that the Trading Plan, which has delivered over £3.7bn for the taxpayer since launch in 2021, remains in place until August 2025, unless further extended. It also recommended to Ministers the sale of £1.26bn worth of shares back to NatWest via a Directed Buyback (executed in May 2023). During the reporting period, the government's NatWest shareholding declined from around 48% to 42%. FIG continue to actively seek opportunities for further disposal options when market conditions permit.

How we support stewardship that takes into account material ESG considerations

Many of our Assets perform a public purpose, and as part of 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. This, combined with the fact that governance is at the heart of what we do, gives us a unique perspective on ESG. 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. 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, where material to the Asset and a core part of their objectives. Over the past year, we have made significant progress towards our objective of embedding ESG into our Target Shareholder Model. One example of this is encouraging Assets to link remuneration to non-financial outcomes, where these align with the shareholder's objectives.

UKGI's ESG team, which is tasked with ensuring shareholder teams understand their role with respect to monitoring the ESG strategy of our Assets, has undertaken a number of activities throughout the

year, including data collection, organising knowledge-sharing events for our Assets, and raising awareness of ESG among our shareholder teams. These initiatives have informed our monitoring and scrutiny of Asset Board practices and enabled a consistent approach to ESG across our Portfolio.

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

Environmental

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. 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 2022, we commissioned a baseline survey across our Portfolio to better understand the maturity of our Assets against a range of environmental parameters, including carbon emissions, energy and resource efficiency, water management and biodiversity. Leveraging the findings of this survey, for Assets with material environmental risks, UKGI intends to encourage the shareholder teams to support and challenge their Assets to improve maturity in relevant areas. Where material or part of the policy mandate, Assets are encouraged to embed environmental risks and opportunities in their strategy and business plan with robust Board oversight.

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 seminars and featuring regular updates on environmental stewardship in an internal staff newsletter focused on corporate governance.

To support this work, last year we 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 the establishment of a UKGI chaired Cross-Government Environmental Considerations Working Group, aimed at sharing information and best practice on environmental considerations across the UKGI Portfolio ALBs and partner organisations, as well as private sector contacts.

The Working Group met five times during FY2022/23 on topical areas including regulatory and reporting updates on the government's Green Finance Strategy, Taskforce on Nature-related Financial Disclosures, the UK Transition Plan Taskforce and Net Zero Strategy. During the year, the group also enabled participants to share their experiences, best practice and lessons learned on key themes such as developing and implementing their environmental strategy, approach to change management on their Taskforce on Climate-related Financial Disclosures journey, and how to build passion for environmental stewardship in leadership. For an example of our environmental stewardship, please see the case study on the next page.



Image courtesy of Nuclear Decommissioning Authority

Case Study: Sustainability at the Nuclear Decommissioning Authority (“NDA”)



This case study demonstrates how UKGI uses its shareholder role to monitor sustainability at NDA and to help NDA embed sustainability within its key targets and metrics across the group

NDA's mission is to clean up the UK's earliest nuclear sites safely, securely, and cost-effectively. It has a legal, moral, and ethical responsibility to deliver its work sustainably with care for its people, communities, and the environment, leaving a positive legacy for future generations.

In FY2022/23, NDA successfully developed a framework for reporting its progress on sustainability across the NDA group on a quarterly basis to its Board and to government. This involved setting sustainability key performance indicators and metrics. In our shareholder capacity UKGI provides constructive challenge and scrutiny to monitor these metrics, and sustainability more generally, on an ongoing basis. NDA also included Operational Key Targets concerning sustainability in FY2023/24 for NDA's main subsidiaries; Sellafield, Magnox, and Dounreay.

This landmark step further strengthened NDA's sustainability efforts, coming on the back of a series of wider initiatives that have sought to place sustainability at the centre of NDA's business. NDA has received positive feedback from the Environment Agency, Scottish Environmental Protection Agency, Office for Nuclear Regulation and a wide range of local communities and stakeholders for their work in this area.

Over the past three years (from 2020/21) NDA's achievements have included:

- The development of a strategic approach to sustainability through the creation of a Sustainability and Governance Board Committee, and formation of a group-wide Sustainability Steering Committee and Sustainability Working Group
- The definition of five-year strategic roadmaps for each organisation within the NDA Group
- A 30% carbon Scope 1 and Scope 2 footprint reduction across the NDA group (from the 2019/20 baseline)
- The organisation of an NDA Group Sustainability Forum in March 2022 and 2023, both of which were attended by BEIS and UKGI, with the latter focusing on cross-group collaboration

As a result of its efforts, NDA has robust metrics and a reporting mechanism in place for measuring its success in becoming more sustainable, which UKGI scrutinises in its shareholder capacity. Going forward, UKGI will help NDA to build on this to maintain momentum and make progress in the area of sustainable development, as well as to use NDA as an exemplar to encourage similar progress across the UKGI Portfolio.

Social

Culture

Social value is core to what most of our Assets do, for example keeping citizens safe or helping businesses to grow. In the future, we intend to deepen our understanding of the current position of our Portfolio with regard to social considerations and devise an increasingly systematic approach, supporting our Assets to better promote these within their organisations.

