



**UK Government  
Investments**

**Company No. 9774296**

**UK Government Investments Limited**

**(the “Company”)**

**27-28 Eastcastle Street, London W1W 8DH**

Agenda for a meeting of the Audit and Risk Committee

held at

Room 3K, 1 Victoria Street, London, SW1H 0ET

On 16 June 2016 at 9.30 a.m.

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Present:           Jane Guyett (in the Chair)  
                         Robin Lawther  
                         Simon Palley

In attendance:    Robert Swannell  
                         James Leigh-Pemberton  
                         Mark Russell  
                         Nike Kojakovic  
                         Rachel Mortimer  
                         Julie Price  
                         Jeremy Ankers

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- 1. Declarations of interest**
- 2. Minutes from previous meetings (19<sup>th</sup> May 2016)**

#### **2.1 Action log**

#### **Items for discussion**

3. Review of the UKGI strategic and operational risk register (**UKGI-ARC-9, 9a**)
4. Risk appetite statement for UKGI (**UKGI-ARC-10**)
5. National Audit Office – audit completion report (**UKGI-ARC-11, 11a**)

#### **Items for information**

6. Final draft of the Annual Report and Accounts (**UKGI-ARC-12, 12a**)



**UK Government Investments Limited  
(the "Company")**

**27-28 Eastcastle Street, London W1W 8DH**

Minutes of a meeting of the Audit and Risk Committee held at

1 Victoria Street, London, SW1H 0ET

On 19<sup>th</sup> May 2016 at 14:30

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Present: Jane Guyett (in the Chair)

Robin Lawther

In attendance: Mark Russell

James Leigh-Pemberton

Robert Swannell

Simon Palley

Nike Kojakovic

Jeremy Ankers

Rachel Mortimer

Peter Moreland (NAO)

Amy Manning (NAO)

Neil Chapman (GIAA)

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**1. Declarations of interest**

Each Director of the Company who had an interest under sections 177 and/or 182 of the Companies Act 2006 declared such an interest and it was noted that, in accordance with article 7 of the Company's Articles of Association, each such Director was entitled to vote in respect of any proposed matter in which he was interested and that each such Director was entitled to be (and was) taken into account in ascertaining whether a quorum was present.

**2. Minutes from previous meeting**

The minutes from the 27<sup>th</sup> January 2016 audit and risk committee meeting were approved.

### 3. Items for discussion

#### 3.1. UKGI approach to risk management

The Chief Operating Officer (COO) presented an updated proposal for UKGI's approach to risk management. The paper sought to address three challenges posed at the January meeting:

- How the committee could be satisfied on the consistency of risk reporting across UKGI;
- How members of the committee could be more integrated into operational risk committees;
- Whether a statement of 'risk appetite' would be appropriate for UKGI

The COO explained that the first point would be addressed through production of bespoke risk rating guidance for each area of UKGI, including a risk framework. Training and support will be provided to risk register owners and reviewers and there will be regular sample auditing of risk registers, assessed against the risk framework. Members of the audit and risk committee will receive a standing invite to operational risk committees.

The COO explained that the creation of a statement of risk appetite for UKGI is complicated by the diversity of UKGI's activities. Although acknowledging this point, the committee questioned whether the appetite of UKGI itself for risk was in fact zero, and simply reflected the government's risk appetite. The COO agreed to consider this point further with the risk team.

**Action:** for the team to consider whether it would be appropriate for the organisation to have a risk appetite statement.

The committee discussed the split of responsibilities between the Board and the committee and agreed that the committee should be concerned with the process of risk management, whereas the Board should focus on the detail. The committee asked the company secretary to ensure the Terms of Reference suitably reflected this split. The committee also asked for the paper to be clarified to make clear that any risk matters which are urgent and significant should be escalated directly to the UKGI Chair, in addition to the audit and risk committee.

**Action:** to amend the terms of reference to reflect the split of responsibility between the board and ARC, the Board to focus on the detail of the risk and the ARC to focus on the risk management process.

Finally the committee noted that resource had been diverted from the risk team in recent weeks to assist with work on steel. The committee agreed that temporary resource would be found for the next 6 months, to be overseen by the COO.

**Action:** for the COO to arrange for temporary resource to support the risk work.

#### 3.2. National Audit Office Audit Planning Report

Peter Moreland and Amy Manning of the National Audit Office (NAO) presented their Audit Planning Report for UKGI for the financial year 2015/2016. The audit will be focussed predominantly on the presumed risk of management override of controls, as well as the risks around the format of the accounts, given UKGI is a new body. They will specifically be seeking reassurance from HM Treasury that the setup costs for UKGI will not be recharged.

Audit fees are estimated at £6,250.

The NAO asked the committee whether they were aware of:

- any actual, suspected or alleged fraud within UKGI
- any non-compliance with applicable laws or regulations
- any actual, suspected or alleged irregularities

The committee confirmed that they were not aware of any such incidents.

The committee agreed that the NAO team would attend the June committee meeting to present their Audit Completion Report.

**Action:** NAO to present the Audit Completion Report at the June meeting.

### 3.3. **Government Internal Audit Agency Plan**

Neil Chapman of the Government Internal Audit Agency (GIAA) introduced himself to the committee, explaining that he also held roles as Deputy Head of Treasury Internal Audit and Head of Internal Audit Government Legal Department. He had also worked on internal audit for UKFI. During the coming financial year the GIAA proposes to audit:

- the embedding of the transition to UKGI
- the alignment of UKGI to the HMT Oracle upgrade
- UKGI's risk management
- UKGI's business continuity planning
- the effectiveness of the UKGI Board

The proposed fees for internal audit services are £9,570.

The committee agreed to the audit plan.

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Chair of the meeting

Audit and Risk Committee action log

Committee action date	Current actions	Owner	Suggested target date
19th May 2016	To for the team to consider whether it would be appropriate for the organisation to have a risk appetite statement.	Julie Price	June ARC
	To amend the terms of reference to reflect the split of responsibility between the board and ARC, the Board to focus on the detail of the risk and the ARC to focus on the risk management process	Nike Kojakovic	
	For the COO to arrange for temporary resource to support the risk work.	Rachel Mortimer	June ARC
	NAO to present the Audit Completion Report at the June meeting.	Jeremy Ankers	June ARC
Committee action date	Closed actions	Action completed by	Notes
19th May 2016	The Committee agreed that Jane Guyett would attend future ShEx Risk & Assurance Committee meetings to better understand the ShEx process, which will be continued in UKGI.	Dominic Hastings	
	The Committee will be provided with a copy of the (KIM) project report.	Jeremy Ankers	
	The Committee emphasised that the approach to risk management must be consistent across UKGI. The process must be systematic and minimise judgment calls to ensure such consistency. The process must also be clear to allow the Committee to be assured. The Committee asked the ShEx Risk Management team to consider the points raised and document a process to meet these requirements.	Dominic Hastings	



**UK Government Investments Limited**

**(the “Company”)**

**27-28 Eastcastle Street, London W1W 8DH**

Paper for the Audit & Risk Committee

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**Topic:** Strategic Risk Register – Cover Note

**Date:** 7<sup>th</sup> June 2016

**Author:** Jeremy Ankers

**Ref:** UKGI-ARC,9, UKGI-ARC-9a

**Category:** Paper circulated for information

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**Purpose**

1. The UKGI risk team brought a revised paper on UKGI’s approach to risk management to the May ARC meeting. The ARC agreed to the approach proposed, which included the creation of two top-level risk registers. These risk registers will cover respectively:

- operational and strategic risks; and
- UKGI asset sales, corporate finance and governance - “projects.”

2. During the discussion at the May ARC meeting, and subsequently at the full Board, there was a discussion as to whether UKGI should have a statement of risk appetite. This question is addressed at the next item at paper, UKGI-ARC-10.

3. An initial draft of risk register 1, covering operational and strategic risks, is attached. An initial draft of risk register 2 is currently under development.

