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Guidance Note 18 The role of UKGI in ALB sponsorship

Updated May 2023

Introduction

Sponsorship is the activity that delivers effective relationships between departments and their arms-length bodies (ALBs). This document sets out the role of UKGI in supporting government's effective ALB sponsorship, and the value that we bring in that role through our Shareholder Non-Executive Directors (NEDs) and teams.

1. ALB sponsorship – the different roles

Government can have up to five sponsor responsibilities for its ALBs: customer; policy setter; funder; regulator; and owner / shareholder. If there are complex or significant trade-offs between government's different sponsor functions, they should be conducted separately with capable and dedicated resource. Defining and maintaining the relationships between these functions, and agreeing the behaviours, roles, and responsibilities is vital to enabling effective performance and accountability.

2. UKGI's role and responsibilities within ALB sponsorship

UKGI conducts the shareholder role on behalf of government departments for a portfolio of ALBs (our 'Assets'). To ensure comprehensive sponsorship of an ALB, **Figure 1** below provides a guide on how the different government sponsor functions dock in and the role of UKGI as shareholder within this. It should be used to ensure joined up sponsorship without duplication of functions.

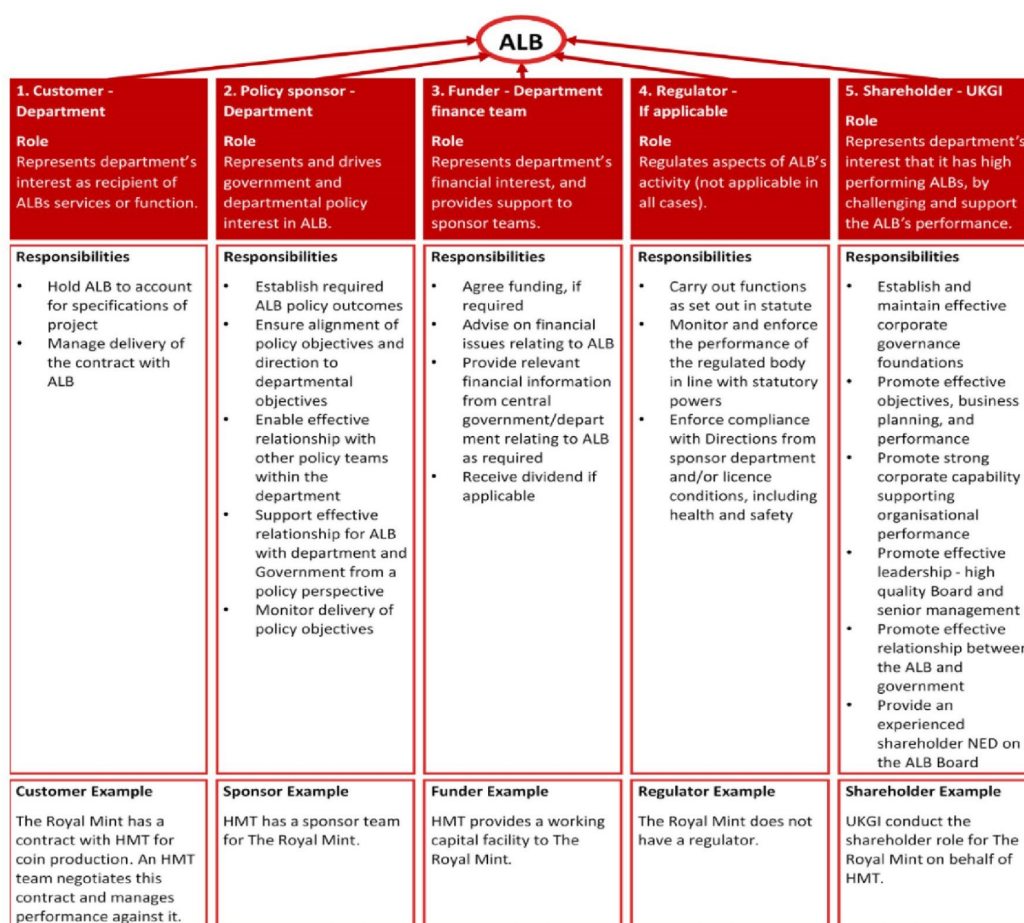


Figure 1: The roles and responsibilities of government’s sponsor functions for its ALBs

