



UK Government
Investments

Principles of Portfolio Governance

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Principles of Portfolio Governance

1. Introduction

- 1.1. UK Government Investments (**UKGI**) manages a broad and diverse portfolio of organisations on behalf of Government. The portfolio ranges from public bodies such as Executive Agencies, with strong links to Government Departments, through to private limited companies.
- 1.2. The existing governance arrangements in place for these organisations, whilst sharing many characteristics and features, has evolved in different ways over time, tailored to the needs of the relevant organisations. As a result, there is no common approach.
- 1.3. Whilst we accept that every case is different, with the relationship with the sponsor department in particular varies from asset to asset driven by the nature of the formal position of the asset within the relevant department. However, there are certain key principles and governance arrangements which we aim to apply across the portfolio.
- 1.4. The purpose of this document is to set out the clear and consistent governance principles and processes that we expect to apply to our existing assets and which we aim to put in place for new organisations when they join the UKGI portfolio.
- 1.5. In general, a “comply or explain” approach is adopted by UKGI – we expect the key principles and the highlighted features of good governance set out in this guidance to be put in place unless there is good reason not to do so.

2. Principles

2.1. Individual organisations Taking the themes highlighted in the Financial Reporting Council's UK Corporate Governance Code as a model, UKGI applies the following general approach in managing its portfolio:

- **Leadership & governance**
 - We ensure appropriate governance frameworks are in place for the organisation
 - We make sure Board roles are clearly established and defined
 - We provide clarity on who in the organisation leads on the relationship with the shareholder (usually the Chair)
- **Effectiveness**
 - We advise upon Board appointments made by Ministers or public bodies, and help manage the appointment process where applicable
 - Where appropriate, we act as a representative for the Government on Board (and on Board sub-committees)
 - 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**
 - 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
 - We ensure the organisation's strategy is aligned with its sponsor department's objectives
 - We advise the sponsor department/relevant Government Ministers on whether to approve business plans
 - Where appropriate, we advise on setting annual budgets for organisations and we monitor financial performance throughout the year
- **Remuneration & accounting officer obligations**
 - We advise on remuneration, including, where relevant, whether this is compliant with Government objectives
 - We ensure the accounting officer (AO) for an organisation is aware of and complies with its AO obligations, where these apply
 - For assets funded by Government Departments other than HM Treasury (HMT), 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**
 - We develop and maintain clear lines of communication with the Chair, Board and Executive of each portfolio organisation
 - We would expect to have UKGI NED representation on the organisation's Board (at Director or Executive Director level)
 - We aim to maintain an effective regular meeting "rhythm" with Chair, Board and Executive, ensuring free flow of information through mutual trust
 - We promote and encourage a "no surprises" culture

2.2. The UKGI Portfolio In addition to the principles set out above for individual organisations, the portfolio of UKGI assets will be monitored and managed as follows:

- **Regular portfolio meetings**
 - Held quarterly or biannually, depending on the organisation
 - Allow escalation of significant risks/concerns to UKGI's Executive Committee (**ExCo**) and/or the UKGI's Risk and Assurance Committees
 - Issues identified can be escalated to UKGI's Board for review (if required).
- **Regularly updated risk registers for each organisation**
 - Reviewed by ExCo monthly and reported to the UKGI Board in summarised form.
- **UKGI Board "deep dives" on individual assets**
 - Held as appropriate to address any significant issues or concerns.

2.3. UKFI's approach UK Financial Investments (**UKFI**), a subsidiary company of UKGI that continues to operate with its own brand, Board, operating model, articles of agreement, framework document and investment mandate, is responsible for managing the Government's investments in financial institutions. UKFI follows similar governance principles when dealing with its investments, which are set out in the UKFI Stewardship Code.

3. Leadership & Governance

Key feature(s):