## WORK IN PROGRESS: UKGI-Operational &amp; Strategic Risk Register

The UKFI risk register is intended for quarterly Audit and Risk committee review for the top risks to be presented to the Board.		The risk statements are aligned to UKGI's objectives for 2016/17 and any activities required to support the objectives. Risk statements should be reviewed on an annual basis when objectives are set.		Sub risks which derive from the risk statement.		The controls which are currently in place and are managed by the risk owner.		Member of the UKGI team		Risk Rankings Key based on UKFI's future actions Impact score: 1 = low, 2 = low/ medium, 3 = medium/ high, 4= high Likelihood score: 1 = low, 2 = low/ medium, 3 = medium/ high, 4= high RAG score: Green= 1 to 4, Amber= 5 to 6, Red= 7 to 8						
Risk ID		Risk statement		Sub-risks		Controls in place		Risk Owner		Forward look and future actions		Impact	Likelihood	Risk score	Risk rating	Change
Operational risks	O1	UKGI cannot deliver required objectives due to operational constraints.	Financial dependency on HMT for operating budget and financial systems to support operational requirements.	Maintaining a good working relationship with HMT finance and submitting a transparent budget ahead of the main HMT budgeting cycle.	Nike Kojakovic	Rem framework agreed. Interviews for CFO role taken place. Second interviews with CEO and Chair for two preferred candidates w/c 6/6/16.	3	1	4	G	↔					
			UKGI receives a qualified audit report, so that confidence in the financial management of the company is be questioned by its shareholder.	Having a professionally qualified individual in the head of finance role with sufficient resource to carry out the role required and ensuring there is a clear audit plan with the NAO.	Nike Kojakovic											
			Inability to react within required timescales due to cabinet office approval requirements.	Where possible to plan activities requiring these approvals in advance and accepting slippage risk.	Rachel Mortimer											
	O2	UKGI is unable to retain key members of staff, or recruit staff of the required quality or in the timescales needed.	Public sector pay restrictions restrict attractiveness of roles in UKGI.	Ensure remuneration committee maintains flexibility and maximises budget availability for pay.	Nike Kojakovic	Civil Service advert for HEOs has attracted four applications, all to be interview 9/6/16. Civil Service advert for G7 closes midnight 03/06/16.	4	1	4	G	↔					
			Secondment opportunities in UKGI not taken up by CS staff	Management to work with staff to find areas of development for which are unique to UKGI and widen staff's skillset. Wider promotion of opportunities and benefits of working in UKGI.	Rachel Mortimer											
			A number of PAs are agency staff leaving UKGI open to the risk of losing them at short notice.	Ensure temps feel fully engaged and Head PA to ensure she is aware of any likely leavers or issues. Recruit a number of permanent PA to lower the dependancies on agency staff.	Rachel Mortimer											
			Work levels place undue pressure on staff well being.	Ensure LM's are alert to the signs of stress and over-working.	Rachel Mortimer											
	O3	UKGI's systems fail.	Key person dependencies in key roles.	Ensure active and open communication with staff about personal intentions to help with HR manager's HR plan for organisation and develop succession plans for key roles	Rachel Mortimer	COO and corporate team to flag importance of monitoring/identifying stress. Monitor absence levels/reasons via Oracle reports. Look to reassign resources where possible when required.	2	4	6	A	↔					
			UKGI's ICT system fails.	UKGI - mitigation dependent on what IT systems and controls are in place for failure.	Nike Kojakovic											
			Business is interrupted by an external event.	UKGI has a business continuity plan.	Rachel Mortimer											
Strategic Risks	O4.	UKGI's reputation suffers negatively for any reason.	Security breaches resulting in information leaks.	Staff induction, training and policies include guidance on handling corporate information.	Rachel Mortimer	Business continuity plan has been drafted and is awaiting comments before going to COO for signature. UKGI seminar programme included a presentation by Richard Lester, HMT Departmental Security Officer - 19/05/16. Constantly reviewing induction pack.	3	3	6	A	↔					
			Public commentary on UKGI is not managed appropriately.	A communication person is still to be identified.	Rachel Mortimer											
			Staff fail to conduct themselves with the professionalism and integrity required, damaging the company's reputation, resulting in negative stakeholder reaction, an inability to recruit staff and motivate existing staff.	UKGI has a draft stated compliance policy and HR policies intranet pages which staff are required to follow. Expenses are signed off by the COO and Accounting Officer where appropriate. Any negative staff behaviour is addressed as and when it occurs.	Rachel Mortimer											
			UKGI is unable to respond to FOI or correspondence requests within required time frames, so that it is in breach of legal requirements.	UKGI has implemented a new enquiries system and is actively monitoring response times.	Rachel Mortimer											
			UKGI is not seen as being arms length from government, leading to public criticism of, and loss of confidence in, UKGI.	The Directors of UKGI to consider and approve all material pieces of advice to Ministers and public statements by UKGI. Use programme of engagement with media, TSC appearances etc to explain UKGI's role and governance.	Rachel Mortimer											
	S1	UKGI does not maintain a positive relationship with HMT and Ministers.	UKGI's reputation may be jeopardised by a breakdown in relationships.	To have ongoing engagement with HMT and Ministers, providing value added information where appropriate.	Mark Russell	Rem framework agreed Comms job advert to be compiled and published.	4	2	6	A	↔					
			UKGI is not able to convince Ministers that its recommendations are aligned with the organisation's mandate.	Ensuring high quality advice is prepared and presented to Ministers and that private offices are briefed in advance as well as working with dept colleagues to ensure all objectives are appropriately represented where appropriate.	Mark Russell											
	S2	UKGI does not maintain a positive relationship with all Government Departments and their Ministers.	Ensuring that in answering ad hoc HMT queries, the response is taken as formal advice.	Regular communication with HMT and clarification of support required at all times.	Rachel Mortimer	Regular review sessions to be arranged.	4	2	6	A	↔					
			UKGI's reputation may be jeopardised by a breakdown in relationships.	Work with Ministers/Senior Officials in Departments to understand their issues/concerns and provide updates on progress. Carefully drafted framework agreements and arrangements (MoUs) with Departments crucial.	Rachel Mortimer											
			OGD appetite to use UKGI is diminished.	Keep memorandum of Understanding under review and have regular review sessions.	Rachel Mortimer											



# UK Government Investments

Company No. 9774296

UK Government Investments Limited

(the "Company")

27-28 Eastcastle Street, London W1W 8DH

Paper for the Audit & Risk Committee

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**Topic:** Risk appetite statement

**Date:** 3<sup>rd</sup> June 2016

**Author:** Julie Price/ Nike Kojakovic

**Ref:** UKGI-ARC-10

**Category:** Paper circulated for discussion

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At the last Board, we were asked to consider whether it would be appropriate for UKGI to have a risk appetite statement. Following some preliminary work with the Executive Management Committee (ExCo), we have concluded that we should undergo an exercise to categorise risk appetite in the context of a framework for different types of risk.

## Preliminary work with ExCo

Following the Board's lead, to focus on the top ten projects: GIB, Channel 4, NDA, Urenco, UKEF, Student Loans, Land Registry, BBB, Special Situations and Network Rail, we discussed each of the projects with the lead ExCo member and asked them to rank whether their risk appetite for their projects was 'high, medium or low.' The outcome was that each director had varying levels of risk appetite depending on their role they were playing in the project or activity.

The ExCo discussed the results and concluded that due to the involvement of Ministers, which meant that they felt UKGI was an agent rather than a principal on all of the work done, and the complex nature of the projects the organisation would benefit more from having a risk framework rather than an overarching risk appetite statement.

## Recommendations

- (1) Define risk appetite as: "the amount and type of a risk that an organisation is willing to take in order to meet their strategic objectives."

- (2) Seek guidance from the ARC around when UKGI is the agent and when UKGI is the principal for each top ten projects in its stewardship and at what point UKGI takes control of the risk.
- (3) Categorise risks, as set out in the table below, and agree the organisational appetite for each type of risk. This should then be communicated to staff to ensure consistency across the organisation.

<b>Suggested categories of risk</b>	<b>Suggested level of risk appetite</b>
Procedural	UKGI should have a low risk appetite here as these are risks around processes and should be avoidable - for example an error in our processes that would not stand up to NAO or PAC scrutiny.
Execution	UKGI should have a medium to high risk appetite here dependent on the risk – the scenario here would be that Ministers have agreed to a transaction and UKGI has to execute it. There may be scope for innovative activity which may be more risky but will bring a larger return therefore ExCo has more appetite to run with these risks.
Reputational	In general the risk appetite here should be low but on occasion there may be some desire to raise this to medium.

***Does the ARC agree with this approach and is it content to provide guidance on the agent/principal position?***

In addition, we were asked to provide updates on the agreed risk registers for the ARC. You will have received an updated Strategic and Operational risk register with the meeting papers. For risk register 2/ the project risk register it is recommended that this focus on the top 10 projects for UKGI only – which by default will align to the KPIs. This will be put together from the monthly risk register returns for each of the ten projects in time for the next ARC.

***Does the ARC agree for the project risk register to focus solely on the top ten projects and also to receiving the first version of project risk register at the September meeting?***



**UK Government Investments Limited**

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Paper for the Audit & Risk Committee

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**Topic:** National Audit Office – Audit Completion Report

**Date:** 7<sup>th</sup> June 2016

**Author:** Jeremy Ankers

**Ref:** UKGI-ARC-11, UKGI-ARC-11a

**Category:** Paper circulated for discussion and approval

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**Background**

Peter Morland and Amy Manning from the National Audit Office (NAO) attended the May committee meeting to present their Audit Planning Report for the UKGI Annual Report and Accounts (ARA) for 2015/2016.

They explained that the key focus of the audit was the risk around the format of the accounts, given UKGI is a new body, in addition to the presumed risk of management override of controls.

**Update**

The audit is now nearing completion and Peter and Amy will attend to present their audit completion report (ACR) to the Committee. The ACR can be found at paper, UKGI-ARC-11a.

The key points covered by the ACR are:

- The audit of the draft ARA is complete, and the NAO have confirmed it is consistent and that the remuneration report has been properly prepared
- Outstanding matters are:
  - i. A review of the final draft of the ARA
  - ii. A review of post-balance sheet events up to the date the accounts are signed and completion of audit quality review procedures

- Subject to these matters, the NAO will sign the audit report giving an unqualified audit opinion

The CEO and Chairman will sign the ARA together with a letter of representation. Draft wording for the letter of representation, agreed with UKGI officials, is included in the ACR.

Due to the upcoming EU referendum, the NAO will not be able to sign the audit report before 27<sup>th</sup> June. We will arrange for the CEO and Chair to sign the ARA at that time.

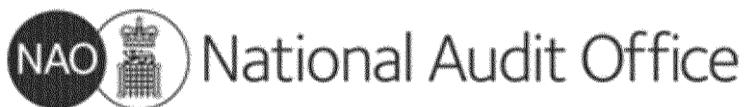
The full timetable to publication has therefore been updated as follows:

- **16<sup>th</sup> June**
  - i. NAO Audit Completion Report agreed by UKGI ARC
  - ii. Final comments on draft ARA requested
- **17<sup>th</sup> June – 23<sup>rd</sup> June** – EST to sign off the ARA
- **w/c 27<sup>th</sup> June** – ARA signed by CEO, Chair and NAO – final version sent to printers
- **w/c 4<sup>th</sup> July** – ARA laid in Parliament, printed copies received

The Committee is asked:

- to review the findings set out in the report and, if they are content, to approve the NAO's Audit Completion Report;
- to confirm that the going concern disclosures included in the ARA are a fair assessment; and
- to note the proposed timetable to signing and publication of the ARA.

The current draft of the ARA is included as a for information item in this month's audit committee papers, paper UKGI-ARC-12.



**UK Government Investments Ltd**

# **Audit completion report on the 2015-16 financial statement audit**

REPORT TO THOSE CHARGED WITH GOVERNANCE  
June 2016

<http://www.nao.org.uk/>

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*We have prepared this report for UK Government Investments Ltd's sole use although you may also share it with HM Treasury. You must not disclose it to any other third party, quote or refer to it, without our written consent and we assume no responsibility to any other person.*

# Status of our audit

## Introduction

This report summarises the key matters from our audit of the 2015-16 UK Government Investments Ltd (UKGI) financial statements which we must report to the Audit and Risk Committee, as those charged with governance, before we finalise our audit work and provide our audit opinion.

We would like to thank Nike Kojakovic and Jeremy Ankers and their team for their assistance during the audit.

## What work have we completed?

We have completed our audit of the 2015-16 financial statements in accordance with International Auditing Standards (UK and Ireland) issued by the Financial Reporting Council and with the Audit Planning Report presented to the Audit and Risk Committee on 19<sup>th</sup> May 2016.

We have also read the content of the draft annual report and the governance statement to confirm:

- their consistency with the financial statements and our understanding of the business;
- that the audited part of the remuneration report has been properly prepared; and
- that the governance statement has been prepared in accordance with HM Treasury guidance.