2.1 The UKGI target shareholder role

UKGI conducts a proactive shareholder role on behalf of departments to optimise ALB performance. The six key responsibilities of UKGI in our target shareholder role are included in the shareholder responsibilities box in **Figure 1**. The relationship between the department and UKGI should be set out in a Memorandum of Understanding (MoU) and includes the activities we are responsible for as shareholder. A Framework Document should define the relationship between the Asset, UKGI, and the department.

Our target shareholder role is designed to support and challenge our Assets’ governance and corporate performance, including financial. We do this to build shareholder value by promoting the Assets sustainable success. We typically perform this in two ways: by holding a Shareholder NED Board seat, and via a dedicated shareholder team.



2.2 The role of the Shareholder NED

The role of the Shareholder NED is an important governance lever in the performance of the shareholder role. The Shareholder NED normally attends the main Board and any required Committees. This provides UKGI, and (through it) the department, with an important line of sight into developments at the Asset.

UKGI would not recommend that a policy director from the department act as a Shareholder NED on an Asset Board. This is because actual or perceived conflicts may be created if an individual who makes policy decisions for the Asset also sits on the Board. Lines of accountability can also be confused, which detracts from the effectiveness and empowerment of the Board, and ultimately undermines the purpose of the Asset in operating at arm's length to government. It can also compromise the separation between the policy and shareholder functions, which best practice shows enables effective oversight and good governance.

i. Becoming a Shareholder NED

UKGI Shareholder NEDs are typically Directors or Executive Directors with the skills, background, and expertise appropriate to the needs of the Asset. UKGI actively manage our portfolio of Shareholder NED positions through a formal and rigorous succession planning process chaired by the CEO. This will ensure appointments are appropriate and is good practice risk management. This exercise is regularly completed from the top down, looking at what each Board position requires to be successful, and from the bottom up, building a pipeline of suitable aspiring Shareholder NEDs. We aim to maintain a consistent Shareholder NED on our Asset Board seats and reduce rotation where possible, but it may be required particularly if the needs of the Asset change.

Each Shareholder NED will have an induction with the Portfolio Director, Jamie Carter, General Counsel, Lucie Lambert, and Sam Baker Head of L&D. An overview of the induction can be found [here](#).

ii. The role of the Shareholder NED

The Shareholder NED has the same duties as the other Directors on the Asset's Board. However, they also have additional responsibilities as Shareholder representative on the Board. Therefore, their typical role is to:

- Fulfil the relevant statutory and/or fiduciary duties of a Director under the Companies Act, acting in a way which is most likely to promote the success of the Asset for the benefit of its shareholder whilst having appropriate regard to other stakeholder interests
- Contribute to the overall strength of the Board by bringing appropriate skills and expertise
- Contribute expertise in best practice corporate and government governance
- Facilitate the relationship and understanding between the department and the Asset, including:
 - Sharing the context of the department's objectives and perspective (established through regular meetings with departmental officials and Ministers to discuss Asset developments and relevant government interests) to the Board to aid its decision-making
 - Whilst fulfilling their duties of confidentiality as a member of the Board, providing a direct line of sight to the department on developments at the Asset and the quality of the Board and management in the performance of their functions
 - Supporting wider relevant government stakeholder relationships

iii. How the role of the Shareholder NED differs from other NEDs

Unlike the other Asset Board NEDs, the Shareholder NED is not appointed to provide specific subject matter expertise, but to facilitate the relationship between the department and the Asset. Whilst



the Shareholder NED has the same responsibilities as the other Board NEDs, their additional shareholder responsibilities means they need to wear two 'hats', which are acting in the interests of the Asset, and of the shareholder.