- *Ensure the appropriate governance frameworks in place, including a Chairman's Letter where appropriate*
 - *All Board roles and responsibilities to be clearly established and defined (and explicitly agreed with the organisation)*
- 3.1.** All UKGI organisations will have documented governance arrangements. Each will be unique and driven by the formal shareholder relationship to the organisation. Governance frameworks will also depend on the status and Government accounting classification of individual organisations. However, some common principles should be followed.
- 3.2.** The organisations within the UKGI portfolio broadly break down into Companies Act companies and Executive Agencies:
- Companies Act companies will operate through a fiduciary Board and will be governed through Articles of Association and, in many cases, a Framework Document. Both of these will establish the rights of HMG as shareholder and the role of UKGI will be to help the sponsor department exercise those rights; the relationship between UKGI and the relevant department will be set out in the MoU between UKGI and each department.
 - Executive Agencies are non-Companies Act organisations and will normally have their governance arrangements enshrined through a Framework Document. There may be ancillary agreements around specific issues such as remuneration. Types of Executive Agency vary and can range from separate departments in their own right through to Non-Departmental Public Bodies (**NDPBs**) and Trading Funds. Such organisations will also have defined roles for their Accounting Officer, with letters of delegation from the Principal Accounting Officer (normally the Permanent Secretary of the controlling department) covering issues such as financial delegations.
 - UKGI also manages minority shareholder stakes in several companies on behalf of Government. In these cases, the relationship between shareholders and the governance arrangements are typically set out in the articles of association (**Articles**) and shareholder agreement of the relevant organisation.
- 3.3.** In addition to the governance structures set out above, we would expect to issue an annual Chair's Letter. This letter provides the opportunity for UKGI to help the sponsor department set out the objectives and priorities for the organisation for the coming year and, if appropriate, the longer term, reflecting Government priorities. This should be discussed with any policy sponsor and then agreed with the Chair. He/she will then typically use the letter to set out Government's priorities with the Board and this process is often the best way to ensure alignment of the approach/decisions being taken at Board level with the wishes of HMG as a whole. The typical letter should include the following features:
- A brief summary of progress over the last year (and thanks, where appropriate).
 - A sense of the progress the Government, as shareholder, expect to see achieved during the period.
 - A summary of the key objectives for the business over the coming 12 months - in cases where objectives cover longer than 12 months, these should also be included but noted as such, and we should seek input from policy colleagues

where appropriate. They should reflect, but not be limited to, the objectives set out in the business plan agreed with Ministers.

- Specific targets we would expect the Board to achieve.
- Any issues around management/governance that would be appropriate to be shared.

- 3.4. The draft letter should be shared with the Chair in order to reach an agreed form, but a protracted negotiation on individual terms should be avoided. The letter should be written so it is suitable to be shared with the other Non-Executive Directors (**NEDs**) on the Board.
- 3.5. In the past, use of these letters has varied and their frequency can be anything from one to three years; in some cases they are not used at all. UKGI should aim to have in place an annual letter for all Chairs, as this also helps assess the Chair's performance during the year.
- 3.6. We would expect Boards to appoint a Senior Independent Director (**SID**) from amongst their number.
- 3.7. UKGI's CEO should have the opportunity each year, canvassing the views of other Board members where possible, to appraise the Chair's performance – in practice, this may be delegated to the relevant Director and would typically include the views of the SID.
- 3.8. In addition, UKGI should ensure regular (preferably annual) Board effectiveness reviews are carried out. The review should be seen as an opportunity to constructively draw out any areas for development, and link back performance to the organisation's objectives, the Board's terms of reference and other governance documents. At a minimum, these should be conducted by a third party once every three years. In between, the Chair could conduct the review and report back to UKGI, with the SID, where appointed, reviewing the performance of the Chair.
- 3.9. Within UKGI, there is an established Governance Framework which flows as shown below, and has these features and characteristics:
 - **UKGI - Shareholder relationship/role**
 - correct framework/MOU
 - appropriate governance 'levers'
 - clear policy/shareholder roles
 - **Shareholder – organisation relationship/role**
 - established frameworks for relationship with organisation
 - clear structures for decision-making
 - clarity on appointments process and policy
 - **Day-to-day shareholder relationship**
 - effective communication and clear interaction
 - strong working relationships built around trust
 - "no surprises" culture
 - **Regular reporting**
 - clarity on strategy
 - 5-year business plan
 - annual budget
 - reporting against budgets and business plan
 - monthly reviews

- **Internal UKGI structure**
 - Board
 - CEO
 - Director (overall responsibility)
 - Executive Director (**ED**) and Assistant Director (**AD**)/Manager team – responsible for day-to day management.

3.10. It is recognised that individual assets may have different processes as a result of their specific circumstances, with sponsor departments often playing a more involved role, but the Framework above may assist as a guide to best practice.