## What is the status of our audit?

At the time of drafting this report, the following matters were outstanding on the audit:

- Review of the final draft of the annual report and accounts
- Review of post balance sheet events up to the date the accounts are signed and completion of audit quality review procedures

If significant issues arise following these procedures, we will inform the Audit and Risk Assurance Committee.

The total audit fees charged for the year are in line with that set out in our Audit Planning Report, £6,250 plus VAT for UKGI.

Following resolution of the issues listed above, the Chief Executive (as Accounting Officer) and Chairman will sign the annual report and accounts together with a letter of representation, the proposed wording of which is included in Appendix 1.

# Status of our audit cont.

## What is our conclusion?

Peter Morland, the Senior Statutory Auditor, on behalf of the C&AG, will sign the audit report on the 2015/16 financial statements with an unqualified audit opinion.

On 18<sup>th</sup> May 2016 HM Treasury wrote to Finance Directors setting out a revised timetable for completion of the 2015-16 annual report and accounts. Due to the impending EU Referendum, accounts must be laid in Parliament between 27<sup>th</sup> June and the Summer Recess. Additionally, the C&AG and therefore Peter Morland, as Senior Statutory Auditor, on his behalf, will not be able to sign any audit reports before the 27<sup>th</sup> June.

The draft audit report is presented in Appendix 2.

## Actions for the Audit and Risk Committee

The Audit and Risk Committee and Board of Directors should:

- Review the findings set out in this report, including the draft letters of representation and audit report at Appendix 1 and 2 respectively; and
- Consider the adequacy of the going concern disclosures included in the draft financial statements and conclude on whether this is a fair assessment. We request that this consideration is included in the letter of representation to the Comptroller and Auditor General (C&AG).

# Key audit findings

## Significant financial statement risks

**ISA  
presumed  
risk of  
management  
override of  
controls**

**Audit areas  
affected:**

Potentially all audit areas

**Key features**

Under ISA (UK and Ireland) 240, there is a presumed significant risk of material misstatement owing to fraud arising from management override of controls.

**Audit response:**

As the 2015-16 accounts show limited transactions and balances the risk of management override of controls is deemed low. We have therefore focussed our attention on:

- Ensuring that the memorandum note disclosures of costs borne by HMT have been agreed to HMT records and that they have confirmed they will not be recharged to UKGI
- Confirming that UKGI have no other assets/liabilities that should be reflected in their Statement of Financial Position and
- Ensuring that disclosures and narrative in the accounts accurately reflect events.

**Findings:**

- HMT have provided written confirmation of the costs they have incurred on behalf of UKGI and that they will not be recharging UKGI. HMT have also confirmed that there are no balances that should be recognised by UKGI in their accounts.
- The letter of Representation includes a specific representation to confirm that the Directors are not aware of any assets or liabilities that need to be recognised in the accounts
- We have reviewed the draft accounts and are satisfied that they accurately reflect the substance of events

**We have not identified any instances of management override of controls**

# Key audit findings: Risk Factors

<b>Format of accounts and relevant disclosures</b>	<b><i>Risk Factor identified:</i></b>
	<p>For 2015-16 UKGI are proposing to prepare a full set of FReM based company accounts with both, the Statement of Financial Position and Income Statement having nil value. This is to be supplemented with a memorandum note explaining how the set up costs relating to UKGI for the year have been borne by HMT. We also expect that it will include a remuneration report disclosing directors emoluments that have been incurred by HMT.</p>
	<p>We will liaise with the UKGI team to ensure that the financial statements are prepared in accordance with Accounting standards and Companies Act requirements and that adequate disclosures have been made.</p>

***Response:***

UKGI have chosen not to take the dormancy accounts exemption for 2015/16 and have prepared a full Companies Act compliant and FReM based annual report and accounts. The financial statements contain a Statement of Financial Position, a Statement of Comprehensive net expenditure and a Cashflow Statement all of which have nil values. This reflects the fact that during this set up period since incorporation on 11 September 2015 UKGI did not enter into any financial transactions nor does it have any assets or liabilities at the 31 March 2016. HMT have incurred costs on behalf of UKGI which have been reflected in a note in the annual report which is covered by our positive consistency audit opinion. A remuneration report has also been prepared.

We have discussed the format of the accounts with the finance team as the audit has progressed and provided comments on the draft accounts in order to ensure compliance with the Companies Act and the FReM disclosure requirements. These have been incorporated into the final accounts and we are satisfied that adequate disclosures have been made in these financial statements

# Key audit findings: Other findings

## Internal control

During the course of our audit we did not identify any control observations that we would like to report to you as those charged with governance.

## Accounting policies and financial reporting

As part of our normal audit work, we consider the quality and acceptability of accounting policies and financial reporting. As the UKGI accounts contain nil values for 2015-16 the accounting policies are not applicable. However we have reviewed them and they are in line with relevant accounting standards. We expect that these accounting policies will evolve in 2016-17 as UKGI becomes fully operational and we review them again as part of the 2016-17 audit.

## Regularity, propriety and losses

We found no issues of irregularity or impropriety during our audit.

# Other matters for communication

## Independence

We consider that we comply with Auditing Practices Board (APB) ethical standards and that, in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between us and UKGI that we consider to bear on our objectivity and independence.

## International standards on Auditing (UK and Ireland)

We consider that there are no additional matters in respect of items requiring communication to you, per International Standards on Auditing (UK and Ireland), that have not been raised elsewhere in this report or our audit planning report. Items requiring communication cover:

- Fraud
- Going concern
- UKGI's compliance with laws and regulations
- Significant difficulties completing the audit
- Disagreements or other significant matters discussed with management

# Appendix 1 – Proposed letter of representation - UKGI

The Comptroller and Auditor General  
National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
LONDON  
SW1W 9SP

## LETTER OF REPRESENTATION: UK Government Investments Ltd 2015-16

I acknowledge on behalf of the Board of Directors as Accounting Officer and Chief Executive of UK Government Investments Ltd (UKGI) my responsibility for preparing accounts that give a true and fair view of the state of affairs and cash flows of UKGI for the year ended 2015-16.

In preparing the accounts, I was required to:

- observe the relevant accounting and disclosure requirements and apply appropriate accounting policies on a consistent basis in accordance with International Financial Reporting Standards in force at the reporting date;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed and disclosed and explain any material departures in the accounts; and
- make an assessment that UKGI is a going concern and will continue to be in operation throughout the next year; and ensure that this has been appropriately disclosed in the financial statements.

I confirm that for the financial year ended 31 March 2016:

- neither I nor my staff authorised a course of action, the financial impact of which is that transactions infringe the requirements of regularity as set out in Managing Public Money;
- having considered and enquired as to UKGI's compliance with law and regulations, I am not aware of any actual or potential non-compliance that could have a material effect on the ability of UKGI to conduct its business or on the results and financial position disclosed in the accounts;
- all accounting records have been provided to you for the purpose of your audit and all transactions undertaken by UKGI have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management meetings which you have requested have been supplied to you; and
- the information provided regarding the identification of related parties is complete; and the related party disclosures in the financial statements are adequate.

All material accounting policies as adopted are detailed in note 1 to the accounts.

## INTERNAL CONTROL

I acknowledge on behalf of the Board of Directors our responsibility for the design and implementation of internal controls to prevent and detect error and I have disclosed to you the results of my assessment of the risk that the financial statements could be materially misstated.

# Appendix 1 – Proposed letter of representation - UKGI

I confirm that I have reviewed the effectiveness of the system of internal control and that the disclosures I have made are in accordance with HM Treasury guidance on the Governance Statement .

## FRAUD

I acknowledge on behalf of the Board of Directors our responsibility for the design and implementation of internal controls to prevent and detect fraud and I have disclosed to you the results of my assessment of the risk that the financial statements could be materially misstated as a result of fraud.

I am not aware of any fraud or suspected fraud affecting UKGI and no allegations of fraud or suspected fraud affecting the financial statements has been communicated to me by employees, former employees, analysts, regulators or others.

## ASSETS AND LIABILITIES

I confirm on behalf of the Board of Directors that at the year end, 31 March 2016 UKGI did not have any assets or liabilities that should be recognised in the Statement of Financial Position

## OTHER DISCLOSURES

### Results

I confirm on behalf of the Board of Directors that UKGI did not enter into any transactions that should be reflected in the financial Statements for 2015-16.

HMT have incurred set up costs of £445,000 on behalf of UKGI. They have provided written confirmation that they will not be recharging UKGI for these costs.

### Going Concern

The Directors have completed an assessment and have concluded that UK Government Investments Ltd is a going concern. The financial statements have therefore been prepared on a going concern basis.

The following points were key in forming this conclusion:

- the Company is expected to continue to accomplish its objectives and fund any liabilities and contractual obligations as they fall due;
- no items were identified that cast a substantial doubt on the Company's ability to continue as a going concern; and
- the Company's arrangements with HM Treasury to support its transactions through grant in aid funding.

### Events after the Reporting Period

Except as disclosed in the accounts, there have been no material changes since the reporting date affecting liabilities and commitments, and no events or transactions have occurred which, though properly excluded from the accounts, are of such importance that they should have been brought to notice.

### Management of Personal Data

There have been no personal data related incidents in 2015/16 which are required to be reported.

[Name]  
[Position]  
[Date]

OFFICIAL

# Appendix 2 – Draft audit report - UKGI

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UK GOVERNMENT INVESTMENTS LTD

I have audited the financial statements of UK Government Investments Ltd for the year ended 31 March 2016 which comprise the Statement of Comprehensive Net Expenditure, Statement of Financial Position, Statement of changes in Equity and Statement of Cashflows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

### Respective responsibilities of the directors and the auditor

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

### Scope of the audit of the financial statements

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

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

### Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2016 and of the results for the year then ended; and
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union; and
- the financial statements have been prepared in accordance with the Companies Act 2006.