In rare circumstances there may be an actual or perceived conflict between the interests of the Shareholder NED as the shareholder representative and the interests of the company. This may require the Shareholder NED to recuse themselves from specific Board decisions in extreme circumstances. If this happened regularly UKGI would consider the appropriateness of the role of the Shareholder NED as shareholder representative.

UKGI Shareholder NEDs hold their posts as ex officio members of UKGI and should cease their Asset directorship if they leave UKGI. They will not receive additional remuneration for their NED role outside of their UKGI salary. UKGI Shareholder NEDs should receive indemnities from the department, which may require HMT approval.

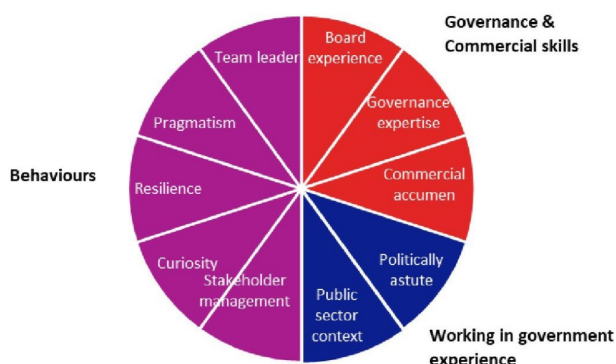
iv. Knowledge, skills, and attributes of a successful Shareholder NED

To be a successful Shareholder NED and effectively wear the two 'hats', the following knowledge, skills, and attributes are generally required and are set out in **Figure 2**:

- **Deep governance expertise** to undertake fiduciary responsibilities, understand the public sector governance landscape and drive governance best practice
- **Politically astute** in interpreting the political landscape for the ALB, recognise reputational risks to HMG, and be an able interlocuter between the ministerial office, government department and ALB
- **Operates effectively in a public sector context** and in particular helps the ALB leadership team: i)) translate policy into strategy ii) deliver against complex (and sometimes contradictory or ambiguous) objectives and iii) work prudently against a backdrop of financial constraint
- **Exceptional stakeholder management skills** using soft power to influence effective ALB results by developing active communication channels amongst a range of stakeholders. This includes in particular the ALB Chair, the Board, its senior leadership team and relevant senior officials within the department
- **Strong commercial acumen and financial literacy** and able to draw on deep experience of business planning and performance monitoring including provision of financial insight and a balanced approach to risk management
- **Confidence to be curious and persistent** when an issue or risk is identified and knows how to mitigate, seek expertise from elsewhere and/or escalate in an appropriate way
- **Resilience** to represent the shareholders position when the majority of the Board hold different views
- **Pragmatism** and the ability to operate in grey areas given the dual hatted nature of our role, including knowing when to recuse from the Board
- **Effective team leader** of the UKGI Shareholder team

Each Asset will require a different mix of the above skills, and these are carefully considered by UKGI to recruit and appoint the right person.

Figure 2: Knowledge, skills, and attributes of a successful Shareholder NED



We look to enhance these areas through our dedicated learning and development programme.

