



# **UK Government Investments Limited Annual Report and Accounts 2016-17**



UK Government  
Investments



# **UK Government Investments Limited**

## **Annual Report and Accounts 2016-17**

**Presented to Parliament**

**by the Economic Secretary to the Treasury**

**by Command of Her Majesty**

**July 2017**

Company No. 09774296

Cm 9450



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# Chairman's Statement

This was UK Government Investments' (UKGI's) first year in operation. UKGI was launched on 1 April 2016 to be the government's centre of excellence in corporate finance and corporate governance. In addition to its key role in governance of major corporate bodies, it forms a central part of the government's plan to deliver the biggest ever sale of publicly-owned corporate and financial assets. Whilst the result of the EU Referendum has inevitably shifted the government's focus onto the process for managing the UK's exit negotiations with the EU, UKGI has continued in its work, preparing the ground for significant asset sales which should complete in 2017-18 and secure good value for money for the UK taxpayer.

UKGI itself has responded to these changing circumstances. Having been closely involved in the government's negotiations with Softbank regarding its takeover of ARM, and securing unprecedented legal commitments from the purchaser, UKGI has assembled a team which is playing an important role in coordinating the government's response to mergers and acquisitions activity. UKGI has also further strengthened its corporate governance practice, and stands ready to support existing government bodies, or incubate new bodies, to deal with the repatriation of powers from the EU. UKGI has been instrumental in the creation and development from scratch of two successful new entities over the past few years, the British Business Bank and the Green Investment Bank.

I would like to thank Mark Russell for his leadership of UKGI, particularly as he and his staff made the transition from being a group within the former Department for Business, Innovation and Skills to a standalone company within the HM Treasury group. Mark has a deep understanding of UKGI; he joined the Shareholder Executive (UKGI's predecessor) in 2003, and was made chief executive in 2013. This understanding has been deployed to prioritise and expand UKGI's activities, working with an increasing range of other government departments to offer our unique and invaluable blend of civil service and corporate finance experience. At our heart is our unique blend of private sector and civil service skills tasked to achieve value-added outcomes for government often in very complex circumstances. So a key task for the Board is to ensure that we have the depth and range of skills for the roles we undertake and effective succession

planning for the key roles.

UKGI is working ever more closely with its subsidiary, UK Financial Investments (UKFI), ahead



of a full merger at the end of 2017-18. As well as careful coordination of the companies' respective programmes of asset sales, knowledge and experience is being shared through the integration of both the senior management and project teams. I would like to thank James Leigh-Pemberton, Chairman of UKFI and Deputy Chairman of UKGI, and Oliver Holbourn, the chief executive of UKFI, for the wholly positive and enthusiastic manner in which UKFI has approached this process of integration.

We have a strong, experienced new Board at UKGI which, like its staff, includes senior civil servants and private sector expertise and experience. I have been delighted by the engagement and commitment of all my Board colleagues, and thank them for their support and contribution to UKGI's success in its first year; their knowledge and experience has been invaluable across the whole field of the Company's activities and their willingness to support the work of the UKGI teams outside the regular Board Meetings has been evident and greatly appreciated. Particular tribute is due to their work addressing the issues affecting the steel industry, where their efforts went above and beyond expectations.

Finally I would also like to pay tribute to all the staff of UKGI for their hard work during this year. Their skill and professionalism ensures that our reputation continues to grow across Whitehall and beyond. Whilst the next few years will be some of the most challenging faced by any government in recent times, I am confident that UKGI is well placed to support the government as its centre of excellence for corporate finance and governance.

**Robert Swannell**

Chairman

10 July, 2017



# Chief Executive's Review

Against a challenging backdrop, UKGI's performance in its first year of operation has been strong. A particular highlight has been the complex and robust negotiations which have now concluded regarding the sale of the government's interest in the Green Investment Bank. This transaction, due to complete in July 2017, has a value of £2.3bn and maintains an enduring operation with a focus on investment in the green sector.

On 1 April 2016 the Shareholder Executive was separated from BIS and established as its own company in order to give it the autonomy and ability to work more effectively across Whitehall on major, high profile tasks, and to this end, we have been successful. UKGI now provides independent advice and works with thirteen of the main government departments and a number of partner organisations. The scope and variety of our work is enormous – from working with the Ministry of Defence to establish the Submarine Delivery Agency, to the release of 10GHz of public spectrum to support the development of the 5G network, UKGI is at the heart of some of the nation's most significant programmes and priorities.

Much of our day to day work involves ensuring that market and commercial discipline is brought to the management of government's publicly controlled assets, through our role as the shareholder representative on such entities. I'm pleased that we have developed the Principles of Portfolio Governance, which sets the standard for the governance of assets in the public sector.

Looking forward to 2017-18 and beyond, there is a strong pipeline of work for UKGI. UKGI will study the feasibility of monetising other government assets. We will look to

maintain and strengthen our capability to respond to mergers and acquisitions, distressed companies and other special situations that may arise over the coming years. We will

also expand the scope of our governance portfolio. And we stand ready to support the government through the Brexit process – there are numerous areas where our expertise and skills can be brought to bear.

The real strength of UKGI lies in its people; a unique mix of civil servants and corporate finance specialists, augmented by our colleagues in UKFI. UKGI has provided the stepping stone for people between careers in the private and public sector, and has a significant pool of alumni working across the City and Whitehall. Whilst I thank all our staff for their efforts in the year, my particular gratitude goes to Anthony Odgers, who has departed after six years as part of the UKGI and Shareholder Executive senior management team. I continue to be encouraged by the skills and experience we have continued to recruit into UKGI across all levels during the year, even as the employment market has remained robust. This demonstrates the attraction and value that we offer, both to individuals and government.

**Mark Russell**

Chief Executive Officer

10 July, 2017

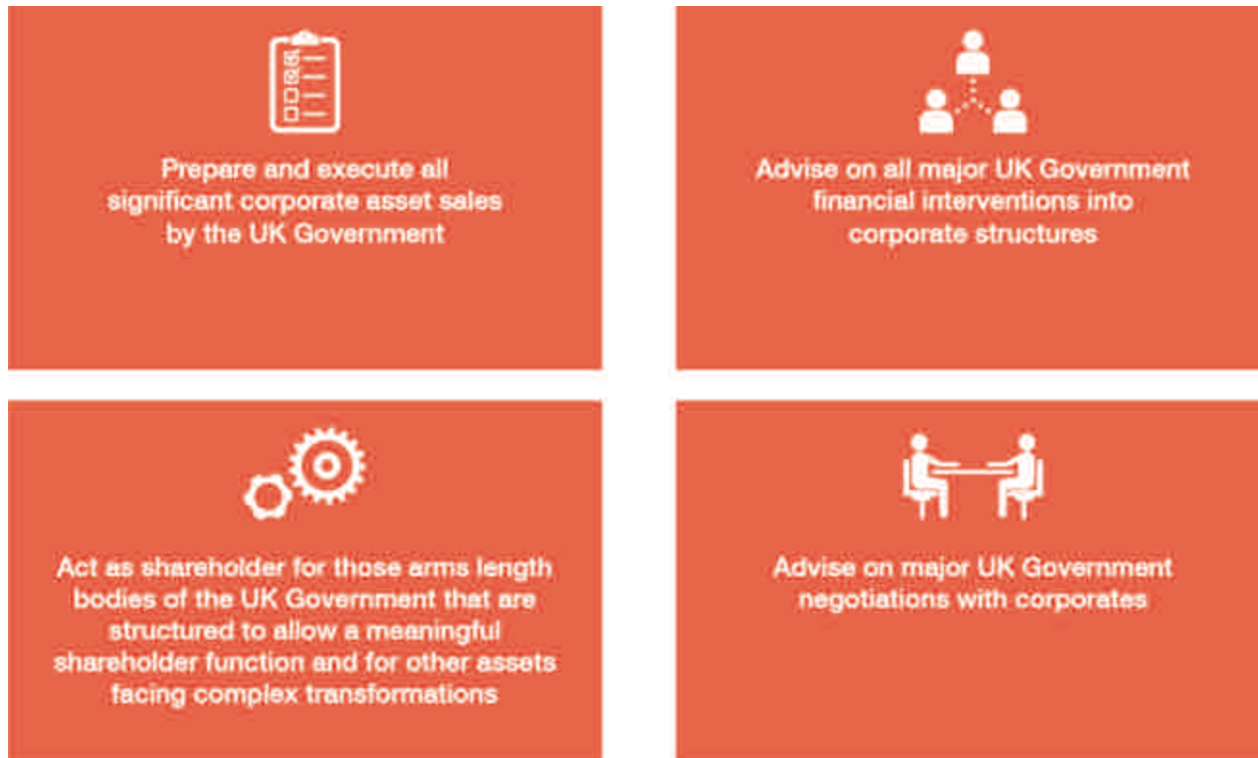




# Strategic Report

## Objectives and Strategy

UKGI commenced operations in April 2016 as the UK government's centre of excellence in corporate finance and corporate governance. UKGI is charged by HM Treasury to:



## UKGI Business Model

UKGI's success depends on its staff, drawn from both the public and private sectors. These include:

- professionals with corporate finance skills and related expertise from private sector institutions with a mix of tenure (some permanent, some seconded, some on fixed-term appointments)
- civil servants on secondment from other government departments
- permanent UKGI staff
- staff of UKGI's subsidiary, UKFI, who provide additional expertise in banking

UKGI's blend of staff offers an opportunity for civil servants to work alongside colleagues with a range of banking, investment, consulting and private equity experience, and for those with a private sector background to gain deep experience of the workings of government. Indeed, UKGI is often a stepping stone in the careers of outstanding corporate financiers and civil servants, offering them the chance to develop their understanding of government and build commercial skills.