### Opinion on regularity

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

### Opinion on other matter prescribed by the Companies Act 2006

In my opinion:

the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

# Appendix 2 (continued) – Draft audit report - UKGI

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

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

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

Peter Morland (Senior Statutory Auditor)

[Date]

For and on behalf of the  
Comptroller and Auditor General (Statutory Auditor)  
National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP



**UK Government Investments Limited**

(the "Company")

**27-28 Eastcastle Street, London W1W 8DH**

Paper for the Audit & Risk Committee

---

**Topic:** Final draft of Annual Report and Accounts for FY 2015/2016

**Date:** 7<sup>th</sup> June 2016

**Author:** Jeremy Ankers

**Ref:** UKGI-ARC-12, UKGI-ARC-12a

**Category:** Paper circulated for information

---

**Background**

The Board approved the draft content of the Annual Report and Accounts (ARA) at the May Board meeting. The ARA covers the period from the date of incorporation (11<sup>th</sup> September 2015) to 31<sup>st</sup> March 2016.

The National Audit Office (NAO) have carried out an audit of the ARA. Their audit completion report is included in these papers at UKGI-ARC-12a.

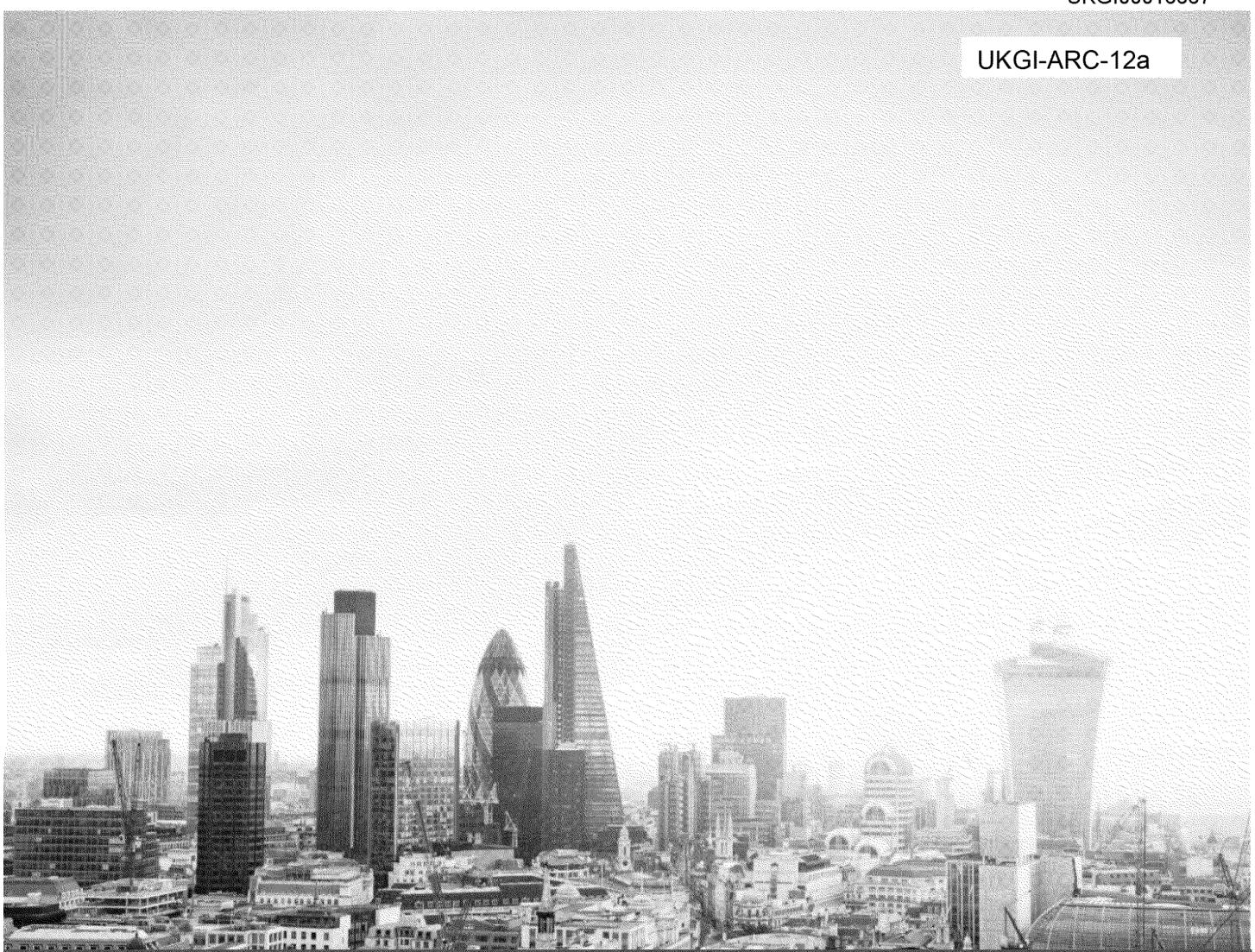
**Review and timetable to publication**

The timetable to publication is as follows:

- **16<sup>th</sup> June**
  - i. NAO Audit Completion Report agreed by UKGI ARC
  - ii. Final comments on draft ARA requested
- **17<sup>th</sup> June – 23<sup>rd</sup> June** – EST to sign off the ARA
- **w/c 27<sup>th</sup> June** – ARA signed by CEO, Chair and NAO – final version sent to printers
- **w/c 4<sup>th</sup> July** – ARA laid in Parliament, printed copies received

The Committee is asked:

- to provide any final comments on the ARA to Jeremy Ankers  
([REDACTED] GRO [REDACTED]) by Friday 17<sup>th</sup> June; and
- to note the proposed timetable to signing and publication of the ARA.



# Annual Report 2015-16



UK Government  
Investments

UKGI00016667  
UKGI00016667

# Annual Report 2015-16

Presented to Parliament

By the Economic Secretary to the Treasury

By Command of Her Majesty

[Date]



UK Government  
Investments

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# Chairman's Foreword

UK Government Investments (UKGI) formally launched on 1<sup>st</sup> April 2016, with its primary objective to be the Government's centre of excellence in corporate finance and corporate governance. Under the stewardship of HM Treasury we are perfectly placed to serve our Whitehall colleagues, by providing the highest standard of professional advice, leading on significant Government asset sales and enhancing the Government's effectiveness as a shareholder.

With thanks to ground laid by our transition team and following the incorporation of UKGI in late summer last year, my former Shareholder Executive board colleagues and I made the transition from an advisory board to a Companies Act board in the early part of this calendar year, strengthened by new colleagues from UK Financial Investments (UKFI), HM Treasury and the Department for Business Innovation and Skills.

Following a successful non-executive director recruitment process which concluded in May 2016, the board is now fully formed with a majority of independent non-executive directors. Two non-executives were appointed from each of the Shareholder Executive Advisory Board and the UKFI Board and one new non-executive, Simon Palley, was appointed from outside. Our mandate over the next year is to ensure the values and the operations of the organisation are embedded and that we continue to work alongside Whitehall, as the Shareholder Executive has done in the past, to deliver the best value and outcomes for the taxpayer.

UKFI formally became a subsidiary of UKGI on 1<sup>st</sup> April 2016. Whilst its corporate structure will remain unchanged for the foreseeable future, both UKGI and UKFI have already benefited from the closer working of both teams throughout all levels of the organisation.

During the corporate change, business as usual has continued. Most recently in UKGI, the special situations team has provided invaluable support to Whitehall in its work with the steel industry, and preparations for the privatisation of the Green Investment Bank have been increasing in pace. Our governance work, although not as high-profile as our work on transactions, has continued to enable government to be an active shareholder, in accordance with best practice, and to protect and maximise shareholder value. UKFI highlights include the first disposal from the government's shareholding in RBS, a significant sale of NRAM mortgages and ongoing divestment of the shareholding in Lloyds. Further details can be found in the UKFI annual report and accounts.

UKGI is nothing without its people. It is a priority of the Board to ensure that UKGI is able to attract, retain and motive the very best talent and plan effectively for succession. UKGI has thought carefully about the ethos and working environment required to attract talent and it is the intention of the Board that working at UKGI should be seen as a key part of career progression for some of the most outstanding people in both the civil service and the private

#### CHAIRMAN'S FOREWORD

sector. In addition to its focus on people the Board is concentrating on having processes in place to ensure that the important work done by UKGI is done to a high standard.

I am delighted that the team at UKGI have spent time discussing the values that will make UKGI distinctive and provide a framework against which our people will be assessed. Values matter in an organisation where trust is at the heart of our ability to be effective. Our values are - to be professional and act with integrity, focus on outcomes, be collegiate and committed to improvement, and be open and honest in our communications. These values will guide all our actions and will be the lens through which we assess our people and our Board.

Finally I would like to thank James Leigh-Pemberton, Non-Executive Deputy Chairman of UKGI and Chairman of UKFI, and Mark Russell, CEO of UKGI, for the bringing together of their two organisations effectively. I remain very impressed by the energy, commitment and skill of employees throughout UKGI, often operating to demanding timetables in executing some of the most complex issues in Government. We owe them all our thanks.

**Robert Swannell**

Chairman

[Date]

# Chief Executive's Review

The establishment of UK Government Investments is an important milestone, marking the evolution of the Shareholder Executive into a new, independent body. As of 1<sup>st</sup> April, UKGI brings together the Shareholder Executive with UK Financial Investments Limited (UKFI), which will remain a wholly owned subsidiary of UKGI for the foreseeable future.

UKGI gives us a platform to deliver to an even wider reach across Whitehall. With the support and guidance of our board we have more flexibility to shape our own future, and I hope that everyone who now makes up UKGI feels a real sense of ownership and is ready to play a part in ensuring that we are as good as we can possibly be.

With the support of our new shareholder, HM Treasury, UKGI brings great opportunity to focus on some of the most challenging and high profile areas in government. Our modest size is one of our strengths, along with our flexibility to respond to emerging priorities. The variety of work we offer is unique, and I am confident that we can continue to attract high-calibre staff from within Whitehall and beyond.

UKGI has taken on the Shareholder Executive's wide remit and we have never been busier. In October we raised £591 million by completing the transfer of the Government's final stake in Royal Mail. As part of this process the government gifted two tranches, each of 1%, of government-owned shares to Royal Mail's eligible UK employees, taking the total stake in the business owned by employees to 12%.

We have overseen the continued strong performance of the Green Investment Bank (GIB) and the sale of GIB was formally launched on 3<sup>rd</sup> March.

The government has prioritised the continued access to a range of finance options for businesses; the British Business Bank's programmes support over £2.9billion of finance to over 48,000 smaller businesses and participate in a further £3.7billion of finance to small mid-cap businesses. Among the programmes that the Bank oversees is the Start-Up Loan programme, which has backed over 37,000 businesses so far with over £210 million worth of lending with the overall objective to provide lending to 75,000 entrepreneurs by the end of this Parliament.

