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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 armslength 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.

1. Customer - Department Role Represents department's interest as recipient of ALBs services or function.	2. Policy sponsor - Department Role Represents and drives government and departmental policy interest in ALB.	3. Funder - Department finance team  Role Represents department's financial interest, and provides support to sponsor teams.	4. Regulator - If applicable Role Regulates aspects of ALB's activity (not applicable in all cases).	S. Shareholder - UKGI Role Represents department's interest that it has high performing ALBs, by challenging and support the ALB's performance.				
Hold ALB to account for specifications of project     Manage delivery of the contract with ALB	Responsibilities  Establish required ALB policy outcomes  Ensure alignment of policy objectives and direction to departmental objectives  Enable effective relationship with other policy teams within the department  Support effective relationship for ALB with department and Government from a policy perspective  Monitor delivery of policy objectives	Responsibilities  Agree funding, if required  Advise on financial issues relating to ALB  Provide relevant financial information from central government/depart ment relating to ALB as required  Receive dividend if applicable	Responsibilities  Carry out functions as set out in statute  Monitor and enforce the performance of the regulated body in line with statutory powers  Enforce compliance with Directions from sponsor department and/or licence conditions, including health and safety	Responsibilities  Establish and maintain effective corporate governance foundations  Promote effective objectives, business planning, and performance  Promote strong corporate capability supporting organisational performance  Promote effective leadership - high quality Board and senior management  Promote effective relationship between the ALB and government  Provide an experienced				
Customer Example	Sponsor Example	Funder Example	Regulator Example	shareholder NED on the ALB Board  Shareholder Example				
The Royal Mint has a contract with HMT for coin production. An HMT team negotiates this contract and manages performance against it.	HMT has a sponsor team for The Royal Mint.	HMT provides a working capital facility to The Royal Mint.	The Royal Mint does not have a regulator.	UKGI conduct the shareholder role for The Royal Mint on behalf of HMT.				



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 decisionmaking
  - 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.

### 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 <u>Portfolio Operating Principles</u> (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)



#### Challenge and support the ALB's performance as an organisation 2. Promote effective 3. Promote strong 4. Promote effective 6. Supporting and 5. Promote effective objectives, business corporate capability leadership supplementing these relationships planning, and supporting high quality Boards and activities by providing between the performance against organisational senior management. department and ALB. an experienced business plan. performance. shareholder Non-Executive Director on ALB Board. Promote clear Lead Board Develop effective Regularly engage Support the UKGI objectives from the recruitment and relationships and with the Asset's AO Shareholder NED, department appointments in work closely with Promote an including in the line with the FWD the client Encourage the effective internal following: Asset to develop controls Advise Ministers department robust and on setting Board through a regular Read and provide governance meaningful KPIs framework, remuneration in meeting rhythm advice on Board Assess and providing feedback line with the FWD Provide regular and Committee challenge the Enable the Board reports to senior on internal papers. Suggest Asset's business assurance to understand how department items to raise given plan and provide **HMG** operates officials, including Promote ongoing dealings advice to the appropriate Promote and a qualitative view with the asset and challenge department on its and any concerns internal policies department strength Executive and **Build** effective and assurance to Communicate Promote a underpin the Board succession relationships with regularly with the workable business Asset Executives Asset's governance planning Asset Chair and Promote Chair & planning cycle and Board CEO framework Monitor and NED appraisals Provide the Asset Regularly consider Challenge and challenge the promote effective Promote and with a government whether the Asset Asset's long and challenge Board perspective and Board is effective Asset short term and committee assistance in and properly organisational performance, reviews navigating central health systems and composed to including financial. Regularly assess corporate culture government undertake its against the and advise the processes responsibilities and department on business plan provide a view to Asset leadership the department 1. Establish and maintain appropriate and effective corporate governance foundations which govern the department-Asset relationship. Establish and maintain Framework Documents (FWD) with the department and Asset.

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

Work with the Asset and the department to record clearly and accessibly all delegated authorities relating to the Asset. Ensure the department issues a Chair's letter on an annual basis, and contribute, where appropriate, to its content. Assess the sufficiency and quality of the Asset's core governance documentation eg Board and Committee ToR.

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.

Private sector finance Responsibilities: Private sector governance Shareholder NFD **UKGI Director** Senior relationship lead Public sector finance Public sector policy Responsibilities Responsibilities: Joint team leader Joint team leader Executive Director **Executive Directo** Oversight of governance Oversight of finance and performance Assistant Director Assistant Directo Responsibilities: Responsibilities: Responsibilities: Responsibilities: Responsibilities: Department sponsorship team Board strategy, appointments Oversight of Board and Support on Board and Support the team as required liaison performance reporting performance reporting and remuneration Board effectiveness Commercial advice to Chairs letter Support on major projects Framework document Co-ordinate team to read and department Business plan assessment provide advice on Board and

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

Assı	Assurance			Best practice	
•	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	•	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	•	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.
	practice.		shareholder team.	•	The monthly internal Corporate Governance Group forum enables the sharing and
•	UKGI has a robust risk management process with reporting every 2 months reviewed and	•	There are specific Shareholder NED development opportunities which include		developing of house views and best practice.
	mitigated in line with UKGI's risk appetite statement.		professional development days and masterclasses. Aspiring NEDs also have a	•	The internal <b>Shareholder NED forum</b> enables UKGI Shareholder NEDs to share
•	Each year the <b>Board assess our shareholder performance</b> , informed by feedback from		tailored programme of opportunities including formal training and experiential learning.		relevant experiences and discuss issues they may face.
	key stakeholders and an assessment against performance indicators; teams also evidence where they have made a difference and added value.	•	Shareholder teams have a lessons learned database to learn from and share with others. Lessons learned sessions are also	•	A monthly Corporate Governance newsletter enables shareholder teams and NEDs to share and hear best practice and topical items.
•	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.		conducted at key stages. These are then shared at the weekly huddle, Corporate Governance Group, and in the monthly Corporate Governance Newsletter.	•	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 Money<sup>1</sup>.

<sup>&</sup>lt;sup>1</sup> MPM\_Spring\_21\_with\_annexes\_080721.pdf (publishing.service.gov.uk)