UKGI works across government on some of its most interesting and complex tasks. We work on the boundary of the public and private sectors, with regular interaction with ministers, Parliament and Whitehall departments.



UKGI operates in a way that is consistent with the government's policy objectives including, but not limited to, the promotion and preservation of orderly, competitive markets.

Formal assurance is provided by Memoranda of Understanding with the Whitehall departments we work with, setting out the services we offer and how we work with them to deliver those services. When working for ministers, UKGI staff demonstrate the same degree of confidentiality as ministers would expect of their own officials, to the standards contained within the Civil Service Code.

UKGI does not charge departments for its services, although on occasion budget transfers are agreed from the departments with which we work. During this financial year we received one such budget transfer from the Department for Education. This transfer was made through HM Treasury as grant in aid. The transfer forms part of the total UKGI budget.

UKGI is funded by HM Treasury under clause 32 of the Enterprise Act 2016. UKGI's funding agreement for 2016-2017 and its funding expected in 2017-2018 is set out below. The funding is the total available and does not necessarily align to the grant-in-aid drawn down in the year as disclosed in the financial statements.

	2016-2017 (£m)	2017-2018 (£m)
<b>HM Treasury</b>	<b>11.8</b>	<b>11.4</b>
<b>Department for Education</b>	<b>0.5</b>	<b>0.7</b>
<b>Total Funding</b>	<b>12.3</b>	<b>12.1</b>

## UKGI Values



## UKGI Performance

UKGI is accountable to Parliament for specific matters pertaining to preparation of accounts, governance and acting in accordance with Managing Public Money, and to HM Treasury for performance against its objectives as set out above.

In addition, leadership, budget and stakeholder relations are assessed. Performance against the indicators has been strong in 2016-2017. During the course of its first year, UKGI has expanded the scope of its operations, developing new relationships with the Department for Communities and Local Government, the Ministry of Defence and the Department of Health.





### Delivery of asset sales

UKGI has continued to deliver the government's agenda of asset sales, executing the disposal of the government's interest in the Green Investment Bank (see box to the right), and commencing the process for the sale of part of the income-contingent repayment student loan book.

### Shareholder function

UKGI continued to ensure the good governance of the entities for which it is responsible; scrutinising their performance on behalf of the taxpayer; and ensuring high-calibre public appointments. A review of the operations of the Land Registry and the Ordnance Survey was undertaken, with recommendations for closer working between the two bodies. In the year UKGI has codified the principles by which it fulfils its shareholder role (see 'Stewardship of Assets' below).

### Interventions

UKGI has participated in numerous interventions in the year, working across Whitehall to coordinate the government's response to special situations, most notably in the steel industry, but also North Sea oil and gas decommissioning, steel decommissioning, oil refinery capacity, and the adult social care market.

### Corporate negotiations

UKGI was closely involved in the discussions in the year regarding the new nuclear energy programme, culminating in the final approval by government of the construction of the Hinkley Point C nuclear power plant. UKGI was central to the negotiations with Softbank, which gave unprecedented legal commitments regarding the UK workforce and headquarters of ARM, whilst facilitating inward investment into the UK. UKGI is also working with MOD to establish a submarine delivery agency. UKGI also acts to coordinate the government response to merger and acquisition activity and inward foreign investment.

### People

UKGI is wholly dependent on its employees and its ability to attract high calibre staff to deliver its objectives. During the year, the transition from the Shareholder Executive, a group of civil servants within BEIS, to a government-owned company has been executed smoothly, with no disruption to either UKGI's operations or staffing. UKGI has been successful in both recruiting experienced external hires, attracting secondees from

### Green Investment Bank

Having launched a sale process in March 2016, UKGI is due to complete the disposal of the Green Investment Bank on behalf of the Secretary of State for Business, Energy and Industrial Strategy during 2017-18, with a transaction value of £2.3bn.



UKGI's over-arching intention was to seek to achieve value for money, whilst ensuring GIB was declassified from the government's accounts and continued its green mission in the private sector.



across the Civil Service, and developing its own people. UKGI committed in 2016-2017 to working to increase the diversity of its people, and is working across industry on the diversity agenda. To this end, it has driven the "Women on Boards" scheme, a project to create and test a new training position for high calibre women on company boards. Further to this, UKGI has been instrumental in the launch of the Future Boards Scheme, working with FTSE 350 companies which will offer to host a participant on their main or subsidiary board and put forward a high-calibre female candidate to be placed on another organisation's board.

### **British Business Bank**

The British Business Bank (BBB) is a plc wholly owned by government. UKGI lead on BBB's governance and the shareholder relationship on behalf of BEIS. A UKGI employee, Ceri Smith, sits as a Non-Executive Director on the board. UKGI also set and monitor BBB's targets and performance against its strategic objectives, in collaboration with BEIS.



During 2016-17, UKGI appointed a new Chair for the BBB, following an extensive recruitment exercise conducted in 2016-17; Lord Robert Smith was announced as the Chairman in April 2017.

Regional funding initiatives have also been launched by BBB, with the £415 million Northern Powerhouse Investment Fund which was launched in February 2017; and the £280m Midlands Engine Investment Fund which is due to launch in May 2017. UKGI played a key role in ensuring that all of the legal, finance and governance requirements were met. UKGI also managed the successful merger of the Start Up Loans Company into BBB. This came into effect from April 2017.



## UKGI's Projects

### Asset Sales

Business / Project	Department	Description
Green Investment Bank	BEIS	Disposal of government's interest via a competitive sale process
Royal Mail Pension Assets	BEIS	Assessment of value for money of potential monetisation of assets
Student Loans (ICR)	DfE	Potential monetisation of income contingent repayment student loan assets
Urenco	BEIS	Assessment of feasibility of disposal of government's interest in Urenco

### Financial Interventions

Business / Project	Department	Description
Special Situations Management	BEIS	Circa 15 interventions on behalf of government in the year, across a range of sectors, including steel, coal, oil and gas and manufacturing

### Governance Projects

Business / Project	Department	Description
British Business Bank	BEIS	Shareholder function
Commonwealth Development Corporation	DFID	Shareholder function
Channel 4	DCMS	Shareholder function
Companies House	BEIS	Shareholder function
Electricity Settlements Company	BEIS	Shareholder function
Green Investment Bank	BEIS	Shareholder function
Government Corporate Finance Profession	CO	Shareholder function
Highways England	DfT	Shareholder function
Insolvency Service	BEIS	Shareholder function
Land Registry	BEIS	Shareholder function, and review of opportunities for closer working with Ordnance Survey



## Governance Projects

Business / Project	Department	Description
London & Continental Railway	DfT	Shareholder function
Low Carbon Contracts Company	BEIS	Shareholder function
NATS	DfT	Shareholder function
National Nuclear Laboratory	BEIS	Shareholder function
Network Rail	DfT	Shareholder function
Nuclear Decommissioning Authority	BEIS	Shareholder function
Nuclear Liabilities Fund	BEIS	Shareholder function
Oil and Gas Authority	BEIS	Shareholder function
Ordnance Survey	BEIS	Shareholder function, and review of opportunities for closer working with Land Registry
Post Office Limited	BEIS	Shareholder, sponsorship and Parliamentary liaison function
Spectrum	DCMS	Pan-government coordination of spectrum release programme to support 5G network
Royal Mint	HMT	Shareholder function
UK Export Finance	DIT	Shareholder function
Urenco	BEIS	Shareholder function
Defence Infrastructure Organisation	MoD	Operating model review

## Corporate Negotiations

Business / Project	Department	Description
European Investment Bank	HMT	Assessment of UK's ongoing relationship with EIB
Dreadnought programme	MoD	Establishing delivery body; commercial negotiations
Inward M&A	BEIS	Central role in government responses to inward M&A



## UKGI's approach to risk

UKGI's risk appetite statement, as approved by its Board, is as follows:

“As an organisation whose role it is to act as an agent for ministers and government departments, the key risks UKGI must manage are those which arise as a consequence of discharging its mandate.