The Post Office Network Transformation programme met its targets in 2015-16 for opening new branches and for signing up new branches to convert. Over 6,000 branches have been modernised so far, delivering over 170,000 additional opening hours per week across the UK, with customer satisfaction regularly above 95% and increased retail sales at modernised branches. After another successful year, the Post Office is starting to plan for the successful conclusion of this programme.

#### CHIEF EXECUTIVE'S REVIEW

In line with the government's commitment to open data, Companies House launched a new public beta search service providing access, free of charge, to all public digital data held on the UK register of companies. This provides access to over 170 million digital records including financial accounts, company filings and details on directors and secretaries throughout the life of the company. Since its introduction in June 2015 there have been more than 550 million free searches on the web service.

Good progress continued to be made on realising pension assets transferred from the Royal Mail Pension Plan in 2012. Over the course of the year, net cash inflows of £500 million were generated, principally from disposals of property, private equity interests and high yield bonds.

In addition to our achievements over the year UKFI has made considerable progress with the execution of its mandate. It executed a first sale of shares in RBS and sold a further £7.4 billion of Lloyds shares through a trading plan. UK Asset Resolution Ltd continued to execute the orderly run-down of Northern Rock (Asset Management) plc with a significant £13billion sale of mortgages agreed in November.

So our early days of UKGI bode well; we already have many achievements to celebrate, and joining with our colleagues from UKFI will help us to deliver an even better service to the taxpayer. Working more closely together on student loans has already proven that our complementary skill-sets will bring real benefits to each other, as well as to Government as a whole.

**Mark Russell**

Chief Executive Officer

[Date]

# The UKGI Board



## **Robert Swannell- Chairman**

Robert is the Chairman of UK Government Investments (UKGI).

Robert was previously the Chairman of the Shareholder Executive, which as of the 1<sup>st</sup> April 2016 joined with UK Financial Investments (UKFI) to form UKGI. Robert is currently Chairman of Marks and Spencer, an appointment he took up in January 2011 after spending three months as a non-executive director (NED).

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

THE UKGI BOARD

# GRO

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

James Leigh-Pemberton is the Chairman of UK Financial Investments and non-executive Deputy Chairman of UK Government Investments. He took on these roles in April 2016.

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

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

# GRO

## **Mark Russell – Chief Executive**

Mark Russell was appointed Chief Executive of the Shareholder Executive (now UK Government Investments Ltd) in April 2013. Mark joined the Shareholder Executive as head of its Corporate Finance Practice in November 2004 and was appointed Deputy Chief Executive in April 2008.

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

Mark is Senior Independent Non-Executive Director of London and Continental Railways Limited, Independent Non-Executive Director of DP World and was formerly Non-Executive Director of Eurostar International Limited.

THE UKGI BOARD

# GRO

### **Jane Guyett – Non-Executive Director**

Jane Guyett is the Chair of Connect Plus (M25) Ltd, and is a Non-Executive Director on the Boards of Kerry London Ltd and Trade Direct Insurance Services Ltd.

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

# GRO

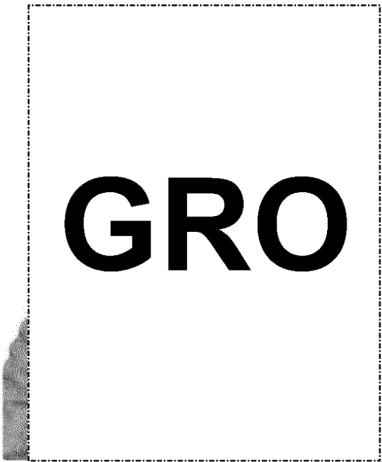
### **Jitesh Gadhia - Non-Executive Director**

Jitesh Gadhia has over 20 years' investment banking experience, having held senior positions at Blackstone, Barclays Capital, ABN AMRO and Baring Brothers. He has advised on a wide range of high profile M&A and capital raising transactions across developed and emerging markets.

Jitesh graduated from Cambridge University with a degree in Economics and attended the London Business School as a Sloan Fellow. He has served as a Trustee of Guy's and St Thomas' Hospital and a Young Global Leader by the World Economic Forum.

[Photo TBC]

Simon Palley – Non- Executive Director  
[TBC].



**Robin Lawther - Non-Executive Director**

Robin Lawther is a Non-Executive Board member of Nordea, the largest Nordic bank (market capitalisation of €40bn), of Oras Investments (a European private family investment company) and of UK Government Investments Ltd. She is also a member of the Risk Committee on the Nordea Board. In addition, Robin works with her own privately held student housing developments in the UK, US, and Germany.

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



**Caroline Thomson - Non-Executive Director**

Caroline Thomson is the chair of Digital UK, the body which is responsible for digital terrestrial television, a Non-Executive Director of VITEC plc (and chair of the remuneration committee) and of CN media group. In the arts world she recently retired as Executive Director of English National Ballet, is deputy chair of the National Gallery and a trustee of Tullie House Gallery in Cumbria. She is a Non-Executive Director of NHS Improvement.

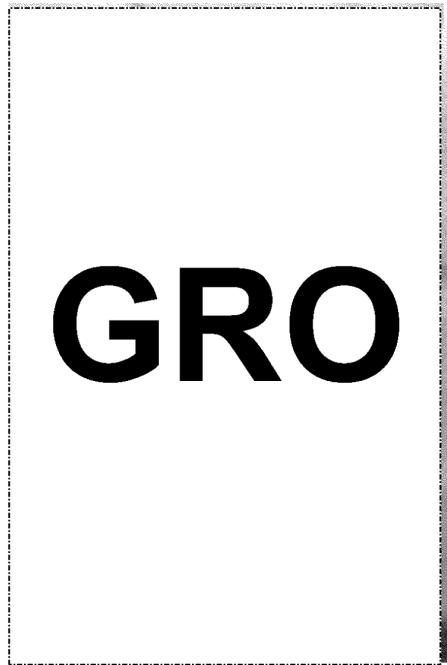
Caroline stepped down from her role as Chief Operating Officer at the BBC in September 2012 after serving twelve years as a member of the Executive Board. As Chief Operating Officer she was the deputy director general and was responsible for all the non-programme parts of the BBC except finance, including the property portfolio and the negotiation of the Royal Charter and two license fee settlements.

# GRO

## **Martin Donnelly C.M.G - Non-Executive Director**

Martin Donnelly has been the Permanent Secretary for the Department of Business, Innovation and Skills since October 2010.

Martin joined the FCO Board in 2004 as Director General, Europe and Globalisation, where he was G8 foreign affairs Sherpa. He was the Deputy Head of the Cabinet Office European Secretariat, leading work on European economic reform for the government between 1998 and 2003 and has worked in the European Commission and been on secondment to the French Finance Ministry. Martin has also worked across Whitehall, starting his career in HM Treasury. He was Policy Director of the Immigration and Nationality Directorate at the Home Office. He also served as Private Secretary to the Financial Secretary to the Treasury and the Secretary of State for Northern Ireland.



**John Kingman – Non-Executive Director**

John is the Acting Permanent Secretary to the Treasury. He has particular responsibility for the Treasury's economics ministry functions; for policy relating to business, financial services and infrastructure.

John returned to the Treasury in 2012 from Rothschild, where he was Global Co-Head of the Financial Institutions Group.

Before joining Rothschild in 2010, John was very involved with the first phase of the global financial crisis at the Treasury: he led the resolution process following the run on Northern Rock in 2007; he led negotiations with RBS, Lloyds and HBOS on their £37bn recapitalisation in 2008; and he was the first Chief Executive of UK Financial Investments (UKFI).

Previously John had held a number of senior roles in the Treasury including Director of the Enterprise & Growth Unit and Press Secretary to the Chancellor. He also spent two years as a *Lex* Columnist for the Financial Times and worked in the Group Chief Executive's office at BP.

# Strategic Report

## Incorporation and Funding

The Prime Minister and Chancellor of the Exchequer announced on 20<sup>th</sup> May 2015 that the Shareholder Executive group, from the Department for Business, Innovation and Skills, would form the basis of UK Government Investments Limited, a new Government company owned by HM Treasury. The Chancellor of the Exchequer also announced that UK Financial Investments Limited, a company owned by HM Treasury, would become a subsidiary of the new company and that the two would merge over time.

UKGI was incorporated on 11<sup>th</sup> September 2015, commencing operations on 1<sup>st</sup> April 2016. This first Annual Report and Accounts covers the period from incorporation to 31<sup>st</sup> March 2016 during which time the company setup was fully funded by HM Treasury in accordance with their systems and controls. HM Treasury will not recharge UKGI for these costs.

The table below summarises the costs borne by HM Treasury, as part of the UKGI set up. UKGI itself was not delegated a budget for the financial year 2015/16. These costs have been audited as part of the HM Treasury audit.

Expenses		£000
Salaries	a)	90
IT Service, Maintenance & Repairs	b)	121
Consultancy	c)	79
Accommodation	d)	116
Other	e)	39
<b>Total Expenses</b>		<b>445</b>

## STRATEGIC REPORT

The key drivers of this expenditure are set out below:

(a) Salaries

Salaries include Board fees, four members of staff working on the UKGI transition and not on the payroll of the Shareholder Executive or UKFI, and HMT staff providing IT set up support. Remuneration for Board members totalled £15k. Total salaries for HMT staff providing IT set up support was £17k. Remaining staff costs were £58k.

(b) IT Services

Expenditure on IT hardware was incurred as part of the set up. The laptop computers currently used in UKGI remain the property of HM Treasury and therefore were not paid for from the UKGI setup budget. Consequently, they are not included in the setup expenditure costs reported above. The expenditure reported above consists of mobile telephony. In line with HM Treasury Group policy, the Company does not capitalise items with a cost less than £5,000.

(c) Consulting

Consultancy expenditure included specialist legal advice (£32k), remuneration benchmarking (£20k), and pensions advice from the Government Actuary Department (£16k).

(d) Accommodation

These incurred costs relate to the enhancement and upkeep of the UKGI accommodation site. In line with HM Treasury Group policy, the Company does not capitalise items with a cost less than £5,000.

(e) Other

Costs designated under 'other' include the audit fee paid to the National Audit Office (£6k) recruitment expenses (£7k), UKGI Branding (£8k) and expenses relating to the setup of the UKGI payroll system (£18k).