4. Board Appointments

Key feature(s):

- *Leading role for UKGI on Board appointments – particularly where these are Ministerial appointments*
- *Where appropriate, a UKGI representative on Board (and on Board sub-committees as relevant)*

- 4.1. One of the most important levers UKGI has in its governance role is its role in the appointment of an organisation's Board. In most cases this will be done by managing Ministerial approval of Board appointments, particularly NEDs. Even where appointments are made by a Board directly, we should where possible be fully involved on behalf of the sponsor department.
- 4.2. The role of UKGI/HMG in Board appointments will be set out in the Articles and/or Framework Agreement for each organisation. In most cases input in all NED appointments will be possible, but in others only appointment of the Chair and SID roles might be caught, with responsibility for appointment of other NEDs delegated to the Board.
- 4.3. In many cases the appointment of the CEO will be made by the Board with no formal role for Ministerial approval, but nevertheless UKGI should be involved from the outset on behalf of the shareholder/sponsor department, informing Ministers as appropriate.
- 4.4. The majority of Board appointments are Ministerial and will follow the public appointments guidance, recently updated following Sir Gerry Grimstone's review of the public appointments system, which can be found [here](#).
- 4.5. Whether a Ministerial appointment or otherwise, UKGI's involvement in Board appointments should generally include the following:
 - We (particularly the shareholder NED if appointed) should work with the Chair to ensure that role description and attributes sought take into account the overall needs of the Board and Government's priorities for the organisation.
 - We should ensure that the proposed remuneration for the post is proportionate and will allow the right calibre of candidate to be found, securing necessary agreement from HMT if required (see paras 4.6 below for more detail).
 - Where head hunters are to be used, we should help manage their selection and appointment in accordance with the relevant department's policies on head hunters and ensure they are aware of the Minister's views and the general requirements for public appointments.
 - We should aim for the UKGI shareholder NED, or another UKGI official (e.g. Director) to be on the selection panel (or advisory assessment panel for Ministerial appointments), and as such, be involved in longlisting, shortlisting and candidate interview stages.
 - Together with the sponsor department, ensure that Ministers' views are represented appropriately in the process at all stages and that Ministers are kept informed throughout, to allow them to take informed decisions where they have a role in the process.
- 4.6. Board appointments (both executive and non-executive) which are the responsibility of Ministers may also require approval from the Chief Secretary to the Treasury

(**CST**) for the remuneration offered, if it exceeds certain thresholds. Guidance on remuneration is set out in more detail at section 6 below.

5. Objectives, Strategy & Accountability

Key feature(s):

- *Leading role in testing overarching objectives and strategy*
- *Review of business plans, to be endorsed by the Board and approved by the shareholder and relevant Ministers*
- *Advising on annual budgets*

- 5.1. UKGI should provide guidance around the overarching objectives for each organisation, drawing on views of the sponsor department as shareholder and any relevant policy requirements. This should be communicated to the Board through the annual Chair's letter and reinforced where possible through UKGI's Board representation.
- 5.2. We should ensure that each organisation has a clear strategy and 5-year business plan, endorsed by its Board. This will normally be the basis for any executive incentive arrangements.
- 5.3. UKGI should scrutinise and review any business plan submitted for approval to the relevant Ministers.
- 5.4. The 5-year business plan should be reflected in a more granular annual business plan.
- 5.5. Both the 5-year and annual business plan should reflect the agreed funding envelope and relevant Spending Review settlement(s).
- 5.6. Flowing from the business plan, the organisation should produce an annual budget, against which performance will be measured on a month by month basis. UKGI should have a leading role in reviewing and agreeing these annual budgets on behalf of sponsor departments.
- 5.7. Both the business plans and annual budget will form a central plank of the standards against which any pay incentive plans will be assessed.
- 5.8. The business plans should be monitored during the year on an ongoing basis.

6. Remuneration & Accounting Officer Responsibilities

Key feature(s):

- Ensuring Board-level remuneration is compliant with Government objectives
- Ensure accounting officers aware of and comply with their AO obligations

