

Public Body Review

UK Government Investments (UKGI)



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Introduction

Public Bodies Review Programme

1. A 'public body' is a formally established organisation that is (at least in part), publicly funded to deliver a public or government service, though not as a ministerial department.¹ The Public Body Review Programme (PBRP) requires government departments to review their Arm's Length Bodies (ALBs), which are a specific category of public body, based on factors including their assessment of risk that a body poses.²
2. The programme is underpinned by a set of requirements for departments and ALBs; these are split into the following criteria:
 - a) Efficacy
 - b) Governance
 - c) Accountability
 - d) Efficiency
3. The reviews must first and foremost assure the public, ministers, and the Principal Accounting Officer (PAO) that the public body's function remains useful and necessary. The reviews must also consider whether:
 - a) the body should be retained
 - b) should continue to deliver all its functions
 - c) whether it has an effective relationship with its department
 - d) if decisions taken by the ALB would be best taken by ministers in the department.

In summary, the approach must be useful, informed, proportionate, rigorous, open, realistic, and the review team should consider the governments 'three tests' for the existence of a public body.³

¹ Public Bodies Handbook – Part 1

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/519571/Classification-of-Public_Bodies-Guidance-for-Departments.pdf

² Guidance on the undertaking of Reviews of Public Bodies <https://www.gov.uk/government/publications/public-bodies-review-programme>

³ Does the body have a technical function, which needs external expertise to deliver? Is this a function which needs to be, and be seen to be, delivered with absolute political impartiality? Is this a function which needs to be delivered independently of ministers to establish facts and/or figures with integrity?

UK Government Investments

4. UK Government Investments (UKGI) began operating in 2016 following the merger and reform of the Shareholder Executive group and UK Finance Investments Ltd. UKGI was created as part of the government's plan to deliver the biggest ever sale of publicly owned corporate and financial assets in 2015-16. Its aims were to:
 - a) make it easier for government experts to work together in the delivery of this plan and do so in a way that secured good value for money for UK taxpayers
 - b) help the government achieve its aim of running large, publicly owned delivery bodies more effectively
 - c) learn from private sector expertise to improve the performance of those taxpayer-owned assets not being sold.
5. UKGI is the government's centre of excellence for corporate governance and corporate finance. UKGI is a government company with HM Treasury as its sole shareholder; activities are governed by its Board and underpinned by its Articles of Association and framework agreement with HM Treasury. UKGI is accountable through its Independent Board to Treasury Ministers, and the Chancellor to Parliament.

Methodology

6. The review was undertaken by HM Treasury's Review Team which is independent of both the ALB Sponsor team and UKGI, however, both parties have been consulted throughout.
7. A Self-Assessment was completed independently by both UKGI and the HMT sponsor team then collated and assessed by the Review Team. The Self-Assessment Model (SAM) consists of a series of questions to use as a 'health check' for the ALB and to review their relationship with the sponsoring department.⁴ Evidence to support the responses was considered in line with HM Treasury's risk and governance priorities as well as the programme criteria. Any queries raised were followed up with UKGI and the sponsor team.
8. The Review Team considered whether there are more efficient and effective alternatives to deliver the government's objectives. The initial findings were also used to consider whether the body would merit a full-scale review based on identified gaps in assurance.

⁴ The template for the Self-Assessment Model

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1071327/public-bodies-self-assessment-model.xlsx

9. The review found only minor gaps in assurance, and so a full-scale review was not required.⁵ A proportionate approach including a desktop review and validation process led by the Review Team was agreed and signed off by Directors.
10. The UKGI sponsor team set out during the scoping stage their intention to review the UKGI framework agreement and where practical incorporate recommendations made from this review. The framework review will be conducted in accordance with Managing Public Money.⁶

Findings

Summary

11. The review recognised that UKGI is a centre of excellence for support and advice across government. Further, that UKGI's functions remain useful and necessary.
12. UKGI's functions expanded in 2021 with the inclusion of the Contingent Liabilities Central Capability (CLCC).
13. The findings are detailed below according to their efficacy, efficiency, governance, and accountability.
14. The review identified a small number of recommendations, which are identified using **bold text** and listed again at the end of the report.