We have established a culture workstream within the CG&PM Programme. The objectives of this workstream are to ensure that UKGI shareholder teams understand the importance of culture and are able to effectively apply this understanding to the stewardship of their Assets; providing support and constructive challenge to these organisations as appropriate. The workstream also aims to provide a supportive space in which UKGI Shareholder NEDs can share expertise and draw on mentoring and coaching to help navigate issues of culture in their Assets.

During FY2022/23, we continued our ongoing work on ensuring our shareholder teams have the necessary skills and understanding to support the effective monitoring of organisational culture within our Portfolio. This has included the development of guidance material and in-house training which will be mandatory for all shareholder team members. This training incorporates the lessons learned from those Assets within the Portfolio which have made positive steps to understand and develop their organisational culture so that, where appropriate, initiatives and experiences can be shared across the Portfolio. Going forward, we will continue to build on this, including ensuring we have the data

necessary to understand where to address future work on culture.

Diversity and Inclusion (“D&I”)

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. This gives us a better understanding of the needs of our Clients and of the wider public we serve. Pages 26-27 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 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 placed renewed emphasis on the need to create an environment that is attractive to the broadest cross-section of people possible. There have been many initiatives over the years in both the public and private sectors and in April 2022 the Financial Conduct Authority (“FCA”) 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.

In April 2022, UKGI published updated D&I guidance internally, which sets out the minimum expectations for our Assets in

four key areas: (1) D&I strategy; (2) Culture; (3) Board composition; and (4) Reporting. The guidance 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. While this cannot be considered a comprehensive audit, as it was conducted by UKGI shareholder teams rather than Assets themselves, we have used the results of the survey to look at trends across the Portfolio.

An important part 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, learn from experts, practitioners and each other on relevant guidance and best practice, as well as discussing the challenges they face in developing future improvements to D&I. In May 2022, UKGI hosted an event focused on the risks and opportunities of hybrid working, which featured external speakers from Ageas Insurance, Pfizer UK and FlexPO. In November 2022, UKGI convened a further event featuring presentations on the importance of D&I from the perspective of a regulator (the FCA) and a private sector network (the City Women Network).

Going forward, UKGI will evaluate how to build on the work of the network and optimise its value for UKGI Assets.



Image courtesy of Ordnance Survey

Case Study: UKGI Corporate Purpose Networking Event

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

On 8 December 2022, UKGI brought together Chairs and CEOs from across its Portfolio for an event focused on the role of purpose and culture in operational effectiveness. The topic of the event was selected in reflection of growing stakeholder expectations of the role of Boards in the shaping, scrutiny and embodiment of the organisation's culture and values. The timeliness and importance of this issue led to positive engagement from Chairs and CEOs in attendance.

The event featured keynote speeches from Alex Edmans, professor in finance at the London Business School and Non-Executive Director at the Investor Forum, and from an executive representative from UKGI's Portfolio. Following this, UK Asset Chairs and CEOs took part in breakout discussions that focused respectively on how Boards can set and drive effective culture and purpose, and how culture and purpose can translate into operational effectiveness. During these discussions, participants reflected on questions such as what makes a healthy culture and techniques for measuring and monitoring culture.

The feedback from the discussion demonstrated the value of UKGI's Chairs and CEOs events in prompting and provoking some thoughtful considerations amongst each of the represented Portfolio bodies. In particular, attendees commented on how valuable they found it to hear about other organisations' experiences, identify common ground and share practical examples of best practice.

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 pages 71-72 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 an efficient and effective public appointments process in government
- We also consider fair executive remuneration to be of significant importance for our Portfolio, particularly given the 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. Over the last year we have focused on expanding the support provided

to Portfolio teams when considering remuneration

- 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 cyber security, 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, beyond our Asset Portfolio working with the Cabinet Office and HMT to support continuous improvement in wider government governance both in the UK and overseas.

Appointments

Over the course of FY2022/23 UKGI supported the appointment, re-appointment or extension of 42 non-executives (including Chairs). Within UKGI's Portfolio, non-executive appointments are either led by the Asset Board itself or by UKGI. In the former situation, 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. Guidance has focused on the development of role descriptions and selection criteria, as well as approaches to devising interview questions. The team has also focused on how to maximise the impact of executive search. Our internal expert team now meets regularly with shareholder teams to ensure that lessons learned from one campaign can quickly be disseminated across the organisation. They also meet regularly with teams from across government to learn from their campaigns and to influence cross-Whitehall improvements.



Principle 6: Review and assurance

Review and assurance

Principle 6: Signatories review their policies and assure their processes

Introduction

In this section we cover the following:

- **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. This year, to strengthen our Shareholder Model, we engaged with private sector asset managers to understand best practice and are building in reflections from lessons learned across our shareholder roles. We engage across Whitehall to promote effective governance. In addition, we have several internal mechanisms in place to review our policies and assure our processes.

In 2022 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 shares 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 in an appropriate manner.