UKGI seeks to achieve its objectives whilst eliminating, or minimising, all risk including operational, execution and reputational risks. In those circumstances where it may be necessary to take some risk in order to deliver the organisational objectives, UKGI will rely upon its governance structure to mitigate risk.

Risk will be monitored and controlled by systematic review by the Board, by the Executive Committee, by the Risk & Audit committee and through a regular review of the risk register. In addition, the culture of open and proactive communication, and continuous learning and training, throughout UKGI underpins UKGI's ability to control risks that do arise.”

UKGI monitors a number of operational and strategic risks. These include risks regarding staffing, IT systems and relationships around Whitehall, as well as risks arising from the planned integration with UKFI.

Individual project risks are also managed by UKGI, working closely with the ministers and government departments for which we act as agent.

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

- UKGI's Executive Committee, Board and Audit and Risk Committee (ARC) work together to define risks across the organisation and ensure that a strategy and processes are in place to mitigate those risks.
- UKGI has memoranda of understanding in place with government departments to clearly define its role as an agent of that customer and limit risk by defining ownership of risks.
- UKGI's values and culture of continuous learning – to ensure employees act in a collegiate manner, to have open and honest communication so that individuals feel comfortable raising risks and know that they will receive support in managing those risks, to be committed to continuous professional development and bettering our people and to mitigate the risk of UKGI advice not being professional and to the required standard.

## UKFI

On 1 April 2016 HM Treasury's entire shareholding in UKFI was transferred to UKGI, which became the sole member of UKFI. UKFI's corporate structure remains unchanged, and HM Treasury retained, under its Framework Agreements with both UKGI and UKFI, the power to set UKFI's strategy, objectives and appoint board members. Whilst in formal terms, UKGI has a limited relationship with UKFI, the two entities have embarked upon a programme of integration, particularly in the area of shared services, including resourcing, finance, communications and management. We continue to look at ways to increase integration, and will target greater cross-project resourcing via workforce planning. This increased integration will not lead to UKGI assuming control over UKFI. Control of UKFI will continue to reside with HM Treasury until UKFI's dissolution, anticipated in March 2018.

For details of UKFI's performance, please refer to the UKFI Annual Report and Accounts, available on the UKFI website.



## Stewardship of assets

UKGI is responsible for the stewardship of numerous, vital publicly-owned assets, ensuring their effective and efficient management.

As a public sector entity, UKGI is not a signatory to the Financial Reporting Council's UK Stewardship Code. However it has developed equivalent bespoke principles to ensure the consistency and quality of its stewardship. These are the UKGI Principles of Portfolio Governance, which are summarised below:

- **Leadership & governance**

- o We ensure appropriate governance frameworks are in place for the organisation
- o We make sure board roles are clearly established and defined
- o We provide clarity on who in the organisation leads on the relationship with the shareholder (usually the chair)

- **Effectiveness**

- o We advise upon board appointments made by ministers or public bodies, and help manage the appointment process where applicable
- o Where appropriate, we act as a representative for the government on the board (and on board sub-committees)
- o We advise ministers and sponsors on various aspects of the government's day-to-day relationship with the organisation – covering the government's differing interests from policy, shareholder and customer perspectives

- **Objectives, strategy & accountability**

- o We advise ministers upon, and hold the board to account with respect to, the overarching objectives and strategy which the board proposes for the organisation
- o We ensure the organisation's strategy is aligned with its sponsor department's objectives
- o We advise the sponsor department/relevant government ministers on whether to approve business plans
- o Where appropriate, we advise on setting annual budgets for organisations and we monitor financial performance throughout the year

- **Remuneration & accounting officer obligations**

- o We advise on remuneration, including, where relevant, whether this is compliant with government objectives
- o We ensure the accounting officer (AO) for an organisation is aware of, and complies with, its AO obligations, where these apply
- o For assets funded by government departments other than HM Treasury, we liaise with the finance team of the relevant department and HMT to ensure direct line of sight for the principal accounting officer, who is often the permanent secretary of the relevant department



- **Relationship management**

- o We develop and maintain clear lines of communication with the chair, board and executive of each portfolio organisation
- o We would expect to have UKGI NED representation on the organisation's board
- o We aim to maintain effective regular meetings with the chair, board and executive, ensuring free flow of information through mutual trust
- o We promote and encourage a "no surprises" culture

**Approval and signing**

The Strategic Report was approved by the Board of Directors on 10 July 2017 and was signed on its behalf by:

**Mark Russell**

Chief Executive Officer

**Robert Swannell**

Chairman

UKGI Company Number 09774296



# Directors' Report and Governance Statement

The UKGI Board takes all major strategic decisions for UKGI. The Board provides strategic direction to the Company and ensures UKGI is equipped to perform its functions, including having sufficient resourcing and a suitable organisational structure. The Board also enables effective arrangements to be put in place to provide assurance on risk management, governance and internal control.

The Executive Committee is responsible for the day to day running of UKGI. It comprises the UKGI Chief Executive Officer, and UKGI senior management including the Chief Financial Officer and Chief Operating Officer. UKGI senior management are also invited to attend Executive Committee meetings. The Executive Committee meets weekly to discuss UKGI business. It reviews key management information documents on a monthly basis. This process of regular review and challenge by UKGI executives ensures that the information provided to the Board and its committees is up-to-date and reliable. This in turn enables the UKGI directors to carry out their duties.

UKGI has an agreed Framework Document with HM Treasury. This document sets out the broad framework within which UKGI will operate and can be found on the UKGI website at [www.gov.uk/government/organisations/uk-government-investments](http://www.gov.uk/government/organisations/uk-government-investments). HM Treasury, as sole shareholder, has various reserved rights, including appointment of the Chair, Chief Executive, and a shareholder representative director; approval of board appointments, the terms of any board appointments, the Company's remuneration framework and the Company's budget.

The UKGI directors are listed below. They provide the company with the appropriate expertise, skills and experience required to deliver its objectives.





Board Member	Position	Committee Membership
<b>Robert Swannell</b> (appointed 11 September 2015)	<b>Chairman</b>	<b>N (Chair)</b>
<b>James Leigh Pemberton</b> (appointed 11 September 2015)	<b>Non-Executive Deputy Chairman</b>	<b>N</b>
<b>Mark Russell</b> (appointed 11 September 2015)	<b>Chief Executive Officer</b>	
<b>Jane Guyett</b> (appointed 12 February 2016, appointed as Senior Independent Director 28 September 2016)	<b>Senior Independent Director</b>	<b>A (Chair), N</b>
<b>Jitesh Gadhia</b> (appointed 12 February 2016)	<b>Non-Executive Director</b>	<b>R, N</b>
<b>Robin Lawther</b> (appointed 12 February 2016)	<b>Non-Executive Director</b>	<b>A, R, N</b>
<b>Caroline Thomson</b> (appointed 12 February 2016)	<b>Non-Executive Director</b>	<b>R (Chair), N</b>
<b>Simon Palley</b> (appointed 19 May 2016)	<b>Non-Executive Director</b>	<b>A, N</b>
<b>Sir Martin Donnelly</b> (resigned 28 September 2016)	<b>BEIS-Appointed Non-Executive Director</b>	<b>N</b>
<b>Sir John Kingman</b> (resigned 01 July 2016)	<b>Treasury-Appointed Non-Executive Director</b>	<b>N</b>
<b>Alex Chisholm</b> (appointed 28 September 2016)	<b>BEIS-Appointed Non-Executive Director</b>	<b>N</b>
<b>Charles Roxburgh</b> (appointed 28 September 2016)	<b>Treasury-Appointed Non-Executive Director</b>	<b>N</b>

Key: R = Remuneration Committee; A = Audit and Risk Committee, N = Nominations Committee

All Board appointments are for a period of three years, and can be terminated by either party with three months' notice.

Following a successful recruitment process, Simon Palley was appointed in May 2016.