Efficacy

15. UKGI is required to meet the expected conditions for an ALB through their form and function. This includes operating with a clear purpose and optimum delivery model. UKGI should demonstrate that they are delivering services that meet the needs of UK citizens.
16. UKGI creates value for society from the government's most complex commercial interests by combining the best of public and private sector expertise.⁷ UKGI has senior level investment banking and restructuring expertise, and offers a range of services including advice:

⁵ Of the 50 'major' questions in the Self-Assessment Model, sponsor team and UKGI responses identified 6 as needing further attention and an additional 3 'minors'

⁶ Managing Public Money <https://www.gov.uk/government/publications/managing-public-money>

⁷ <https://www.ukgi.org.uk/2022/07/20/uk-government-investments-annual-report-and-accounts-2021-22/>

- a) on all major UK government interventions into corporate structures and on major UK government corporate finance negotiations
 - b) where there is actual or likely financial distress in a company or sector including where the government is considering making an investment into a company in distress
 - c) on mergers and acquisitions including activity arising from distress situations, and as a member of the cross-Whitehall Investment Security Group.
17. UKGI supports departments on asset sales, advising ministers and senior officials on the best strategies and structures for a sale, carrying out market testing, and devising and managing the sale execution process to achieve value for money for the taxpayer. The company also provides valuable shareholder representation, assurance services to departments and addresses cross-government risks.
18. Departments should seek advice from UKGI when establishing central government companies, public corporations or ALBs which have a significant commercial element, significant private sector interface and/or whose governance is of material complexity.⁸ Departments should also consider whether UKGI is best placed to deliver the shareholder function itself on behalf of the department or, if not, seek the advice and expertise of UKGI during the life of such bodies.
19. This Review endorses UKGI's standing as the UK Government's centre of excellence in corporate governance and corporate finance. There is an ongoing need for the organisation, and the functions of UKGI remain essential. However, **UKGI is currently unclassified. In line with the published guidance, formal classification should be considered as part of the framework review.**⁹
20. In 2021, UKGI was given additional responsibility for the government's contingent liabilities. UKGI subsequently set up the Contingent Liabilities Central Capability (CLCC), as below.

The Contingent Liability Central Capability

21. HM Treasury launched a Balance Sheet Review at the Autumn Budget in 2017 to identify opportunities to dispose of assets that no

⁸ <https://www.parliament.uk/globalassets/documents/commons-library/deposited-papers-guidelines-for-departments.pdf> 179 (UKGI)

⁹ Classification of public bodies: information and guidance - GOV.UK (www.gov.uk)

longer serve a policy purpose, improve returns on retained assets, and reduce the cost and risk of liabilities.

22. Following this, HM Treasury published the 'Government as Insurer of Last Resort' report at the March 2020 Budget which recommended the development of a central capability to advise on the management of contingent liabilities across government.¹⁰
23. UKGI was chosen to host the Contingent Liability Central Capability (CLCC), given its unique mix of private sector professionals and civil servants, which is also reflected in the make-up of the CLCC.
24. CLCC's mission is to strengthen contingent liability expertise within government and improve the management of its portfolio of risk from contingent liabilities. The CLCC assists departments and ALBs in assessing, quantifying, and pricing risk from contingent liabilities, financial guarantees, and insurance products.
25. CLCC is currently undertaking a review of the government's whole stock of contingent liabilities which will enable government for the first time to manage contingent liabilities, financial guarantees, and insurance products as a single portfolio in line with the private sector. UKGI is further developing the service offer to departments and HMT with UKGI are refining the requirements to consider a future charging model.
26. The Review team recognises the role and value of the CLCC to government but recommends that further analysis is done by UKGI to quantify the benefit of the CLCC to both departments and HMT against its operational costs. **UKGI should agree with HMT on the best approach to articulate and quantify both the current and planned future benefits to government of the CLCC. This would enhance departmental understanding and inform any future split of costs between HMT and departments.**