We regularly evaluate how we might refine and strengthen our processes, in light of developing best practice, as well as experiential lessons. Ongoing review and improvement are at the core of our stewardship responsibilities. We have taken time this year to refresh our internal risk review and reporting processes and have continued to develop our internal training offering to those performing core

stewardship functions across our Portfolio of Assets. We also strive for consistent, conscious and proactive reflection on how we deliver our shareholder role and, in particular, the lessons we have learnt to date as a result of our engagement with the Post Office Horizon IT Inquiry (“POHIT Inquiry”). UKGI has sought to approach this Inquiry in the manner that Sub-Postmasters, and the public at large, would hope and expect of a responsible public authority. We will of course be continuing to review our own initial observations on areas for improvement and reflection as the POHIT Inquiry progresses. We stand ready to learn any lessons relevant for UKGI as we believe those who have suffered gravely because of the Horizon scandal deserve nothing less.

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 pages 38-39, 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. Throughout FY2022/23, the Portfolio Review team has continued to improve its processes, developing a more targeted and streamlined set of indicators for the health of the Portfolio as well as adapting our information-gathering exercises to ensure they cover key areas of focus for improving our Assets this year. The outputs and trends arising from Portfolio Reviews are included in regular reporting to the UKGI Board.

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

Additional external 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 by UKGI’s finance and corporate services functions. Our annual report sets out the functions reviewed by the ARC this year²⁰. 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 (“CG&PM”) Programme was 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.

20 UKGI Annual report and Accounts: <https://www.ukgi.org.uk/wp-content/uploads/2023/07/UK-Government-Investments-Annual-Report-and-Accounts-2022-23-Web-Accessible.pdf#page=44>

Our Target Shareholder Model

As outlined on pages 19 and 72, 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 to update all colleagues on the latest

practice, as well as through our Portfolio Review process.

Reviewing our policies and assuring our processes in practice

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

- Code of Conduct
- Target Shareholder Model
- Guidance Notes

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

In FY2022/23, 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 UK's exit from the European Union and the Ukraine war. The results of this stress test and further monitoring were reviewed by the UKGI Board in July 2022, and businesses exposed to materially increased risks have been subject to additional assurance activities, as detailed on page 58 under Principle 4.

Review of UKGI Board effectiveness

The Financial Reporting Council's UK Corporate Governance Code sets out that there should be an annual evaluation of a Board's effectiveness, and that this should be externally facilitated every three years. During FY2022/23 UKGI met these requirements.

In May 2022 an externally facilitated review of the Board's effectiveness concluded that

the Board is ‘effectively constituted and efficiently run’. Recommendations included allotting more time for strategy discussions and reviewing the Board induction programme, which have been implemented.

In April 2023, an internally facilitated Board effectiveness review was performed by the company secretary function. No material issues were noted, and recommendations focussed on the continuous improvement of the effectiveness of the Board. The UKGI Board is working through an action plan to implement these recommendations.

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 (“HMT”) as shareholder and is subject to government’s internal audit. At the time of publication, responsibility to account for the activities of UKGI in Parliament has been delegated to the Economic Secretary to the Treasury.

As detailed under Principle 2, our Chief Executive’s role of Accounting Officer brings high levels of 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 CG&PM 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 2023 Board meeting.

In addition, as per the process first undertaken last year, an independent panel representing all grades and operations of UKGI was assembled to review a near-final draft of the report. Gaining such views on the readability and accessibility to all audiences was invaluable, and we intend to continue with this approach in future years.

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 2023.



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)
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
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
CG&PM	UK Government Investments' Corporate Governance and Portfolio Management Programme
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
DBT	Department for Business and Trade
DCMS	Department for Culture, Media and Sport
DEFRA	Department for Environment, Food and Rural Affairs
DESNZ	Department for Energy Security and Net Zero
DfT	Department for Transport
DHSC	Department of Health and Social Care

DIT	Department for International Trade
DSIT	Department for Science, Innovation and Technology
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
ExCo	UKGI's Executive Committee
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
GPA	Government Property 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
NDA	Nuclear Decommissioning Authority
NEDs	See: Shareholder Non-Executive Directors
NNL	National Nuclear Laboratory
NSI Act	National Security and Investment Act 2021
NWG	NatWest Group plc
OECD	Organisation for Economic Co-operation and Development

OpCo	UKGI's Operations Sub-Committee
PMO	UKGI's Project Management office
POHIT Inquiry	Post Office Horizon IT Inquiry
Portfolio	The group of 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
Shareholder Non-Executive Director(s)/ Shareholder NED(s)	UKGI representative(s) on the Board of a portfolio asset, nominated by the Shareholder department
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
ToR	Terms of Reference
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: UK Investment Bank

Principle 2: National Nuclear Laboratory

Principle 3: Ordnance Survey

Principle 4: Nuclear Decommissioning Authority

Principle 5: Nuclear Decommissioning Authority

Principle 6: Sheffield Forgemasters

Reporting Requirements and Glossary: Nuclear Decommissioning Authority



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