In July 2016 Sir John Kingman resigned following his departure from HM Treasury, to be replaced by Charles Roxburgh, the incoming Second Permanent Secretary to the Treasury, as the Shareholder's representative director.



In September 2016 Sir Martin Donnelly resigned following his departure from the Department for Business, Energy and Industrial Strategy, to be replaced by the incoming Permanent Secretary, Alex Chisholm.

The Board is scheduled to meet a minimum of eight times a year and on an ad-hoc basis as required.

The Board has put in place arrangements to manage any conflicts of interest. As part of this each director has disclosed, at the outset of their term as a director, 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 director of the Company. None have been noted to date. Directors' external interests are set out in their profiles below.

The Board has a high degree of oversight of the Company's activities, ensuring independent checks on all aspects of the Company's activities.

Each non-departmental non-executive director is assigned one or more sponsorship oversight roles over major projects or assets. These arrangements allow for a deeper insight for non-executives into the work of the organisation, and provide for a more substantial challenge and independent check on the work of management. In terms of direct responsibilities, it is not expected that directors will be formally bound by their fiduciary duties as members of the Board when acting in their oversight roles. Board decisions will only be taken by a quorum of directors in a Board meeting.

All committees are chaired by non-executive directors and the Chief Executive Officer is not a member of any committees.

### **Director indemnities**

Each Director is indemnified by the Company and in turn by HM Treasury. The Directors are therefore indemnified to the extent permitted by law in respect of the performance of their duties as directors.

### **Corporate governance**

UKGI is in full compliance with the requirements of the UK Corporate Governance Code. UKGI does not hold an annual general meeting, however its sole shareholder is represented on the Company's Board.

### **Data received by the Board**

The Board receives extensive data allowing it to form judgements around the performance of the Company, in particular financial data, workforce data and key performance indicators relating to project delivery. Through its risk management framework, internal audit arrangements and systems of internal management review, the Board is content that this data is of sufficient quality to allow for informed decision making and evaluation of performance.

### **Internal audit**

The Board has appointed the Government Internal Audit Agency (GIAA) as the Company's internal auditor. In the opinion of the GIAA, some improvements are required to enhance the adequacy and effectiveness of the



framework of governance, risk management and control. UKGI is committed to implementing the recommendations of the GIAA.

## Transparency

UKGI adheres to the government's transparency agenda and publishes a range of data on the gov.uk website, including:

- Directors' hospitality and expenses
- Transactions over £25,000
- Corporate credit card transactions over £500
- Awarded contracts

## Review of effectiveness

The Chairman has commissioned a detailed review of the effectiveness of the Board and its committees, facilitated by the Company's secretarial function. The review found that overall the Board operates effectively and in accordance with its responsibilities as defined in the Board mandate and Framework Agreement. No substantive issues were noted, but minor recommendations around succession planning, conduct of meetings and non-executive only discussions have been implemented.

The Senior Independent Director has conducted a review of the effectiveness of the Chairman, and no issues were noted.

## Sustainability

UKGI occupies premises in 1 Victoria St, London. The head lessee is the Department for Business, Energy and Industrial Strategy (BEIS). It is not possible to separately identify emissions, waste or consumption arising from UKGI's proportion of the premises. Full sustainability data for BEIS is reported in its annual report and accounts, available at gov.uk.

## Payment of suppliers

In May 2010, the Government introduced a 5 day target for Small and Medium sized Enterprise (SME) suppliers to receive payment. This represented accelerated payment from the previous 10 day target set in November 2008.

During 2016-2017, UKGI made 93.20% of all supplier payments within 5 days. Whilst this exceeds HM Treasury group's target of 90%, UKGI will continue to seek further improvements in its payment processes in order to push towards making all supplier payments within 5 days.



## Going concern

UKGI is funded annually by Parliament through grant-in-aid financed from the HM Treasury supply estimate. A multi-year budget settlement for UKGI has been agreed with HM Treasury, comprising a commitment to financial year 2019-2020. UKGI's status will be reviewed periodically. The date of the next review will be in 2019.

The financial statements for 2016-2017 show a negative reserve in the Statement of Changes in Taxpayer Equity. This reflects UKGI's funding arrangement with HM Treasury, as set out in our framework document:

'The grant-in-aid will normally be paid in monthly instalments on the basis of written applications showing evidence of need. UKGI will comply with the general principle that there is no payment in advance of need. Cash balances accumulated during the course of the year from grant-in-aid or other Exchequer funds shall be kept to a minimum level consistent with the efficient operation of UKGI. Grant-in-aid not drawn down by the end of the financial year shall lapse. Subject to approval by Parliament of the relevant Estimates provision, where grant-in-aid is delayed to avoid excess cash balances at the year-end, the department will make available in the next financial year any such grant-in-aid that is required to meet any liabilities at the year end, such as creditors.'

For the purposes of the Framework Document, the relevant grant-in-aid budget has been drawn down to meet UKGI's financial obligations. Grant-in-aid cash has been transferred to meet UKGI's financial obligations as they fall due. Grant-in-aid cash has not been transferred for expenditure incurred and recognised, but not yet paid as at year end. The corresponding cash will be transferred as and when the obligations crystallise.

HM Treasury has also formally confirmed that it undertakes to ensure that UKGI has, and at all times shall have sufficient funds available to pay and discharge each and all of its financial obligations, as and when they fall due.

It has accordingly been considered appropriate to adopt a going concern basis for these financial statements.

**Summary of Meetings and Attendance**

Total number of meetings attended in 2016/2017**	Board		Audit and Risk		Remuneration		Nominations	
	Attended	Maximum Possible	Attended	Maximum Possible	Attended	Maximum Possible	Attended	Maximum Possible
<b>Robert Swannell*</b>	<b>13</b>	<b>14</b>					<b>2</b>	<b>2</b>
<b>Alex Chisholm</b>	<b>6</b>	<b>8</b>					<b>0</b>	<b>1</b>
<b>Sir Martin Donnelly</b>	<b>3</b>	<b>6</b>					<b>1</b>	<b>1</b>
<b>Jitesh Gadhia</b>	<b>11</b>	<b>14</b>			<b>2</b>	<b>3</b>	<b>1</b>	<b>2</b>
<b>Jane Guyett</b>	<b>11</b>	<b>14</b>	<b>5</b>	<b>5</b>			<b>2</b>	<b>2</b>
<b>Sir John Kingman</b>	<b>2</b>	<b>2</b>					<b>1</b>	<b>1</b>
<b>Robin Lawther</b>	<b>13</b>	<b>14</b>	<b>5</b>	<b>5</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>2</b>
<b>James Leigh-Pemberton*</b>	<b>10</b>	<b>14</b>					<b>1</b>	<b>2</b>
<b>Simon Palley</b>	<b>13</b>	<b>14</b>	<b>5</b>	<b>5</b>			<b>1</b>	<b>2</b>
<b>Charles Roxburgh</b>	<b>7</b>	<b>8</b>					<b>0</b>	<b>1</b>
<b>Mark Russell*</b>	<b>14</b>	<b>14</b>						
<b>Caroline Thomson</b>	<b>11</b>	<b>14</b>			<b>3</b>	<b>3</b>	<b>1</b>	<b>2</b>

\* Robert Swannell, Mark Russell and James Leigh-Pemberton were invited to attend all committee meetings as observers

\*\* Of the 14 Board meetings in the year, six were scheduled at short notice

**Events after the reporting period**

UK Government Investments Limited was named as a defendant in a judicial review, case number CO/94/2017 at the High Court of Justice; the hearing was held on 30 and 31 March 2016. An order was issued on 7 April 2017 relating to this case which made an award of £140,000 to cover UKGI's legal costs. This has been treated as an adjusting event after the reporting period and therefore £140,000 has been accrued as income.

**Disclosure of information to auditors**

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors were aware of that information.



This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

UKGI has appointed the Comptroller and Auditor General as its external auditor. The National Audit Office carries out the audit for and on behalf of the Comptroller and Auditor General. The remuneration paid to its external auditor for work during this financial year was £18,300 exclusive of VAT (2015-16: nil). No non-audit work was undertaken by the auditors.

### **Other Matters**

The review of business and disclosure of principle activities in the year are included in the Strategic Report.



# The UKGI Board



## Robert Swannell – Chairman

Robert is the Chairman of UKGI.

Robert was previously the Chairman of the Shareholder Executive, UKGI's predecessor entity. Robert is currently Chairman of Marks and Spencer, an appointment he took up in January 2011 after spending three months as a non-executive director (NED).