Efficiency

27. The Review Team assessed UKGI's financial management processes in line with current guidance and against expectations to identify further savings against their 2022-2023 budget.
28. UKGI's financial responsibilities and oversight are clearly defined. The 2023-24 UKGI delegation letter sets out the responsibilities of the agreed annual budget. Any spend above the agreed limits needs to be approved by the Group Finance Director (in consultation with the Sponsor Director) and the Operations Committee. HMT Finance

¹⁰ <https://www.gov.uk/government/publications/government-as-insurer-of-last-resort--2>

and UKGI finance have planned meetings to review progress against budget allocations and forecasts and discuss adherence to delegated responsibilities - including compliance with Government Controls. This is a formal opportunity for UKGI to raise issues in relation to emerging spending pressures. The frequency of meetings will increase if appropriate or by request.

29. UKGI is the product of a merger between UK Financial Investments (UKFI) and the Shareholder Executive (ShareEx) and the most appropriate delivery model was considered at the time of the merger in 2016. Whilst UKGI hasn't been able to identify private sector and international comparators, they have assessed day rates to confirm that they offer good value for money.¹¹ **UKGI should re-evaluate the available comparators and seek to apply operational benchmarking (where available) to drive further efficiencies.**
30. Government functional standards support efficiencies through continuous improvement. UKGI demonstrates compliance against 9 out of 14 functional standards.¹² The remaining 5 have a comprehensive plan to achieve full compliance by March 2024.¹³ Fully evidenced compliance will provide a good benchmark for HMT to use when conducting future reviews.

Governance

31. The Review Team considered that UKGI's Corporate Governance arrangements and Board structure are broadly in line with best practice. The UKGI board has succession planning linked to Diversity and Inclusion aspirations as well as the skills and experience required.
32. UKGI has a qualified finance professional as Finance Director (FD), this role is not included in their board membership. Managing Public Money (MPM) (A4.1.1.) advises that the finance director of a public sector organisation should have board status equivalent to other board members. UKGI provided explanation of why there is value for money for not complying with this MPM advice. **To improve transparency and oversight: this should be formally captured as part of the framework review process.**

¹¹ To test this, UKGI averaged out the day rates of the Big 4 firms on the management consultancy framework, annualised them (220 days p/a) and compared these to equivalent grades in UKGI. Including reduced rates applied to the framework, UKGI offered better value to a factor of about 4.

¹² <https://www.gov.uk/government/collections/functional-standards>

¹³ To achieve full compliance UKGI shared their existing plan to become fully compliant with 02: project delivery, 04: property, 05: Digital, Data and Technology, 07: Security and 10: Analysis.

33. GIAA has been appointed as UKGI's internal auditor. Internal audit actions are monitored by UKGI's Audit and Risk Committee (ARC). The 2018 UKGI framework agreement sets out the requirements for UKGI to communicate with HMT regarding internal audit activities.¹⁴ Communicating internal audit work is a key part of the three lines of defence model of assurance. The review team did not find evidence that the requirements in the framework agreement are being met. **The audit requirements and reporting process should be reviewed and updated in line with the framework agreement.**
34. Framework Document, Corporate and Business plans set out the purpose, strategy, and value of UKGI and the responsibilities of the chair and board members in a way that is easily understood and accessible. The UKGI Framework Document 2018 was last updated in July 2020 and is due to be reviewed in summer 2023.