2.3 Shareholder teams

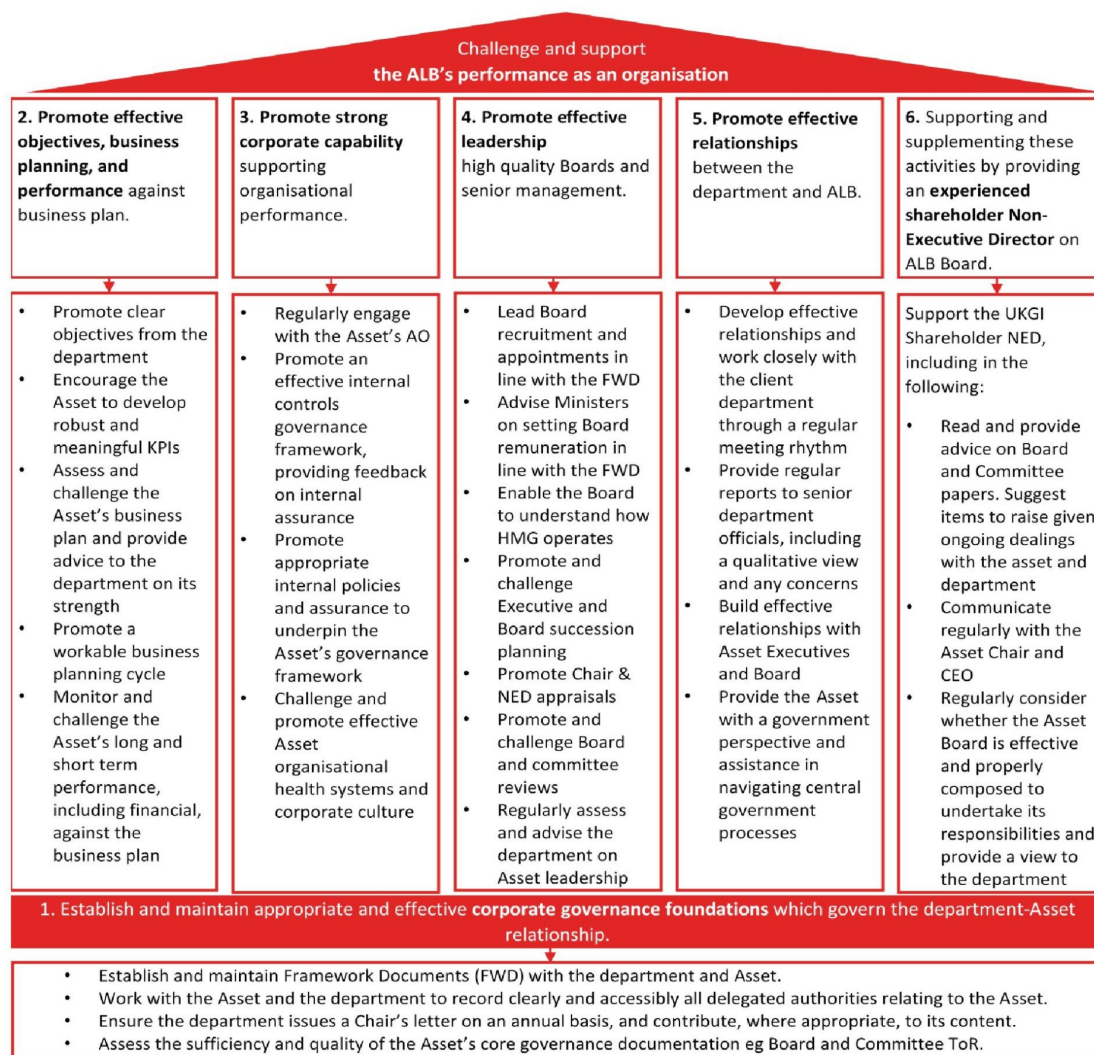
UKGI's shareholder responsibilities are much wider than the appointment of a Shareholder NED and are carried out by shareholder teams. A NED only role is the only instance when a UKGI NED may not be supported by a team, but they still utilise the wider expertise of UKGI. In this role UKGI doesn't perform the typical shareholder activities, but primarily acts as an interlocutor between government and the Asset. It is not our preferred shareholder role as it limits our ability to add value, and we have reduced the number of these we have.

i. Responsibilities of the shareholder team

UKGI's target shareholder role activities are set out in the MoU between UKGI and the relevant department. How we carry out these activities is outlined in our [Portfolio Operating Principles](#) (POPs). The POPs are a 53-page internal document that provides guidance for shareholder teams on how to perform the target shareholder role. The target responsibilities of shareholder teams are summarised in **Figure 3** below across the six principles.

Each year UKGI should agree their objectives against the MoU and POPs with the department and provide a regular update on progress.