Until 2010, Robert spent over 30 years in investment banking with Schroders/Citigroup. He was formerly vice-chairman of Citi Europe and chairman of Citi's European Investment Bank. He was senior independent director of both the British Land Company plc (NED 1999 to 2010) and of 3i Group plc (NED, 2006 to 2010). Robert was chairman of HMV Group plc from February 2009 until March 2011.



## James Leigh-Pemberton – Non-Executive Deputy Chairman

James Leigh-Pemberton is the Chairman of UKFI and Deputy Chairman of UKGI. He took on these roles in April 2016.

James joined UKFI as Chief Executive in October 2013 and served as Executive Chairman of the organisation from January 2014 – March 2016.

Before joining UKFI, James was Managing Director and Chief Executive Officer of Credit Suisse in the United Kingdom, based in London. He was also a member of the Credit Suisse Europe, Middle East & Africa (EMEA) Operating Committee. James held several senior roles within Credit Suisse's Investment Banking Department, including Head of European Investment Banking Department, Head of European Equity Capital Markets and Chairman of UK Investment Banking. He joined Credit Suisse First Boston (CSFB) in 1994. Prior to joining CSFB, he was a Director of S.G. Warburg Securities, where he worked for 15 years.



## Mark Russell – Chief Executive Officer

Mark Russell was appointed Chief Executive of the Shareholder Executive (the predecessor body of UKGI) in April 2013. Mark joined the Shareholder Executive as head of its Corporate Finance Practice in November 2004 and was appointed Deputy Chief Executive in April 2008.

Previously Mark was a partner in the corporate finance departments of KPMG London and KPMG Frankfurt. Prior to this Mark worked at PwC Corporate Finance and Robert Fleming & Co., Lazard Brothers and A.T. Kearney.

Mark is senior independent non-executive director of London and Continental Railways Limited, independent non-executive director of DP World and was formerly non-executive director of Eurostar International Limited.



## Jane Guyett – Senior Independent Director

Jane Guyett is the senior independent director of UKGI. She is the Chair of Connect Plus (M25) Ltd, and is a non-executive director on the Boards of Kerry London Ltd, UK Financial Investments, Dalcor Pharma and Trade Direct Insurance Services Ltd.

Jane spent 15 years with Bank of America Merrill Lynch where she held various roles in London and New York. She was Chief Operating Officer (EMEA and Asia) of the Global Markets Group and sat on the Board of Bank of America Securities, London. She began her career in Corporate Restructuring at Mitsubishi Bank Ltd London, before joining Bank of America in 1994.



## Baron Gadhia of Northwood - Non-Executive Director

Jitesh Gadhia has over 25 years' investment banking experience, having held senior positions at Blackstone, Barclays Capital, ABN AMRO and Baring Brothers. He has advised on a wide range of high profile M&A and capital raising transactions across developed and emerging markets.

Jitesh is also a board member of UKFI and BGL Group, which owns comparethemarket.com, the UK's largest financial price comparison website.

Jitesh graduated from Cambridge University with a degree in economics and attended the London Business School as a Sloan Fellow. He has served as a Trustee of Guy's and St Thomas' Charity and of Nesta. He was selected as a Young Global Leader by the World Economic Forum. Jitesh has been a member of House of Lords since September 2016, and sits as a non-affiliated peer.

**Simon Palley – Non-Executive Director**

Simon has had a successful and wide-ranging career in investment banking, consulting and private equity. He started his career at Chase Manhattan Bank before moving to Bain & Company. He left in 1988 to join Bankers Trust as a vice president and moved to BC Partners, a leading European private equity firm, in 1990 where he worked for 17 years, rising to the position of Managing Partner. Simon then became Chairman of the private equity firm Centerbridge Partners Europe, a post he held until 2013.

He is now a non-executive director of Land Securities PLC, a senior adviser to TowerBrook Capital Partners and an adviser to the private equity arm of GIC. Simon is also a trustee of the University of Pennsylvania and an executive trustee of the Tate Foundation.

**Robin Lawther – Non-Executive Director**

Robin Lawther is a non-executive board member of Nordea, the largest Nordic bank and of Oras Investments. She is chair of the remuneration committee on the Nordea Board and was a member of the risk committee for three years. In addition, Robin works with her own privately held student housing developments in the UK, US, and Germany.

Robin previously worked as a managing director at JPMorgan in London, Scandinavia, Turkey, and New York for 28 years in a number of senior positions in investment banking, including as the Head of European Financial Institution Merger and Acquisitions Execution Team and as the Head of the Nordic Team across all businesses. She specialised in mergers and acquisitions and capital raising. Robin is also a supporter of several London theatres and is actively involved in women's mentoring programs in the UK, US, and Scandinavia.

**Caroline Thomson - Non-executive Director**

Caroline Thomson is the chair of Digital UK, the body which is responsible for digital terrestrial television, a non-executive director of VITEC plc (and chair of the remuneration committee) and of CN media group. Caroline is a trustee of Tullie House Gallery in Cumbria. Caroline is also the deputy chairman of NHS Improvement, a director of London First, trustee of The Conversation and a member of York University Council.

Caroline stepped down from her role as deputy chair of the National Gallery in August 2016. In the arts world Caroline retired as Executive Director of English National Ballet, and stepped down from her role as Chief Operating Officer at the BBC in September 2012 after serving twelve years as a member of the Executive Board. As Chief Operating Officer she was the Deputy Director General and was responsible for all the non-programme parts of the BBC except finance, including the property portfolio and the negotiation of the Royal Charter and two licence fee settlements.

**Alex Chisholm - Non-Executive Director**

Alex Chisholm became Permanent Secretary for the Department for Business, Energy and Industrial Strategy (BEIS) in September 2016. Prior to that he was Joint Permanent Secretary for BEIS. He is also a trustee and Deputy Chair at the international charity Breadline Africa.

Previously he was Permanent Secretary for the Department of Energy and Climate Change (DECC), having previously served as Chief Executive of the Competition and Markets Authority (CMA), Chairperson and Commissioner of Ireland's communications regulatory agency, ComReg, Chair of the Economic Regulators Network in Ireland and has held senior executive positions in the media, technology and e-commerce industries, with Pearson plc, Financial Times Group, eCountries Inc and Ecceleration Ltd.

**Charles Roxburgh – Non-Executive Director**

Charles Roxburgh is the Second Permanent Secretary at Her Majesty's Treasury. He took up this position in July 2016. In this role, he is responsible, at the Treasury, for all issues relating to growth, productivity, infrastructure, financial services and financial stability. He is also a member of the Executive Management Board at the Treasury. Charles represents HM Treasury on the Bank of England's Financial Policy Committee.

Prior to joining HM Treasury in 2013, Charles spent 26 years at McKinsey & Company. In his consulting work, he focused primarily on serving clients in the financial services sector. He was based in London for most of his career, but also spent seven years working in McKinsey's New York Financial Institutions practice. His client work spanned retail banking, corporate and investment banking, insurance and asset management.

He held a number of leadership positions at McKinsey, including: co-head of the Global Strategy Practice; head of the UK Financial Institutions Group; and leader of the Global Corporate and Investment Banking Practice. In 2009, he became the London-based Director of the McKinsey Global Institute (MGI). At MGI, he led research into global capital markets, the impact of deleveraging on economic growth as well as a number of research projects into growth at the country and regional level. In 2011, he was elected to the global board of McKinsey & Company.

He was educated at Cambridge University, where he read Classics. He holds an MBA from the Harvard Business School.





# Audit & Risk Committee Report

## Audit & Risk Chair's Foreword

In this first year of UKGI's operation, the ARC's focus has been to set firm and robust foundations to manage risk and establish processes to enable the Committee and the wider Board in discharging its responsibilities in relation to risk management. To this end, in the year the Committee:

- Agreed a risk appetite statement, distilling the key risks to UKGI, and concluding that UKGI's risks are those that arise from it acting as agent for ministers and departments, noting that it may be necessary for UKGI to take some risk in order to discharge its mandate;
- Oversaw the introduction and implementation of the UKGI Code of Conduct and Compliance, combining the requirements of the Civil Service Code with best practice financial sector compliance standards, adapted for UKGI's unique activities;
- Established robust process for monitoring, reporting and mitigating risks, developing operational and strategic risk registers and reviewing these regularly; and
- Worked with the Government Internal Audit Agency (GIAA) to develop a thorough programme of internal audit, with particular focus on the transition to a government company.