UKGI has a Framework Agreement in place with HM Treasury setting out the broad parameters within which we operate. The Framework Agreement can be found at [LINK]. For this reporting period to 31<sup>st</sup> March 2016, HM Treasury met the costs of the setup of UKGI directly. HM Treasury will not recharge UKGI for these costs. During future reporting periods, UKGI will be funded by HM Treasury via grant-in-aid. HM Treasury secured the power to fund UKGI in clause 36 of the Enterprise Act 2016.

From 1<sup>st</sup> April 2016, the functions and operations of the Shareholder Executive, formerly a group within the Department for Business, Innovation and Skills, were transferred to the Company.

Furthermore, on 1<sup>st</sup> April 2016 HM Treasury's entire shareholding in UK Financial Investments Limited ("UKFI") was transferred to the Company. UKFI is now a wholly-owned subsidiary of the Company. Together both companies make up the UKGI group along with any other subsidiaries as may exist from time to time. For more information on UKFI activities please refer to the UKFI website at [www.ukfi.co.uk](http://www.ukfi.co.uk).

The following sections explain the purpose of the new UKGI, along with an explanation of how it will operate.

# Purpose

UKGI's overarching purpose is to be the UK Government's centre of excellence in corporate finance and corporate governance.

## Objectives

To realise this purpose, we will deliver against the following objectives; to

- prepare and execute all significant corporate asset sales by the UK Government;
- advise on all major UK Government financial interventions into corporate structures;
- act as shareholder for those arm's length bodies of the UK Government that are structured to allow a meaningful shareholder function and for other UK Government assets facing complex transformations (especially if governance is at the heart of a model change); and
- advise on major UK Government negotiations with corporates.

UKGI will operate in a way that is consistent with the Government's policy objectives, including, but not limited to, the promotion and preservation of orderly, competitive market.

# UKGI Operations

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

- Professionals with corporate finance skills and related expertise from private sector institutions with a mix of tenure (some permanent, some seconded, some on fixed-term appointments)
- Civil Servants on secondment from other government departments
- Permanent UKGI staff who TUPE transferred in at set up (a mix of ex-civil servants and those with corporate finance skills)
- UKFI staff who will operate within UKGI's UKFI subsidiary and then transfer into UKGI at a future date.

UKGI's blend of staff offers a rare opportunity for civil servants to work alongside colleagues with a range of banking and professional services experience, and for those with a private sector background to gain deep experience of the workings of Government. This all takes place in a positive working environment and culture where employees are engaged on complex high profile projects but can still achieve a good work/life balance. Our ambition is that UKGI will be a stepping stone in the careers of all outstanding corporate financiers and civil servants, offering them the chance to develop their understanding of Government and build key commercial skills.

UKGI works across Government on some of its most interesting and complex tasks. We work on the boundary of the public and private sectors, with regular interaction with Ministers, Parliament and Whitehall departments. We will continue to work closely with Whitehall departments, as the Shareholder Executive and UKFI have previously.

Formal assurance will be provided by Memoranda of Understanding with the Whitehall Departments we work with, setting out the services we offer and how we will work with them

## STRATEGIC REPORT

to deliver those services. When working for Ministers, UKGI staff will demonstrate the same degree of confidentiality from as Ministers would expect of their own officials, to the standards contained within the Civil Service Code.

# Company Values

Values are a core set of behaviours which are shared across an organisation and define how everyone in that organisation behaves. Our Values are central to defining and driving the culture within UKGI and accordingly will also feed into staff appraisals.

Our values are:

- Professional and act with integrity
- Focused on outcomes
- Collegiate and committed to improvement
- Open and honest in our communications

These values were formed through consultation with staff members and were endorsed by Senior Management and the Board. UKGI is working to embed these values following commencement of operations in April 2016.

# Approach to managing risk

UKGI will actively manage the risks it faces as an organisation and has designed robust risk management arrangements so that the Audit and Risk Committee and, through it, UKGI's stakeholders, can be reassured that UKGI is operating within the risk parameters set by the UKGI Framework Document.

UKGI will maintain two company-level risk registers. These will cover respectively: operational and strategic risks; and risks related to the projects and assets under UKGI's management. These company-level risk registers will be informed by individual project and asset-level risk registers, which are maintained at a working level. Each working level risk register will be updated monthly, with a summary examined by the Executive Committee and sent to the Audit and Risk Committee for information and comment where appropriate.

The Audit and Risk Committee will review and approve the two full UKGI risk registers, with any supporting project or asset level risk registers as required, on an annual basis. Furthermore, the Audit and Risk Committee will consider those UKGI projects or assets which are either moving from, or moving to, a high risk rating at each committee meeting.

Bespoke risk rating guidance and training is provided to UKGI staff, including a risk framework for each area of UKGI to ensure consistency of risk reporting across UKGI.

The overall governance of UKGI will function with regular dialogue between the Chief Executive and Chairman. Any risk matters which are urgent and significant will be escalated directly by the Chief Executive to the Chairman.

STRATEGIC REPORT

**Approval and signing**

The Strategic Report was approved by the Board of Directors on [DATE] and was signed on its behalf by:

**Mark Russell**

Chief Executive

UKGI Company Number 9774296

**Robert Swannell**

Chairman

UKGI Company Number 9774296

# Board Directors' Report and Governance Statement

## UKGI Board

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

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

The company was incorporated on 11 September 2015, commencing operations on 1 April 2016. The Company's overarching purpose is to be the UK Government's centre of excellence in corporate finance and corporate governance.

To realise this purpose, the Company has agreed the following objectives with HM Treasury:

- prepare and execute all significant corporate asset sales by the UK Government;
- advise on all major UK Government financial interventions into corporate structures;
- act as shareholder for those arm's length bodies of the UK Government that are structured to allow a meaningful shareholder function and for other UK Government assets facing complex transformations (especially if governance is at the heart of a model change); and
- advise on major UK Government negotiations with corporates.

The company has an agreed Framework Document with HM Treasury. This document sets out the broad framework within which UKGI will operate and is available to members of the public at [LINK]. HM Treasury, as Shareholder, will hold quarterly meetings with the Company to discuss its activities and performance against these objectives.

## BOARD DIRECTORS' REPORT AND GOVERNANCE STATEMENT

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

Board Membership (Dates of appointment)	Current Position	Committee Membership
Robert Swannell (appointed 11/09/2015)	Chairman	N (Chair)
James Leigh Pemberton (appointed 11/09/2015)	Non-Executive Deputy Chairman	N
Mark Russell (appointed 11/09/2015)	Chief Executive Officer	
Jane Guyett (appointed 12/02/2016)	Non-Executive Director	A (Chair), N
Jitesh Gadhia (appointed 12/02/2016)	Non-Executive Director	R, N
Robin Lawther (appointed 12/02/2016)	Non-Executive Director	A, R, N
Caroline Thomson (appointed 12/02/2016)	Non-Executive Director	R (Chair), N
Martin Donnelly (appointed 12/02/2016)	BIS-Appointed Non-Executive Director	N
John Kingman (appointed 12/02/2016)	Treasury-Appointed Non-Executive Director	N
Simon Palley (appointed 19/05/2016)	Non-Executive Director	N, A

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

The company was incorporated on 11<sup>th</sup> September 2015, from which point the Chairman, CEO and Non-Executive Deputy Chairman became directors of the company.

In February 2016, two non-executives were appointed from each of the former Shareholder Executive Advisory Board (Robin Lawther and Caroline Thomson) and the UKFI Board (Jitesh Gadhia and Jane Guyett). Non-executive directors were also nominated from HM Treasury (John Kingman) and the Department for Business, Innovation and Skills (Martin Donnelly). During the reporting period, the Board met in shadow form in January, and once more in March.

## BOARD DIRECTORS' REPORT AND GOVERNANCE STATEMENT

Following a successful non-executive director recruitment process, which concluded after the end of the reporting period in May 2016, a new non-executive, Simon Palley, was appointed to fill the final vacancy on the Board.

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

The Board has put in place arrangements to manage any conflicts of interest. As part of this each director has disclosed, at the outset of their term as a director, any direct or indirect conflicts of interest they are aware of and may have in connection with being appointed a director of the Company.

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

In addition, each non-executive director is assigned one or more sponsorship oversight roles over major assets or projects, acting in the capacity of a mentor. These arrangements allow for a deeper insight for non-executive directors into the work of the organisation.

In terms of direct responsibilities, it is not expected that directors will be formally bound by their fiduciary duties as members of the Board when acting in their oversight roles. Board decisions will only be taken by a quorum of directors in a Board meeting.

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

The Chairman will consider the effectiveness of the Board on a regular basis, including reviewing the Board's constitution and terms of reference to ensure the Board is operating at maximum effectiveness, as well as its compliance with the Corporate Governance Code.

# Board Committees

The Board is supported by three sub-committees in order to provide effective oversight and leadership; the Audit and Risk Committee, the Remuneration Committee and the Nominations Committee. The Board is also supported by the Executive Committee, which is not a Board Committee.

## Audit and Risk Committee

The Audit and Risk Committee met once during this reporting period. It will meet on at least three occasions per year and on an ad-hoc basis as required.

All members of the Audit and Risk Committee are non-executive directors. The current members of the Committee are Jane Guyett (Chair), Robin Lawther and Simon Palley. Only Audit and Risk Committee members have the right to attend Audit and Risk Committee meetings. However, other individuals are invited to attend for all or part of any meeting as and when appropriate. Representatives from the National Audit Office and Government Internal Audit Agency attended the audit and risk committee meeting that took place during this reporting period.

The audit and risk committee is responsible for monitoring, oversight and advice to the Board for financial reporting, external and internal audit, internal control and risk, whistleblowing procedures and compliance. The Audit and Risk Committee is authorised by the Board to investigate any activity within its terms of reference and to seek any information it requires from any employee. The Board will ensure that employees cooperate fully with the Audit and Risk Committee.

During this reporting period, the Committee has focused on the development of proposals for risk reporting in UKGI after its official launch on 1<sup>st</sup> April 2016. In addition the Committee considered the scope and planning of the external audit, as well as the results of a report by the Government Internal Audit Agency on knowledge and information management in UKGI.

## Remuneration Committee

The remuneration committee is responsible for setting the remuneration within the framework agreed by HM Treasury for all employees and for ensuring remuneration arrangements, including any incentivisation packages, are informed by relevant benchmarks.

The Remuneration Committee met twice during this reporting period. It will meet at least once a year and on an ad-hoc basis as required. Further detail on the Remuneration Committee is set out in the Directors' Remuneration Report.