Accountability

35. This section sets out expectations of the lines of accountability and communication between HM Treasury and UKGI, and the support and challenge offered to UKGI via the 'sponsoring' relationship with HMT.
36. A performance feedback report was submitted to the UKGI Board in March 2023. This set out feedback collated by UKGI (via routine surveys) from key stakeholders to assess UKGI's performance. UKGI achieved a good survey engagement rate at 60%. The feedback demonstrated that UKGI met their objectives to perform "well" or "extremely well" when providing corporate governance and corporate finance services for its customers. Average score against these objectives was "extremely well". The report identified areas of good progress and areas to improve.
37. UKGI actively engages with HMT on performance and accountability, including against agreed Key Performance Indicators (KPIs) and objectives. UKGI is held to account through Quarterly Shareholder Meetings, which include HMT's Sponsor Director, as well as UKGI's CEO and CFO. UKGI is also held to account through 6-weekly UKGI Boards.
38. UKGI's approach to risk management follows principles set out in the government's Orange Book.¹⁵ In June 2022, UKGI's ARC reviewed the alignment between UKGI's risk management processes and the

¹⁴ Requirements to communicate internal audit work are set out in section 7.5 of the UKGI framework agreement: <https://www.ukgi.org.uk/2018/05/11/ukgi-framework-document-2/>

¹⁵ Orange Book: Management of risk – Principles and Concepts, last published May 2023
<https://www.gov.uk/government/publications/orange-book>

Orange Book. However, the Orange Book has since been updated with the addition of a new section, Part II, on risk control including a Risk Control Framework (RCF) to support accounting officers in meeting their objectives and obligations. **UKGI should review the updated Orange Book and ensure that their risk management processes are still compliant and in line with best practice.**

39. Governance arrangements include a senior HMT Second Permanent Secretary on the UKGI Board to represent HMT's interests. The CEO has bi-weekly meetings with the HMT Sponsor Director and a Quarterly Shareholders Meeting which includes HMT senior leads. The HMT Sponsor Team is responsible for agreeing the agenda and papers with colleagues at UKGI and meetings are minuted.
40. The UKGI chair also meets Ministers and the HMT Second Permanent Secretary at regular intervals to discuss UKGI's work. The sponsor team attend the bi-monthly UKGI Board meeting as observers and UKGI share the full pack of Board papers with HMT to inform briefings to the Second Permanent Secretary. This provides clear oversight of UKGI priorities, budget, risks, and operational plans.

Conclusion

41. In conclusion, HM Treasury should remain as the sponsoring department for UKGI. The forthcoming framework review will consider improvements to the governance arrangements. This will also provide an opportunity to ensure that UKGI's corporate and business plans remain effectively aligned to the department's strategic priorities.

Recommendations

Area	Recommendation	Deadline
Formal classification for UKGI	1. Formal public bodies classification of UKGI should be considered as part of the framework review.	31 March 2024
Value of the Contingent Liability Central Capability	2. To further articulate and quantify the value of CLCC, with the aim of providing evidence for future recharging decisions, an assessment should be completed alongside supporting evidence, that compares CLCC's benefits against its operating costs. This will be carried out in the following steps: <ul style="list-style-type: none"> i. Agree the analysis approach with HMT Fiscal and Finance teams ii. Create analysis report with evidence to share with HMT Fiscal and Finance teams 	<ul style="list-style-type: none"> i. 31 March 2024 ii. Mid 2024 – 6 months after the publication of CLCC's report on government's contingent liability portfolio
Benchmarking	3. Re-evaluate private sector and international comparators and seek to apply operational benchmarking (where available) to drive further efficiencies.	31 March 2024
Managing Public Money	4. As part of the planned 2023 framework review, UKGI should comply or explain adherence to Managing Public Money guidance relating to Finance Directors as set out in Annex A4.1.1	31 March 2024
Internal audit	5. UKGI should refresh their process of reporting audit actions to ensure appropriate controls are in place.	31 March 2024
Risk management	6. UKGI should review the updates to the Orange Book and ensure that their risk management processes are still compliant and in line with best practice.	31 March 2024

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