Looking forward to 2017-2018, the key objective for the ARC will be to ensure that the procedures and processes initiated in 2016-2017 are fully embedded and function efficiently. The Committee will continue to work closely with GIAA and the NAO, supported in particular by UKGI's finance and corporate services functions.

### Jane Guyett

Chair of the Audit and Risk Committee

## Activities of the Audit and Risk Committee

The Audit and Risk Committee (ARC) supports the Board and the Chief Executive as Accounting Officer on matters relating to risk, internal control and governance. The members of the ARC in 2016-2017 were all Directors of UKGI and are:

- Jane Guyett (Chair)
- Simon Palley (appointed 19 May 2016)
- Robin Lawther

At least four meetings of the ARC are scheduled annually. Usually the UKGI Chairman, Chief Executive, Chief Financial Officer and Chief Operating Officer attend as observers. Representatives from the external auditors, the National Audit Office (NAO), and internal auditors, the Government Internal Audit Agency (GIAA), are also invited.



The ARC applies the principles of good practice as set out in HM Treasury's Audit and Risk Assurance Committee Handbook. Accordingly the ARC has agreed terms of reference which define its scope as follows:

- **Financial reporting** – responsibility for accounting policies, implementing and monitoring the maintenance of adequate accounting and other records, and reviewing the annual report and accounts;
- **Internal control and risk** – ensuring that the Company's management establish and maintain appropriate controls and associated risk management frameworks, and accordingly monitoring the Company's operating, strategic and project risks;
- **External audit** – overall responsibility for the relationship with the NAO;
- **Internal audit** – approving and, where necessary, directing the Company's internal audit programme and reviewing the performance of the GIAA's service to UKGI;
- **Compliance** – Approving the Company's compliance policies, in particular the compliance manual and whistleblowing policies.

The Chief Executive, as Accounting Officer, is responsible for maintaining a sound system of internal control which supports the achievement of UKGI's objectives whilst safeguarding public funds and departmental assets, in accordance with the responsibilities assigned to him in Managing Public Money. Upon the recommendation of the ARC, the Board has adopted a formal risk appetite statement setting out the level of risk that UKGI is willing to bear. The system of internal control is proportionate to that statement.

Critical to the system of internal control is the risk management framework, which ensure that the respective responsibilities of senior management, the Chief Executive, the ARC and the Board are fulfilled. The risk management framework is structured as follows:

- **Operational level risk management:** day to day risk management is the responsibility of the staff of UKGI. In order to promote good risk management, the Chief Operating Officer chairs regular Risk and Assurance Committees, to challenge and monitor risk management on individual projects. These are augmented by Portfolio Reviews, where a peer group reviews the stewardship of assets by UKGI teams. The Executive Committee reviews on a monthly basis the project risk map.
- **Non-Executive risk management:** oversight of risk management is provided by the Board, which receives the risk map on a monthly basis, and in particular the ARC, which systematically reviews the UKGI operational and strategic risk registers.
- **Independent risk management:** UKGI has elected to utilise the services of the GIAA to provide assurance on the overall effectiveness of UKGI's risk management framework and system of internal control. This is discharged via a risk-based work programme approved by the ARC each year.

The Chief Executive as Accounting Officer has confirmed to the ARC that there were no significant control issues in the year under review and that UKGI has an appropriate and effective system of internal control and risk management framework.



# Remuneration Committee Report

## Remuneration Chair's Foreword

UKGI is wholly dependent upon its people for its success. In this first year of operation, UKGI has preserved that which was best about the Shareholder Executive and its unique mix of civil service and private sector skills, has worked to integrate UKFI staff, and has continued to recruit the best people from an increasingly diverse background. The Remuneration Committee has worked closely with management to design a remuneration framework which attracts and retains the best people, incentivises them appropriately against UKGI's objectives, delivers value for money for the taxpayer and is aligned with the success of UKGI.

As we look forward to 2017-18 and beyond, we will look to ensure that the success of our first year is fully embedded, and that UKGI continues to be resourced with people capable of meeting the challenges of UKGI's increasingly unpredictable operating environment.

### **Caroline Thomson**

Chair of the Remuneration Committee

## Activities of the Remuneration Committee

The Remuneration Committee operates as a sub-committee of the UKGI Board. It comprises the Chair, who is an independent non-executive director of the Company, and two additional independent non-executive directors. The Board is responsible for any new appointments to the Remuneration Committee. The current members are

- Caroline Thomson (Committee Chair)
- Robin Lawther
- Jitesh Gadhia.

The Committee's terms of reference state that it will meet at least once a year and ad hoc as required. The Remuneration Committee met three times in this reporting period. The Chair is responsible for reporting to the Board on the Committee's activities after each meeting of the Committee or otherwise as requested by the Board.

The purpose of the Remuneration Committee is to:

- approve the Company's Remuneration Framework and Performance Related Pay policy;
- approve the Remuneration and Performance Related Pay of the Chief Executive, his direct reports and UKGI directors; and
- recommend the approval of remuneration packages of the Chief Executive, his direct reports and UKGI directors to HM Treasury, and where required, to the Cabinet Office.



## Remuneration Policy

In approving the remuneration for Board members and other UKGI employees, the Remuneration Committee takes into account all factors which it deems necessary, including that HM Treasury's interest is primarily in ensuring that remuneration levels:

- deliver value for money;
- are sufficient to attract and motivate high-calibre individuals to drive the delivery of the activities and objectives set out in the Framework Document and the UKGI strategic plan; and
- are in line with best practice, linked to performance, with no reward for failure or excessive risk taking.

UKGI operates a performance appraisal system through which performance is reviewed semi-annually. Performance related pay is awarded in relation to performance linked to the annual staff appraisal and takes the form of bonus payments for those staff who have performed well in their roles.

Any UKGI performance-related pay is calculated as a fraction rather than multiple of salary. It is UKGI's policy that staff employed directly by UKGI are entitled to be considered for variable pay each year on the basis of their performance and affordability.

Pay progression takes into account individual performance, job size, external market comparators and public sector pay policy and affordability.

In this report the disclosures on senior management remuneration, performance related payments, senior management pension information, staff numbers, exit payments, consultancy expenditure, off-payroll engagements and male/female staff breakdown have been audited. No other disclosures have been audited.

## Remuneration received including pension benefits

In accordance with the requirements of the Companies Act 2006, a single figure of remuneration is shown for UKGI's board members and senior management below:

	Salary £'000	Bonus Payments £'000	Pension Benefits £'000	Total £'000	2015-2016 £'000
<b>Robert Swannell</b>	<b>40-45</b>	<b>0</b>	<b>0</b>	<b>40-45</b>	<b>5-10</b>
<b>Jitesh Gadhia</b>	<b>0-5</b>	<b>0</b>	<b>0</b>	<b>0-5</b>	<b>0-5</b>
<b>Jane Guyett</b>	<b>5-10</b>	<b>0</b>	<b>0</b>	<b>5-10</b>	<b>0-5</b>
<b>Robin Lawther</b>	<b>30-35</b>	<b>0</b>	<b>0</b>	<b>30-35</b>	<b>0-5</b>
<b>Simon Palley</b>	<b>25-30</b>	<b>0</b>	<b>0</b>	<b>25-30</b>	<b>-</b>
<b>Mark Russell</b>	<b>160-165</b>	<b>20-25</b>	<b>35-40</b>	<b>220-225</b>	<b>-</b>
<b>Caroline Thomson</b>	<b>30-35</b>	<b>0</b>	<b>0</b>	<b>30-35</b>	<b>0-5</b>

Alex Chisholm, Sir Martin Donnelly, Sir John Kingman, James Leigh-Pemberton and Charles Roxburgh received no fee for their roles as directors of UKGI. Jitesh Gadhia and Jane Guyett, as non-executive directors of UKFI, received fees only in relation to their UKGI sub-committee responsibilities. Board fees payable to Board members in respect of 2015-16 were reimbursed by HM Treasury.



## Remuneration multiples

The relationship between the remuneration of the highest-paid member of the UKGI Managing Board and the median remuneration of the organisation's workforce is reported below.

The Chief Executive is the highest-paid member of the UKGI Board and the organisation's wider workforce. In the financial year 2016-17 the total remuneration was £185,710. This was 2.4 times the median remuneration of the workforce which was £78,045.

Total remuneration includes, where appropriate, salary, non-consolidated performance related payments and benefits-in-kind. It does not include employer pension contributions and the cash equivalent transfer value of pensions.

## Performance related payments (PRP)

The payment of performance related awards are assessed annually by the remuneration committee. These one-off payments are determined by individual and Company performance and criteria associated with the UKGI performance management process and are aligned to the policy for public sector pay.