## Nominations Committee

The nominations committee is responsible for considering and making recommendations to the Board in respect of appointments to the Board and approving executive appointments.

## BOARD DIRECTORS' REPORT AND GOVERNANCE STATEMENT

In addition, the nominations committee will make recommendations in respect of appointments to the Board and approving executive appointments.

The Nominations Committee did not meet during this reporting period, but nominations business was addressed during the main Board meetings. The Nominations Committee will meet on an ad-hoc basis as required.

### Summary of Meetings and Attendance

Total number of meetings held in 2015/2016	Board	Audit and Risk	Remuneration	Nominations
	2	1	2	-
Number of meetings attended in 2015/2016	Board	Audit and Risk	Remuneration	Nominations
Robert Swannell	2	1	2	-
James Leigh Pemberton	2	1	1	-
Mark Russell	2	1	2	-
Jane Guyett	2	1	-	-
Jitesh Gadhia	2	-	2	-
Robin Lawther	2	1	2	-
Caroline Thomson	2	-	2	-
Martin Donnelly	2	-	-	-
John Kingman	2	-	-	-
Simon Palley*	-	-	-	-

\*Simon Palley joined the Board after the reporting period on 19 May 2016

## Sustainability

UKGI is committed to its contribution to sustainable development. UKGI is based on the Government estate in 1 Victoria Street, co-located with the Department of Business, Innovation & Skills (BIS). We use recycled paper for day-to-day use and UKGI publications and have segregated waste streams collected for recycling.

## Transparency

UKGI adheres to the Government's transparency agenda and publishes a range of data, either on our own website or on data.gov.uk, including:

- Directors' hospitality and expenses;
- Transactions over £25,000;
- Corporate credit card transactions over £500; and
- Awarded contracts over £10,000

## Payment of suppliers

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

UKGI will endeavour to meet this target from its commencement of operations on 1<sup>st</sup> April 2016.

## Disclosure of information to auditors

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

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

UKGI has appointed the Comptroller and Auditor General as its external auditor. The National Audit Office carries out the audit for and on behalf of the Comptroller and Auditor General. The remuneration paid to the auditors is disclosed in the Strategic Report. This remuneration was paid by HM Treasury as part of the UKGI setup costs. These costs will not be recharged to UKGI. No non-audit work was undertaken by the auditors.

The Board has agreed to the appointment of the Government Internal Audit Agency (GIAA) as the Company's internal auditor.

# Relationship with UKFI

On 1 April 2016 UK Financial Investments (UKFI), formerly a wholly owned subsidiary of HM Treasury, became a wholly owned subsidiary of UKGI.

UKFI was created in November 2008 as part of the UK's response to the financial crisis with the overarching objective to manage the government's shareholdings, acquired as part of this response, commercially in order to create and protect value for the taxpayer. Over time UKFI's objective is to devise and execute a strategy for realising value from the government's ownership stakes in an active and orderly way. Further detail can be found in the UKFI Framework Document and Investment Mandate published on the company's website ([www.ukfi.co.uk](http://www.ukfi.co.uk)).

UKFI's Framework Document has been updated to reflect the creation of UKGI. It will continue to operate under this document and its Investment Mandate as an independent company, working closely with UKGI, for the foreseeable future.

We have already seen the benefits of closer working between the two organisations. UKFI's objectives for the following year include contributing to key projects in UKGI and working towards closer integration of our operational platforms. The intention is to co-locate both teams during the 2016/17 financial year. The UKFI and UKGI Boards will continue to review the most efficient structure for the Group.

The Government's shareholdings managed by UKFI are summarised below. Further details can be found on the UKFI website and within its Annual Report and Accounts.

## Royal Bank of Scotland Group

At 1 April 2016, the Government held a total of 8.4 billion ordinary shares in Royal Bank of Scotland Group Plc, equivalent to a 72.6 per cent voting share. The 31 March 2016 share price of 223p implied a current market value of the Government's shareholding of £18.8bn.

## Lloyds Banking Group

At 1 April 2016, the Government held a total of 6.5 billion ordinary shares in Lloyds Banking Group plc, equivalent to 9.1 per cent of the total issued share capital. The 31 March 2016 share price of 66p implied a current market value of the Government's shareholding of £4.3bn.

## UK Asset Resolution

UKFI is responsible for managing the Government's 100 per cent shareholding in UK Asset Resolution Ltd (UKAR) and its subsidiaries, Bradford & Bingley plc and NRAM plc. At 31 March 2016 UKAR owed HM Treasury £28.0bn, an amount which it expects to repay in full.

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

The directors are responsible for preparing the Directors' Report and the Financial Statements in accordance with applicable law and regulations. Company law requires the directors to prepare Financial Statements for each financial year. During this financial year, HM Treasury met the costs of the setup of UKGI directly. UKGI has disclosed the setup costs incurred against the budget held by HM Treasury in its Strategic Report.

UKGI's Financial Statements have been prepared in accordance with International Accounting Standards and applicable law (International Financial Reporting Standards). The Financial Statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these Financial Statements, the directors have:

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

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

This report has been approved by the Board of Directors and is signed by the CEO and Chairman on behalf of the Board of Directors. The Accounting Officer of HM Treasury has designated the Chief Executive as the Accounting Officer of UKGI. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding UKGI's assets, are set out in *Managing Public Money*, published by HM Treasury.

BOARD DIRECTORS' REPORT AND GOVERNANCE STATEMENT

In preparing the accounts, the Accounting Officer has complied with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the Financial Statements; and
- prepare the Financial Statements on a going-concern basis.

This statement was approved by the Board of Directors on [DATE] and was signed on its behalf by:

**Mark Russell**

Chief Executive Officer

UKGI Company Number 9774296

**Robert Swannell**

Chairman

UKGI Company Number 9774296

# Board Directors' Remuneration Report

## Remuneration Chair's Foreword

I am delighted to take up the chair of the UKGI Remuneration Committee, with the support of my board colleagues Jitesh Gadhia and Robin Lawther.

My role on the Shareholder Executive advisory board means that I am well versed in the complex and important work that UKGI will be taking forward and the critical importance of being able to recruit and retain the specialist skills that are required for the execution of it.

As the new company launches we have been working closely with our shareholder HM Treasury to agree UKGI's remuneration framework and policy.

The UKGI Remuneration Committee will play a key role in ensuring that the framework is fit for purpose and that its application is fair and consistent and in accordance with the company's Framework Document.

**Caroline Thomson**

Chair of the Remuneration Committee

[Date]

# Remuneration Committee

The Remuneration Committee operates as a sub-committee of the UKGI Board. The membership of the Committee shall consist of at least three independent non-executive directors (including the chair). The Board is responsible for any new appointments to the Remuneration Committee. The inaugural members of the Remuneration Committee are Caroline Thomson (Committee Chair), Jitesh Gadhia and Robin Lawther.

The Remuneration Committee will meet at least twice a year and ad hoc as required. Only members of the Committee have the right to attend Remuneration Committee meetings. Others may be invited to attend by the Chair as appropriate.

## Purpose

The purpose of the Remuneration Committee is:

- To approve the Company's Performance Related Pay policy;
- To approve the remuneration of the executive directors and senior management team of UKGI;
- To recommend the approval of remuneration packages to HM Treasury and where required, to the Cabinet Office.

In addition the Committee will:

- Review the UKGI remuneration framework formally at least every three years;
- Ensure that UKGI remuneration framework is appropriate and functioning effectively;
- Be consulted on and approve any proposed adjustments to the pay framework; and
- Receive a report annually on the outcome of the performance moderation across the organisation.

## Remuneration Policy

The Remuneration Committee approves the remuneration for Executive Directors and the UKGI Senior Management team, taking into account all factors which it deems necessary, including that HM Treasury's interest is primarily in ensuring that remuneration levels:

- are sufficient to attract and retain the high calibre individuals necessary to drive the delivery of the Objectives;
- are reconciled to performance, adherence to the Budget and delivery of the Objectives; and
- deliver value for money.

## BOARD DIRECTORS' REMUNERATION REPORT

UKGI will operate a performance appraisal system and employee performance will be reviewed at the middle and end of each reporting year.

Performance related pay will be awarded on the basis of company and individual performance and dependent on affordability.

UKGI recruitment procedures will be based on the principles of fair and open competition and selection on merit.

A summary of the remuneration policy for the Senior Management Team can be found in the table below:

Elements of pay	Purpose	Operation	Maximum potential value
Base salary	To recruit and retain Senior Managers	Paid monthly and reviewed annually	Determined annually
Pension	To support Senior Managers in long-term savings	A defined contribution pension scheme will be offered	Up to 3% of salary
Performance Related Pay	Incentivise and reward performance	PRP paid annually	Up to 20% of salary

## Fees for non-executive directors

A summary of the remuneration policy for non-executive directors can be found in the table below:

Elements of pay	Purpose	Operation	Maximum potential value
Fees	To recruit and retain non-executive directors with the appropriate skills and experience.	Paid monthly and reviewed annually	Determined annually

## Staff profile

No staff were employed by UKGI during the reporting period. Accordingly there was no sick absence.

Four members of staff were employed by HM Treasury, specifically to work on the setup of UKGI, whose costs were met directly by HM Treasury from the UKGI set up budget. Of these four members of staff, two were transferred to UKGI on 1 April 2016, under the Transfer of Undertakings (Protection of Employment) Regulations ("TUPE").

The Chair, CEO and deputy chair were appointed on 11<sup>th</sup> September 2015. Robin Lawther, Caroline Thomson, Jitesh Gadhia, Jane Guyett, John Kingman and Martin Donnelly were formally appointed from 12<sup>th</sup> February 2016. For this reporting period, the applicable costs, detailed below, were met directly by HM Treasury from the UKGI set up budget. Simon Palley was appointed as the final non-executive director on 19 May 2016.

On 1 April 2016, 95 staff transferred to UKGI. 66 staff employed in the Shareholder Executive, as part of the Department for Business, Innovation and Skills, transferred under TUPE, 25 staff are on secondment from various Government departments and 4 staff are temporary agency workers.

UKGI will seek to maintain its unique blend of high-calibre people drawn from the private and public sector.

UKGI will ensure that its work is resourced with an appropriate level of expertise, enabling risk to be mitigated through balanced resourcing, and providing scope for mentoring and skills sharing between civil servants and private sector colleagues..