- 6.1. **Remuneration** The remuneration for an appointment caught by Government controls needs to be agreed before the role is advertised, so the time taken to seek CST approval should be factored into your planning. Sponsor departments may also have their own internal remuneration approval processes to be followed before decisions on remuneration can be taken by Ministers, and should be checked with sponsor department contacts. UKGI should work with both the organisation and the sponsor department to ensure that clear arguments are developed to justify the pay proposed for Board roles, including use of relevant comparators and benchmarking.
- 6.2. Where appropriate, remuneration arrangements should include Short Term Incentive Plans (**STIP**) and Long Term Incentive Plans (**LTIP**). UKGI will have a leading role in ensuring these plans (and the incentives/behaviours that such plans drive) align with Government requirements, including all relevant policy areas.
- 6.3. The majority of non-executive roles will only need to seek CST approval once, as the remuneration will be fixed (e.g. an annual fee paid each year for a fixed three-year term). However, many executive roles will have an element of performance-related pay which may change each year, and these pay frameworks may need to be agreed by the CST annually.
- 6.4. The pay thresholds set by the [Cabinet Office 2013 review into senior pay](#) which trigger the need for CST approval are:
 - Remuneration greater than £142,500 per annum (the relevant guidance on remuneration non-ministerial departments and agencies, and for public sector workers in NDPBs can be found [here](#))
 - Any part time (including Chair, NED fees) remuneration where the full time equivalent (including any additional fees e.g. Committee chairmanship fees) exceeds £142,500 per annum
 - Any bonus payment (or potential bonus payment) greater than £17,500 – this threshold is pro-rated when assessing bonus arrangements for part-time roles
 - There are maximum thresholds for appointments working one day per week or fewer of (i) £28,500 per annum for base pay and (ii) £10,000 for bonus payments
- 6.5. **Managing Public Money** The public, and Parliament acting on their behalf, have a right to expect that funds raised using powers agreed by Parliament will be used for the purposes intended. Public servants have a demanding fiduciary duty to use public money responsibly. The full Managing Public Money guidance is contained [here](#).
- 6.6. Much of what managing public money, or MPM, requires is just good common sense, or sound financial management. There are also some specific rules and conventions about how certain things are handled, which ensure that policies, programmes and projects work smoothly and serve their intended purposes.
- 6.7. **Accounting Officers** MPM guidance requires each Government body appoint an Accounting Officer to ensure that its use of resources meets specific standards of

governance, decision-making and financial management. This is usually a senior decision-maker in the form of the Chair or CEO. UKGI should ensure an effective balance between the role of the AO and the fiduciary responsibility of the Board.

- 6.8. A clear line of communication should be established with the finance team of the sponsor department, and their input sought on financial management. Early engagement prior to annual review and on matters likely to affect the organisation's financial performance is strongly encouraged.

7. Relationship Management

Key feature(s):

- *Clear lines of communication with the Chair, Board and Executive*
- *Effective regular meeting “rhythm”, ensuring free flow of information through mutual trust*
- *Enshrining a “no surprises” culture*

7.1. The UKGI team must establish a regular meeting cycle to cover a range of areas. This should include any succession issues and review the organisation’s progress against its:

- (i) strategy;
- (ii) budgets (monthly); and
- (iii) annual and 5-year business plans (quarterly).

7.2. The UKGI team should find the most effective structure for these meetings while ensuring that all areas are covered on a regular basis and in the appropriate level of detail.

7.3. In addition, the UKGI team (particularly the responsible Director/ED) should have regular dialogue (through one-to-one meetings) with the Chair and CEO, as well as contact with the SID and other NEDs.

7.4. The respective roles of UKGI, the sponsor department and the Board should be clearly defined (including the split between the relevant department’s shareholder and customer roles, where applicable), allowing all parties to operate in an atmosphere of mutual understanding, while allowing each group to play its particular role as effectively as possible. It is essential to keep the sponsor department engaged, sharing information and giving the relevant decision-makers the opportunity to input where appropriate.

7.5. The underlying philosophy should be based on a “no surprises” culture. Honest, open and transparent dialogue is essential to allow this to develop.

8. Monitoring Portfolio Performance

Key feature(s):

- *Regular portfolio meetings*
- *Regularly updated risk register*
- *Use UKGI Board “deep dives” to explore complex issues*

8.1. UKGI has an established structure for managing and monitoring its portfolio assets. This comprises the quarterly or bi-annual portfolio review meetings, the UKGI Risk and Assurance Committee, ExCo and the UKGI Board.

8.2. The Portfolio reviews form the focal point for regular reviews of portfolio assets. These should occur quarterly for the larger or higher risk assets and bi-annually for others. Portfolio reviews should include a panel of 3-4 UKGI EDs and/or Directors. Quarterly and bi-annual reviews should be chaired by an ED, while annual reviews are chaired by the Director of the UKGI Portfolio.

8.3. The structure of a portfolio review is a document that should cover the following areas:

- (i) action points from the previous meeting;
- (ii) summary of areas the team would like to discuss;
- (iii) review of key developments since the last meeting, including progress against UKGI priorities;
- (iv) overview of financial performance, against budget, annual and 5-year plans, including commentary;
- (v) summary of operational performance;
- (vi) review of the organisation’s Board and management, remuneration issues and succession planning;
- (vii) performance against objectives for the organisation; and
- (viii) the proposed UKGI priorities for the next period.