The awards reported for 2016-2017 relate primarily to performance in 2016-2017. However, as part of the agreement for the machinery of government change that transferred the operations of the former Shareholder Executive to UKGI, it was agreed that UKGI would also fund awards made for performance in 2015-2016, under the performance related payment policy in place in the former Shareholder Executive, as part of the Department for Business, Innovation and Skills. The payments relating to performance in each financial year are shown separately.

	2016-2017 £'000	2015-2016 £'000
<b>Total Performance related pay</b>	<b>432</b>	<b>253</b>

## Pension

Pension information for UKGI's senior management is show below:

	Accrued pension at pension age as at 31 March 2017 and related lump sum £'000	Real increase in pension and related lump sum at pension age £'000	CETV at 31 March 2017 £'000	CETV at 31 March 2016 £'000	Real increase in CETV £'000
<b>Mark Russell</b>	<b>30-35</b>	<b>0-5</b>	<b>625</b>	<b>559</b>	<b>33</b>

Non-executive directors are not entitled to any pension benefits.



## Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or alpha, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: 3 providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 3% and 8.05% of pensionable earnings for members of classic (and members of alpha who were members of classic immediately before joining alpha) and between 4.6% and 8.05% for members of premium, classic plus, nuvos and all other members of alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus, 65 for members of nuvos, and the higher



of 65 or State Pension Age for members of alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

Further details about the Civil Service pension arrangements can be found at the website [www.civilservicepensionscheme.org.uk](http://www.civilservicepensionscheme.org.uk)

### **Cash Equivalent Transfer Values**

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

### **Real increase in CETV**

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

### **UKGI Pension Scheme**

Employees who joined UKGI after 1 April 2016 are enrolled into a defined contribution pension scheme administered by Aviva; employer contributions are 5% of base salary and the employee contributes a minimum of 3%.



## Staff numbers and related costs

	Permanent and FTA Staff £'000	Staff seconded into UKGI £'000	Others £'000	Total 2016-17 £'000	Total 2015-16 £'000
Salaries (including PRP)	6,142	1,717	115	7,974	0
Social Security	737	150	0	887	0
Other pension costs	985	279	0	1,264	0
Recoveries in respect of outward secondments	(213)	N/A	N/A	(213)	0
<b>Total net costs</b>	<b>7,651</b>	<b>2,146</b>	<b>115</b>	<b>9,912</b>	<b>0</b>
Staff numbers (including non-executive Board members)	72	29	3	104	0

Staff numbers are the average monthly headcount for the year. Permanent and FTA Staff includes non-executive board members.

## Exit payments

There were no exit payments made in 2016-2017.

## Consultancy

Consultancy expenditure of £20,000 excluding VAT was incurred during 2016-2017.

## Off-payroll engagements

There were no off-payroll engagements during 2016-2017.

## Male / female staff breakdown

The number of male and female staff at UKGI as at 31 March 2017 was:

	Male	Female
Non-executive Board members	6	3
Staff	56	43
<b>Total</b>	<b>62</b>	<b>46</b>

Employees include staff on secondment to other government departments and staff seconded to UKGI.





## **Equal opportunities**

UKGI is an equal opportunities employer. Policies are in place to ensure that no job applicant or member of staff receives less favourable treatment on grounds of gender, gender re-assignment, marital or family status, colour, racial origin, sexual orientation, age, background, religion, disability, trade union membership or by any other condition or requirement.

## **Employee Relations**

UKGI recognises the following trade unions: Prospect, PCS and FDA. UKGI met with trade union representatives regularly throughout the year. Staff are free to join the trade union of their choice.

## **Learning and development**

UKGI's learning and development policy aims to ensure that its staff have the right skills to meet its objectives. UKGI provides targeted training and support for professional studies to enhance the skills base of its employees.

## **Staff sickness absence**

Recorded working days lost due to UKGI staff sickness absence in 2016-2017 were 92, or 0.3% per cent of the total available.

## **Social, community and human rights issues**

UKGI has no social, community or human rights issues to report which are relevant to understanding its business.



## Statement of Directors' and Accounting Officer's responsibilities in respect of the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Directors' Report and the Financial Statements in accordance with applicable law and regulations. Company law requires the Directors to prepare Financial Statements for each financial year.

The financial statements have been prepared in accordance with the 2016-2017 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector. UKGI's accounts have been prepared in accordance with the Accounts Direction given by HM Treasury, under the legislative authority of the Government Resources and Accounts Act 2000.

In preparing these Financial Statements, the Directors have:

- selected suitable accounting policies and then apply them consistently;
- made judgements and estimates that are reasonable and prudent;
- stated whether the applicable International Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepared the Financial Statements on a going-concern basis.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its Financial Statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

This report has been approved by the Board of Directors and is signed by the CEO and Chairman on behalf of the Board of Directors. The Accounting Officer of HM Treasury has designated the Chief Executive as the Accounting Officer of UKGI. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding UKGI's assets, are set out in Managing Public Money, published by HM Treasury. The Accounting Officer confirms that the annual report and accounts as a whole is fair, balanced and understandable and takes personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

This statement was approved by the Board of Directors on 10 July 2017 and was signed on its behalf by:

**Mark Russell**

Chief Executive Officer

**Robert Swannell**

Chairman

UKGI Company Number 09774296



# Independent Auditor's Report to the Shareholders of UK Government Investments Limited

I have audited the financial statements of UK Government Investments Limited for the year ended 31 March 2017 which comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the International Financial Reporting Standards as adopted by the European Union.

## Respective responsibilities of the directors and the auditor

As explained more fully in the Statement of Directors' and Accounting Officer's responsibilities in respect of the Directors' Report and the Financial Statements, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2017 and of the net operating expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union; and



- the financial statements have been prepared in accordance with the Companies Act 2006.

### **Opinion on regularity**

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### **Opinion on other matters prescribed by the Companies Act 2006**

In my opinion:

- the information given in the Strategic and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and these reports have been prepared in accordance with the applicable legal requirements;
- in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, I have not identified any material misstatements in the Strategic Report or the Directors' Report.

### **Matters on which I report by exception**

I have nothing to report in respect of the following matters where the Companies Act 2006 requires me to report to you if, in my opinion:

- adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- I have not received all of the information and explanations I require for my audit.

**Peter Morland**

**Senior Statutory Auditor**

**10 July 2017**

For and on behalf of the

**Comptroller and Auditor General (Statutory Auditor)**

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP



# Financial Statements of UK Government Investments Limited

## Statement of Comprehensive Net Expenditure for the Year ended 31st March 2017

	Notes	2016-2017 £000	2015-2016 £000
Staff Costs	3	10,125	0
Operational Costs	4	1,998	0
<b>Total operating expenditure</b>		<b>12,123</b>	<b>0</b>
Revenue	5	(353)	0
<b>Net operating expenditure</b>		<b>11,770</b>	<b>0</b>

The notes on pages 41-45 are an integral part of these financial statements.

All activities are classified as continuing. There has been no other comprehensive expenditure in the year.


**Statement of Financial Position as at 31 March 2017**

	Notes	31 March 2017 £000	31 March 2016 £000
<b>Current Assets</b>			
Trade and other receivables		223	0
Cash and cash equivalents	7	242	0
<b>Total Current Assets</b>		<b>465</b>	<b>0</b>
<b>Current Liabilities</b>			
Trade and other payables	8	(2,435)	0
<b>Total Current Liabilities</b>		<b>(2,435)</b>	<b>0</b>
<b>Net Current Assets/(Liabilities)</b>		<b>(1,970)</b>	<b>0</b>
<b>Taxpayers' Equity</b>			
General Fund		(1,970)	0
<b>Total Taxpayers' Equity</b>		<b>(1,970)</b>	<b>0</b>

The notes on pages 41-45 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 10 July 2017 and were signed on its behalf by:

**Mark Russell**

Chief Executive

**Robert Swannell**

Chairman

UKGI Company Number 09774296

**Statement of cash flows for the year ended 31 March 2017**

	Notes	2016-2017 £000	2015-2016 £000
<b>Cash flows from operating activities</b>			
Net Operating Costs		(11,770)	0
Increase in trade and other receivables		(223)	0
Increase in trade and other payables	8	2,435	0
<b>Net cash outflow from operating activities</b>		<b>(9,558)</b>	<b>0</b>
<b>Cash flows from financing activities</b>			
Grant-in-Aid from HM Treasury		9,800	0
<b>Net financing</b>		<b>9,800</b>	<b>0</b>
<b>Net increase/(decrease) in cash and cash equivalents in the period</b>		<b>242</b>	<b>0</b>
Cash and cash equivalents at the beginning of the period		0	0
<b>Cash and cash equivalents at the end of the period</b>		<b>242</b>	<b>0</b>

The notes on pages 41-45 are an integral part of these financial statements.