Figure 3: The target shareholder role as set out in the UKGI Portfolio Operating Principles (POPs)



There are certain activities UKGI does not do, including but not limited to: setting government policy; assuring satisfaction of policy objectives; mediating between departments on policy conflicts; assuring or approving business cases; assuring or approving procurement activity; determining funding allocation or funding strategy. These activities are the responsibility of other sponsorship functions or the Asset, and if UKGI were to do them it would compromise the separation between them, and could impact effective Asset sponsorship.

However, our approach and work will differ depending on the government's shareholder relationship and as we ensure to fulfil the required role in any legislation or legally binding documentation.

ii. Responsibilities of the team leader

The Shareholder NED generally leads the shareholder team and will often be the senior point of contact with senior department officials, senior Asset staff and their Board. This includes overseeing performance of the Asset through regular shareholder meetings, as well as often representing UKGI in any recruitment process to the Asset Board where UKGI has a role.

The team leader will also allocate the roles and responsibilities from the POPs across the shareholder team. This distribution will vary between teams and should be reviewed regularly to ensure the activities are carried out by the most suitable team member.



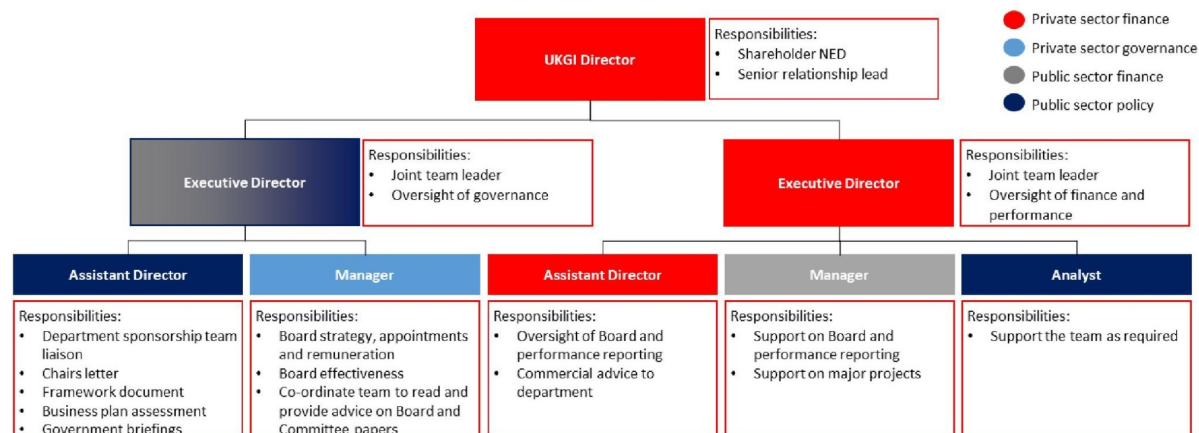
The department, especially senior departmental officials, will regard the Shareholder NED as both a point of contact, day-to-day, with the Asset's Board and a facilitator of information flow in both directions, as well as an important evaluator of the performance of the Asset's Board and management. However, the shareholder team will manage stakeholders at all levels and their continuous effective engagement with the department and Asset is fundamental to understanding and delivering the shareholder priorities.

The Shareholder NED should make sure that the department receives regular and timely performance information regarding the Asset from the shareholder team. They should also provide a qualitative and candid assessment of Board and Executive performance, morale, and relationship with Government as necessary. In order to do so, it is vital that the Shareholder NED maintains an effective relationship with the Board and senior management of the company, the relevant senior officials within the department, and other stakeholder groups.

iii. Skills required within shareholder teams

UKGI shareholder teams are resourced according to the skillsets and experience required to best serve our clients and Assets, so can vary considerably. Team composition is regularly reviewed and will be adapted over time depending on our role, risk profile, and complexity of the current issues. They range from less than one to more than five full time dedicated people across a range of grades, with an average of 1.6 full time equivalents. Teams generally include an Executive Director who may be the UKGI Shareholder NED, an Assistant Director, and a Manager. **Figure 4** below gives an example of a shareholder team in UKGI and the mix of seniority and expertise alongside their overall responsibilities.