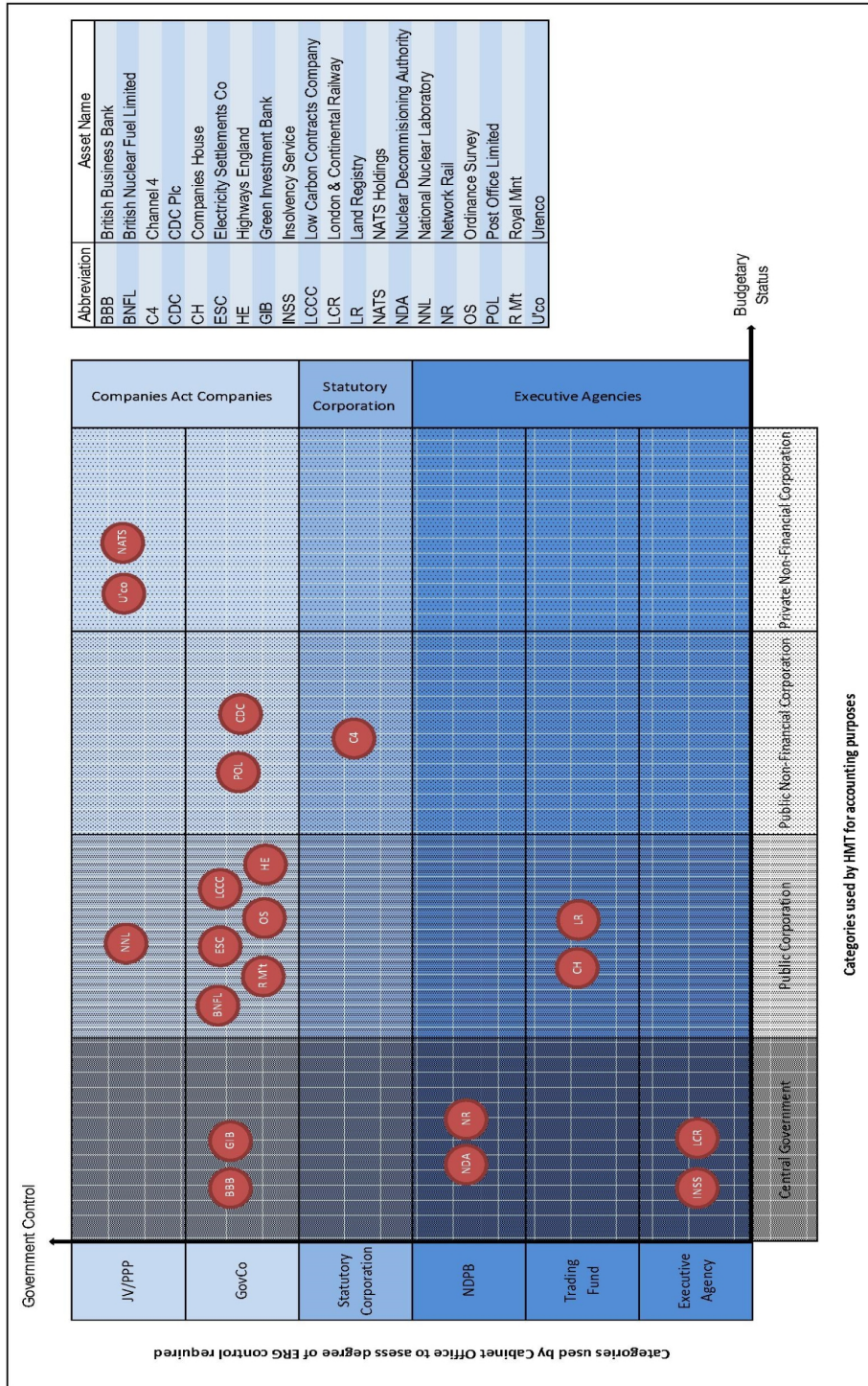
8.4. At the end of each review, the team and panel will consider whether there are any issues that need to be escalated to the UKGI Risk and Assurance Committee and/or ExCo.

8.5. The Risk and Assurance Committee and ExCo may then arrange meetings to cover specific aspects of risk or material decisions. Issues that come to the Risk and Assurance Committee and ExCo will then normally be reported to the Board as either a deep dive on a particular asset or as part of the CEO’s report.