**Statement of Changes in Taxpayers' Equity for the year ending 31 March 2017**

	General Reserve £000
<b>Cash Balance at 1 April 2015</b>	<b>0</b>
Comprehensive Expenditure for the Year	0
<b>Balance at 31 March 2016</b>	<b>0</b>
Grant-in-Aid from HM Treasury	9,800
Comprehensive Expenditure for the Year	(11,770)
<b>Balance at 31 March 2017</b>	<b>(1,970)</b>

The notes on pages 41-45 are an integral part of these financial statements.



## Notes to the Financial Statements

### 1. Reporting Entity

UK Government Investments Limited (the Company) is a Company limited by shares incorporated in the United Kingdom. The address of the Company's registered office is 27-28 Eastcastle Street, London W1W 8DH.

### 2. Statement of Accounting Policies

These financial statements have been prepared in accordance with the Companies Act 2006 and having regard to the requirements of the 2016-2017 Government Financial Reporting Manual (FRoM) issued by HM Treasury. The accounting policies contained in the FRoM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector. UKGI's accounts have been prepared in accordance with the Accounts Direction given by HM Treasury, under the legislative authority of the Government Resources and Accounts Act 2000.

Where the FRoM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Company for the purpose of giving a true and fair view has been selected. The particular policies adopted are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

As per the FRoM, these accounts apply EU adopted IFRS and Interpretations in place as at 1 January 2016. The Company has reviewed the effects that new accounting standards are expected to have on its financial statements and there is no material impact.

#### (a) Accounting Convention

These accounts have been prepared on an accruals basis under the historical cost convention.

#### (b) Basis of preparation

It has been considered appropriate to adopt a going concern basis for the preparation of these financial statements as UKGI has in place an agreed multi-year budget settlement with HM Treasury, comprising a commitment to financial year 2019-2020. UKGI will be reviewed periodically. The date of the next review will be in 2019. UKGI produces separate financial statements.

#### (c) Subsidiary

UKGI is the sole member of UK Financial Investments (UKFI). Under the Framework Agreement between HM Treasury and UKFI, HM Treasury exercises control over UKFI, and therefore in accordance with the requirements of IFRS 10, UKGI does not consolidate UKFI into its accounts. UKGI's investment in its subsidiary is accounted for at cost in accordance with IAS 27. UKGI purchased the entire share capital of UKFI for £1.

#### (d) Revenue

Revenue is recognised in the statement of comprehensive expenditure on an accruals basis.



**(e) Financing**

The Company is financed via Grant-in-Aid from HM Treasury. The Grant-in-Aid is credited to the general fund in the year in which it is received. The total Grant-in-Aid received by the Company from HM Treasury in the financial year 2016-2017 was £9.8m. This total represents the cash requirement within the reporting period and the carryover of a cash balance into the following financial year.

**(f) Pensions**

The provisions of the Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS), which are described in the Remuneration and Staff Report, cover staff transferred from the Civil Service and who are subject to TUPE. The defined benefit schemes within the PCSPS and CSOPS are unfunded and contributory. UKGI recognises as a cost the monthly charges made by the PCSPS and CSOPS to contribute to the schemes.

Employees are entitled to enrol into UKGI's group stakeholder pension plan, a defined contribution scheme administered by Fidelity. Contributions are charged in the Statement of Comprehensive Net Expenditure as they become payable in accordance with the rules of the scheme.

**(g) Employee benefits**

The Company has accrued for the cost of the outstanding employee paid holiday entitlement. The accrual is based on salary, Employer's National Insurance Contributions and pension contributions.

**(h) Financial Instruments**

Trade receivables and trade payables are recognised at fair value.

Cash and cash equivalents comprise solely cash at bank.

**(i) Tax**

Value Added Tax – In general input tax on purchases is not recoverable. Irrecoverable tax is charged to the relevant expenditure category or included in the capitalised purchase of non-current assets. Where output VAT is charged or input VAT is recoverable, amounts are stated net of VAT.

Corporation Tax – UKGI is liable to pay corporation Tax on profits earned. No profits have been made or are anticipated to be made.

**(j) Estimates and Judgements**

The preparation of the Financial Statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of asset, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis.

**(k) Functional & Presentational Currency**

These Financial Statements are presented in pounds sterling, which is the Company's functional currency.



### 3. Staff Costs

	2016-2017 £000	2015-2016 £000
Salaries	6,142	0
Employer National Insurance Contributions	737	0
Pensions costs	985	0
Seconded	2,146	0
Agency staff	115	0
<b>Total Costs</b>	<b>10,125</b>	<b>0</b>

Further details of staff costs and numbers are disclosed in the Remuneration Committee Report.

### 4. Operational costs

	2016-2017 £000	2015-2016 £000
Office related costs	741	0
Professional Services	916	0
Staff related costs including training, travel and expenses	341	0
<b>Total Costs</b>	<b>1,998</b>	<b>0</b>

Professional services includes audit fees payable to the National Audit Office of £18,300, exclusive of VAT (2015-16: nil). UKGI occupies premises at 1 Victoria St, London; the head lessor is the Department for Business, Energy and Industrial Strategy (BEIS). HM Treasury reimburses BEIS directly for the proportion of the rent and service charges relating the premises occupied by UKGI.

### 5. Revenue

	2016-2017 £000	2015-2016 £000
Legal costs recovery	140	0
Staff costs recovery	213	0
<b>Total</b>	<b>353</b>	<b>0</b>



## 6. Directors Emoluments

Directors emoluments are analysed in detail in the Remuneration Committee Report.

## 7. Cash and cash equivalents

	31 March 2017 £000	31 March 2016 £000
Cash held with the Government Banking Service	242	0
<b>Total</b>	<b>242</b>	<b>0</b>

## 8. Payables

Amounts falling due within one year	31 March 2017 £000	31 March 2016 £000
Trade payables	1,223	0
Accruals	1,000	0
Taxation and social security	212	0
<b>Total</b>	<b>2,435</b>	<b>0</b>

## 9. Commitments and Leases

The Company has neither entered into any capital commitments nor any non-cancellable contracts.

The Company occupies office space within 1 Victoria Street, London. This is achieved by means of an agreement as set out within a Memorandum of Terms of Occupation between HM Treasury (UK Government Investments) and the Department for Business, Energy and Industrial Strategy (BEIS). This covers the provision of accommodation. The agreement runs for a period of 4 years and 2 months from 1 April 2016 to 30 June 2020.

An annual contribution is paid by HM Treasury to BEIS directly on the Company's behalf. For the financial year 2016-2017, the contribution was £681,000.

## 10. Called up share capital

The Company's share capital consists of 1 Ordinary Share of £1. The share is fully paid up.



## 11. Related Party Transactions

UKGI is a wholly-owned subsidiary of HM Treasury. HM Treasury is regarded as a related party. During the year, UKGI has had various material transactions with HM Treasury, with payments totalling £375k, primarily in relation to recoveries for IT, finance and HR shared services, and receipts of £93k in respect of the outward secondment of staff by UKGI.

UKGI also had material transactions with BEIS, incurring costs totalling £1,069k, primarily in relation to the provision of secondees by BEIS to UKGI.

No Board member, key manager or other related party has undertaken any material transactions with UKGI during the year.

## 12. Contingent assets and liabilities

UKGI has no contingent assets or liabilities.

## 13. Subsidiary

UKGI holds the entire allotted share capital of UKFI at cost, being £1. UKFI's registered office is 27/28 Eastcastle Street, London, and its main place of business is 100 Parliament St, London.

## 14. Ultimate Parent

The ultimate parent entity of UKGI is HM Treasury, which holds the entire allotted share capital of ordinary shares of £1.

## 15. Events after the reporting period

UK Government Investments Limited was named as a defendant in a judicial review, case number CO/94/2017 at the High Court of Justice; the hearing was held on 30 and 31 March 2016. An order was issued on 7 April 2017 relating to this case which made an award of £140,000 to cover UKGI's legal costs. This has been treated as an adjusting event after the reporting period and therefore £140,000 has been accrued as income.

## 16. Date authorised for issue

The financial statements were authorised for issue on 10 July 2017.



UK Government  
Investments

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