Figure 4: Nuclear Decommissioning Authority shareholder team



Shareholder teams also benefit from access to additional central specialist expertise across UKGI, for example the internal Legal, Procurement, Project Management Office, Appointments, and Remuneration functions.

iv. Challenging and supporting shareholder teams

UKGI has tailored infrastructure and processes to support consistent delivery of the shareholder role. **Figure 5** below shows the three key areas and the supporting activities that challenge and support shareholder teams to be successful.



Figure 5: The infrastructure and support processes for Shareholder Teams

Assurance	L&D	Best practice
<ul style="list-style-type: none"> • Portfolio Review Panels are internal peer reviews conducted at least annually for all shareholder teams and chaired by a UKGI Director. They provide assurance and quality control to manage issues, assess performance, consistency, and share best practice. • UKGI has a robust risk management process with reporting every 2 months reviewed and mitigated in line with UKGI's risk appetite statement. • Each year the Board assess our shareholder performance, informed by feedback from key stakeholders and an assessment against performance indicators; teams also evidence where they have made a difference and added value. • This is supplemented by feedback on UKGI's performance from regular engagement between UKGI's Chair and CEO with senior department sponsors and Asset Chairs. 	<ul style="list-style-type: none"> • Shareholder teams and NEDs have access to a tailored Corporate Governance Development Framework. This provides staff with opportunities at different stages in their careers, and also sets out the core mandatory training required to be on a shareholder team. • There are specific Shareholder NED development opportunities which include professional development days and masterclasses. Aspiring NEDs also have a tailored programme of opportunities including formal training and experiential learning. • Shareholder teams have a lessons learned database to learn from and share with others. Lessons learned sessions are also conducted at key stages. These are then shared at the weekly huddle, Corporate Governance Group, and in the monthly Corporate Governance Newsletter. 	<ul style="list-style-type: none"> • The UKGI Portfolio Operating Principles set out UKGI's target shareholder model. This is supported by Guidance Notes which give teams detailed practical guidance for how to conduct each activity. • The monthly internal Corporate Governance Group forum enables the sharing and developing of house views and best practice. • The internal Shareholder NED forum enables UKGI Shareholder NEDs to share relevant experiences and discuss issues they may face. • A monthly Corporate Governance newsletter enables shareholder teams and NEDs to share and hear best practice and topical items. • Shareholder teams also have access to in house expertise such as a Project Management Office, Procurement, Appointments, and Remuneration teams.

3. Conclusion

UKGI acts as a proactive shareholder on behalf of government for its ALBs by supporting and challenging their governance and corporate performance. Our Shareholder NEDs and teams bring a unique blend of specialist corporate governance and corporate finance expertise, supported by senior resource and infrastructure. In this role we specifically bring:

- **Deep specialist expertise** in applying private sector governance disciplines to a government setting, reflecting the nature of the challenging interface where more complex or commercial ALBs operate
- **Portfolio knowledge and experience** gained from working across government on multiple Assets, enabling us to share learnings of cross-departmental perspectives and issues, and act as a consultation point for best practice corporate governance across HMG
- **Senior, stable & experienced resource** with colleagues from the private sector and civil service, who combine financial, commercial, portfolio management and government expertise, and are Board-experienced on public and private sector organisations. Relative to departments we manage a lower rotation model with more consistent teams, building Asset-specific knowledge and relationships
- **A continuous focus on continuously maintaining and developing our expertise** within the rapidly evolving field of corporate governance, through bespoke training programmes and seminars as well as via a secondment programme, bringing in relevant private sector and HMG expertise. The execution of our role is underpinned by our internal portfolio management and quality assurance systems
- **Strong networks** within government and across ALB Chairs, Board members and management teams, as well as with specialist advisors

Departments should seek advice from UKGI on complex or significantly commercial ALBs to optimise performance, as stated in Managing Public Money¹.

¹ [MPM_Spring_21_with_annexes_080721.pdf \(publishing.service.gov.uk\)](#)