ANNEX A: Possible Governance Documents

Name	Parties	Purpose	Key features
Chairman's Letter	UKGI/sponsor department	Setting out Government's aims and expectations for the company	Articulates the Chairman's objectives, with a particular focus on the next 12 months but also setting out longer term goals.
Articles of Association	Agreed between (i) UKGI/sponsor department, and (ii) the company	Setting out the company's constitutional arrangements as a company	Includes: <ul style="list-style-type: none"> The company's objectives; Decision-making processes; and Matters requiring shareholder consent. The articles are registered at Companies House and are available to the public.
Framework Document	(i) Sponsor department, and (ii) the company	To ensure that the company complies with the necessary policies and procedures (particularly around Managing Public Money)	Includes policies and procedures on: <ul style="list-style-type: none"> Recruitment and pay; Reporting and responsibilities; Business planning; and BIS SoS consent matters as shareholder.
Accounting Officer Letter	The Permanent Secretary of the sponsoring department (PAO)	To ensure that the taxpayer's money which is funding GovCo's activities is spent wisely.	The PAO will set out to the company's Accounting Officer their respective responsibilities to ensure all financial decisions made by the company are in accordance with the Managing Public Money principles.
Finance and Delegations Letter	(i) Sponsor department, and (ii) GovCo	To set out the financial arrangements between Government and company	Includes: <ul style="list-style-type: none"> GovCo's annual budget; Financial delegation thresholds; Matters requiring specific Government sign-off; and Reporting requirements.
Officer/Director Indemnity	(i) Sponsor department, and (ii) the company	To ensure robust legal protections against financial liabilities are in place for company office holders and directors	<ul style="list-style-type: none"> Any protections will be subject to the recipient not acting recklessly, but honestly and in good faith This does not and cannot include protection from criminal liability

ANNEX B: Categorisation of UKGI Portfolio



ANNEX C: Governance Resources Relevant to Companies in Government

Governance resources		Private company limited by shares or guarantee (Ltd)	Public company limited by shares (Plc)	NDPB which is incorporated
Applicable as a result of the legal structure	UK Code	No	Yes	No
	UK Code – smaller unlisted companies	Yes	No	Yes
	UK Stewardship Code	Yes (if exercising stewardship role)	Yes (if exercising stewardship role)	Yes (if exercising stewardship role)
	Disclosure and Transparency Rules	No	Yes	No
	Companies Act 2006	Yes	Yes	Yes
	Articles of Association	Yes	Yes	Yes
Applicable as a result of categorisation as a public body	Managing Public Money	Yes	Yes	Yes
	Code of Good Practice	Yes	Yes	Yes
	NDPB Code	No	No	Yes
	Public Appointments	Yes	Yes	Yes
	Framework Document	Yes	Yes	Yes

ANNEX D: Annual Governance Checklist

The ALB - Core Role and Strategic Objectives	[Name of ALB]
Core role, governance framework and strategic objectives set out in Framework Document?	
Government policy objectives communicated to ALB?	
Multi-year strategic plan in place?	
Annual business plan agreed with the Department?	
The Board - Membership	
Is a clear Board TOR in place and agreed with the Department?	
Is the CEO on the Board?	
Is the CFO on the Board?	
Is the Chair independent?	
What percentage of the Board is independent?	
Is Board effectiveness reviewed annually?	
Is Board effectiveness reviewed independently every 3 years?	

The Chair	
Is the Chair appointed by the Minister?	
Is Chair an independent NED?	
Does Chair set Board agenda?	
Does Chair have skills and experience to challenge executive team?	
Does Chair play key role in appointment of NEDs?	
Does Chair appoint the CEO?	
Does Chair play a role in setting CEO's objectives and KPIs?	
NEDs	
Are NEDs on fixed-term contracts of no longer than 3 years?	
Have any NEDs served more than 2 terms?	
Is there a Department NED?	

Board Sub-Committees	
Does Board have an audit/risk committee?	
Does the Board have a remuneration committee?	
Are any committees chaired by independent Board members?	
Does the skill-set of the committee reflect its activities?	
Interaction with the Department	
Does the CEO meet with the Permsec annually?	
Does the Chair have an annual standing meeting with the Minister responsible?	
Is there a quarterly performance review of the ALB by the Department?	
Is there a Chair letter setting out the Chair's KPIs?	
Are the ALBs strategic targets and objectives also communicated annually from Government?	
Is the Chair's performance evaluated annually by the Department?	

Accounting, Finance and Consent Matters	
Is the Permsec the PAO?	
Is the CEO the AO?	
Has the AO received training on the AO role?	
Is a clear delegation framework in place for spending decisions?	