## Bonuses awarded

No bonuses were awarded during this reporting period.

## Service contracts policy

UKGI's policy on duration of contracts is that directors' contracts continue for a period of three years, unless terminated earlier by HM Treasury, in accordance with the Company's Articles of Association, or by either party giving written notice to the other. Upon termination of the appointment, subject to any fees outstanding, directors have no entitlement to compensation in respect to any loss.

## Service contracts for 2015/2016

The company was incorporated on 11<sup>th</sup> September 2015, from which point the Chair, CEO and deputy chair became directors of the company. Remaining non-executive directors were formally appointed from 12<sup>th</sup> February 2016 for a period of three years.

The notice period for the termination of all directors' contracts is three months.

The Company is not liable for any compensation, except in the case of outstanding fees. Non-executive directors do not receive any compensation, other than fees for their services.

The current service contracts for each of the directors are set out below.

## Executive directors

The sole Executive director during the reporting period was the Chief Executive Officer, Mark Russell, who continued to be employed by the Department for Business, Innovation and Skills ("BIS") until 31<sup>st</sup> March 2016. He was paid [x] from 1<sup>st</sup> April 2015 to 31<sup>st</sup> March 2016 as a Director General in BIS.

No remuneration was paid in relation to his role as a UKGI Director.

Single total figure of remuneration for Executive Directors	Salary (£)	Bonus payments (£)	Pension (£)	Total (£)
Mark Russell	0	0	0	0

## Non-executive directors

Each non-executive director is paid an annual fee of £25,000 for their attendance at the Board, plus £4,000 for each Board committee Chairmanship held, plus £2,000 for each Board committee membership for which they are not Chairman. These amounts were pro-rated during this initial reporting period. The Senior Independent Director will be paid an annual fee of £4,000. No Senior Independent Director was appointed during the reporting period.

Those non-executive directors who also sit on the Board of UKFI (James Leigh-Pemberton, Jane Guyett and Jitesh Gadhia) do not receive the £25,000 annual fee. Details of the remuneration paid can be found in the UKFI Annual Report available at [www.ukfi.co.uk](http://www.ukfi.co.uk). Non-

## BOARD DIRECTORS' REMUNERATION REPORT

executive directors representing Government departments do not receive remuneration for their services.

The table below reports the salary for each non-executive director for the period ending 31<sup>st</sup> March 2016 and has been audited by the Company's auditors. The value of non-cash benefits is zero, and salary includes only gross salary.

These costs were met by HM Treasury as described in the Strategic Report. As this is the first year of operation for UKGI, no comparable figures are available.

<b>Single total figure of remuneration for non-executive directors</b>	<b>Salary (£) – FY15/16</b>
<b>Robert Swannell</b>	5,402 (Full-year equivalent: 40,000)
<b>James Leigh-Pemberton</b>	0*
<b>Robin Lawther</b>	4,187 (Full-year equivalent: 31,000)
<b>Caroline Thomson</b>	4,187 (Full-year equivalent: 31,000)
<b>Jane Guyett</b>	810* (Full-year equivalent: 6,000)
<b>Jitesh Gadhia</b>	540* (Full-year equivalent: 4,000)
<b>John Kingman</b>	0**
<b>Martin Donnelly</b>	0**
<b>Simon Palley</b>	0

\*Those non-executive directors who also sit on the Board of UKFI do not receive the £25,000 annual fee.

\*\*Non-executive directors representing Government departments do not receive remuneration for their services

BOARD DIRECTORS' REMUNERATION REPORT

### Directors' remuneration – performance-related pay

The UKGI non-executive directors are not eligible for UKGI's performance related pay.

The appraisal year for UKGI runs from 1<sup>st</sup> April – 31<sup>st</sup> March. Performance related pay for staff is determined in the first quarter of the following financial year.

### Directors' expenses

Directors' expenses during the reporting period are listed below. As this is the first year of operation for UKGI, no comparable figures are available.

Director	Expenses (£) – FY15/16
Robert Swannell	0
James Leigh-Pemberton	0
Mark Russell	0
Robin Lawther	62
Caroline Thomson	0
Jane Guyett	0
Jitesh Gadhia	0
John Kingman	0
Martin Donnelly	0
Simon Palley	0

### Directors' pension arrangements

None of the directors or non-executive directors received a pension from the Company.

# Independent Auditors' Report to the Shareholders of UKGI

I have audited the financial statements of UK Government Investments Ltd for the year ended 31 March 2016 which comprise the Statement of Comprehensive Net Expenditure, Statement of Financial Position, Statement of changes in Equity and Statement of Cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

## Respective responsibilities of the directors and the auditor

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

## Scope of the audit of the financial statements

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

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF UKGI

### **Opinion on financial statements**

In my opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2016 and of the results for the year then ended; and
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union; and
- the financial statements have been prepared in accordance with the Companies Act 2006.

### **Opinion on regularity**

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

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

In my opinion:

the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements..

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

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

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

Peter Morland(Senior Statutory Auditor)

[Date]

For and on behalf of the

Comptroller and Auditor General (Statutory Auditor)

National Audit Office

157-197 Buckingham Palace Road

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF UKGI

Victoria  
London  
SW1W 9SP

# UKGI Financial Statements

## Statement of Comprehensive Net Expenditure for the Year ending 31 March 2016

	Notes	Mar – 16
		£000
<b>Expenses</b>		
Salaries		0
IT Service, Maintenance & Repairs		0
Consultancy		0
Accommodation		0
Other		0
<b>Total Expenses</b>		<b>0</b>
<b>Revenue</b>		<b>0</b>
<b>Surplus/(Deficit) for the Year</b>		<b>0</b>

The notes on pages [LINK] are an integral part of these financial statements.

Statement of Financial Position as at 31 March 2016

Notes	Mar – 16
	£000
<b>Total Non-Current Assets</b>	0
<b>Total Current Assets</b>	0
<b>Total Assets</b>	<b>0</b>
<b>Equity</b>	0
Surplus/Deficit for the year	0
Funded by HMT	0
<b>Total Non-Current Liabilities</b>	0
<b>Total Current Liabilities</b>	0
<b>Total Equity plus Liabilities</b>	<b>0</b>

The notes on pages [LINK] are an integral part of these financial statements.

UKGI FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors on [DATE] and were signed on its behalf by:

**Mark Russell**

Chief Executive

UKGI Company Number 9774296

**Robert Swannell**

Chairman

UKGI Company Number 9774296

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UKGI00016667

Statement of changes in equity for the year ending 31 March 2016

Notes	Mar – 16
	£000
Funded by HMT	0
Deficit for the Year	0
<b>Balance at 31 March</b>	<b>0</b>

The notes on pages [LINK] are an integral part of these financial statements.

Statement of cash flows for the year ending 31 March 2016

Notes	Mar – 16
	£000
Cash flows from operating activities	0
Cash flows from investing activities	0
<b>Cash and cash equivalents at the beginning of the period</b>	<b>0</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>0</b>

The notes on pages [LINK] are an integral part of these financial statements.

# Notes to the Financial Statements

## 1. Reporting Entity

UK Government Investments Limited (the "Company") is a Company domiciled in the UK. The address of the Company's registered office is 27-28 Eastcastle Street, London W1W 8DH. The Company operates as an investment management business under the terms of the Companies Act 2006.

## 2. Basis of Preparation

### (a) Statement of Compliance

In May 2015 the Chancellor announced that the Shareholder Executive (ShEx) and UK Financial Investments (UKFI) were to be brought together under a single holding company, UK Government Investments (UKGI). UKGI was incorporated on 11<sup>th</sup> September 2015 with the intention that it would commence operations from 1<sup>st</sup> April 2016. This first Annual Report and Accounts covers the period from incorporation to 31<sup>st</sup> March 2016 (the "reporting period").

During the reporting period, UKGI's setup costs were fully funded by HM Treasury in accordance with their systems and controls. A summary of these setup costs is included in the Business Report. UKGI itself was not delegated a budget for the financial year 2015/16.

In future, UKGI will be funded by HM Treasury via grant-in-aid. Authority for HM Treasury to provide such funding must be given by Parliament in advance of any payment being made. A clause giving HM Treasury the power to fund UKGI was included in the Enterprise Act, which gained Royal Assent on 4<sup>th</sup> May 2016.

These Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The Financial Statements are also prepared in accordance with the Government's Financial Reporting Manual (FReM) where this exceeds the requirements of the Companies Act 2006.

The Financial Statements were authorised for issue by the Board of Directors on [DATE].

### (b) Basis of Measurement

The Financial Statements have been prepared on the historical cost basis. The directors have concluded that it is appropriate for the financial statements to be prepared on a Going Concern basis, as UK Government Investments is expected to continue operating for the foreseeable future and at least until its next status review with HM Treasury, due to take place in 2019 as set out in the UKGI Framework Document, agreed with HM Treasury and published at [LINK].

**(c) Functional and presentation currency**

These Financial Statements are presented in pounds sterling, which is the Company's functional currency. All financial information has been rounded to the nearest thousand.

**(d) Use of estimates and judgements**

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. There were no such estimates or judgements in this period.

**3. Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements

**(a) Foreign Currency**

Transactions which are denominated in foreign currencies are translated in sterling at the foreign exchange rate ruling at the date of the transaction.

**(b) Corporation tax**

The Company is registered for the purposes of corporation tax. As described in note 2(e) – HM Treasury will fund the expenses incurred by UKGI through grant-in-aid as set out in the UKGI Framework Document.

**(c) VAT**

The Company is treated as carrying on a business for VAT purposes; services provided are standard rated for VAT purposes.

**4. Called up share capital**

UKGI share capital consists of 1 Ordinary Share of £1. The share is fully paid up.

**5. Deficit & Funding by HM Treasury**

As described in note 2(a); during this reporting period, all UKGI expenses have been funded directly by HM Treasury.

**6. Contingent Liabilities**

UKGI Directors are indemnified against liabilities and losses incurred in the course of their actions as directors by both UKGI and HM Treasury. The potential liabilities in relation to these indemnities are considered unquantifiable.

**7. Related Parties**

As at 31<sup>st</sup> March 2016, the Company is a wholly owned subsidiary undertaking of HM Treasury which is registered in England and Wales and operates in the United Kingdom.

**8. Events after the reporting period**

On 1<sup>st</sup> April 2016, UK Financial Investments (UKFI), formerly a wholly owned subsidiary of HM Treasury, became a wholly owned subsidiary of UKGI.