



UKGI

PORTFOLIO

OPERATING

PRINCIPLES

WITH GUIDANCE

MARCH 2024 v4.4

Contents

Introduction

How to use the Portfolio Operating Principles	5
UKGI Reporting	7
Escalating Shareholder Concerns and Further Intervention	8
UKGI Non-Executive Director Responsibilities	9
Activities Outside of UKGI's Target Operating Model	11
Glossary of Terms	12

Portfolio Operating Principles with Accompanying Guidance

Principle A: Establish and maintain appropriate and effective corporate governance foundations which govern the department-asset relationship	13
Principle B: Promote effective objectives, business planning and performance against business plan	21
Principle C: Promote strong corporate capability	29
Principle D: Promote effective leadership (high quality boards and senior management)	37
Principle E: Promote effective relationships between the department and the asset	47
Principle F: Supporting and supplementing the activities above by providing an experienced shareholder NED on the asset board	52

UKGI Internal Assurance Processes

55

List of compliance documentation and guidance for UKGI Assets by principle

56

Introduction

How to use the Portfolio Operating Principles

UK Government Investments (UKGI) performs the shareholder function for a broad and diverse portfolio of organisations, acting on behalf of Departments. The portfolio ranges from Non-Ministerial Departments through to private limited companies. In representing government's shareholder interest, UKGI proactively challenges and supports the organisational performance of our Assets.

These Portfolio Operating Principles set out UKGI's Target Shareholder Model. This represents the model which UKGI should seek to operate for each Asset, and against which potential new Assets will be considered when added to the portfolio. UKGI should evaluate its work for each Asset against this model. Activities conducted by UKGI for Assets outside of this model must be properly understood, documented, and considered on an ongoing basis by UKGI, as these may require additional layers of internal assurance or different types of resource. UKGI acknowledges that its activities for certain Assets will sit outside the Target Operating Model, and these instances must be well documented and understood by UKGI.

Shareholder teams must familiarise themselves with their responsibilities, and those of other stakeholders (including their respective Departments and HM Treasury), as well as the functions and duties of the Asset. For each Asset, UKGI teams **must** carry out the functions established for them within the Asset's Constitutional Documentation, before seeking to implement any of the responsibilities set out in this document.

These Portfolio Operating Principles set out the governance **Principles** and **Activities** that frame our Target Operating Model with any Asset in UKGI's portfolio. It breaks down the six core Principles into 40 individual Activities that our shareholder teams are expected to undertake, and against which they should report. The six Portfolio Operating Principles are:

- | | |
|--------------------|--|
| Principle A | Establish and maintain appropriate and effective corporate governance foundations which govern the Department-Asset relationship |
| Principle B | Promote effective objectives, business planning and performance against business plan |
| Principle C | Promote strong corporate capability |
| Principle D | Promote effective leadership (high quality boards and senior management) |
| Principle E | Promote effective relationships between the Department and the Asset |
| Principle F | Support and supplement the activities above by providing an experienced Shareholder NED on the Asset Board |

Reporting against the Activities which sit beneath these Principles should be done periodically, to UKGI Portfolio Reviews and the UKGI Board, using the Target Operating Model assessment. The purpose of reporting against these Activities is to **highlight the areas where UKGI is carrying out a shareholder role as a variation against our Target Operating Model**, and so to support our assurance processes and overall portfolio management to be as effective as

OFFICIAL - INTERNAL UKGI DOCUMENT - UKGI PORTFOLIO OPERATING PRINCIPLES WITH GUIDANCE

possible. In order to facilitate this, shareholder teams should provide explanations in areas of divergence through the relevant Portfolio Review and Board Reporting processes.

Supporting the UKGI Portfolio Operating Principles is the UKGI Portfolio Operating Principles Guidance. This provides guidance to shareholder teams regarding each of the principles of this document. In areas of significant complexity further Guidance Notes are also available, all of which can be found [here](#).

Many of the activities of this document draw on practices used in the private sector. However, Government-owned organisations are also subject to the requirements of any founding legislation and areas of HMG guidance. UKGI maintains a list of wholly or largely applicable controls and guidance from HMG for our Assets, this can be found [here](#). UKGI teams should consult this, in conjunction with the Asset's Constitutional Documentation for specific issues relating to UKGI's role. The Portfolio Operating Principles are also set out in accordance with the [Sponsorship Code of Good Practice](#), issued by Cabinet Office.

UKGI also provides a governance function for certain listed assets. In these instances, UKGI also applies the Stewardship Code as appropriate.

UKGI Reporting

UKGI teams should develop a **regular reporting rhythm** into the relevant sponsoring Department for each Asset. In order to do this UKGI teams should develop and maintain strong functioning relationships with any policy counterparts within their responsible Departments, as well as HM Treasury and Cabinet Office as necessary. UKGI should not be hesitant to flag concerns they have regarding the functioning of their working level relationship with Departmental counterparts, both internally within UKGI, and to the Department in question. These relationships are so key as to be reviewed periodically as part of the UKGI Portfolio Review process.

As well as maintaining strong functional working relationships with Departments, **UKGI should also be able to provide its own qualitative reports into the Department at an appropriate level**. UKGI should be able to report its thoughts, concerns and priorities honestly, and without the need to filter these through the Department, Asset, or other stakeholders, (though consultation with other stakeholders, and the Asset itself, is often encouraged for the benefit of strong working relationships). To this end, UKGI shareholder teams should establish regular reports (quarterly or biannual, for most UKGI assets) to senior Departmental personnel. Reports should give a qualitative UKGI view of the Asset, and any concerns UKGI has across all areas devolved to us. Reporting into the Department should be done at appropriately senior levels. For most UKGI Assets this will be done either at the Director General or Permanent Secretary level, UKGI should agree this with the Department.

UKGI's value as a shareholder comes most readily from our ability to **provide meaningful advice to Departments concerning our Assets**, and our greatest risk comes from not having our input, challenge, and advice being sufficiently delivered and acted upon.

Within these Portfolio Operating Principles, a number of activities relate to reporting to the Department. UKGI should also be aware of reporting requirements to other parties if these are set out within their Constitutional Documentation. Such parties may include a regulator, HM Treasury, Parliament, or stakeholder groups.

UKGI has internal assurance processes which consider the effectiveness of an Asset and its governance on a periodic basis, these include risk registers, dashboards, as well as formal meetings such as Portfolio Reviews. Performance against the Portfolio Operating Principles should form a part of reporting ahead of Portfolio Reviews, and it is the responsibility of each Shareholder Team to maintain an up-to-date (no more than twelve months old) assessment against the Target Shareholder Model. Where Assets are experiencing significant challenges it is for the Shareholder Team to flag concerns internally. Where this is outside of the normal reporting rhythm an Expert Advisory Panel may be convened.

Escalating Shareholder Concerns and Further Intervention

UKGI shareholder teams should conduct the BAU target shareholder role as set out in this document. **However, red-flag issues may require further escalation or intervention beyond our BAU practices and the normal parameters of the shareholder role.** This should be done via the board initially, but if the response or engagement from the Asset is not adequate then shareholder teams should feel empowered to push matters further. Shareholder teams must not feel unable or unwilling to pursue their concerns because of the perceived operational independence of an Asset or, in the case of Shareholder NEDS, not wanting to overstep their non-executive role.

In exceptional circumstances, UKGI should not feel constrained by its BAU shareholder or UKGI NED activities and should feel comfortable to undertake additional scrutiny and escalate matters where appropriate. In essence, the level and degree of challenge being provided by UKGI must remain under careful review in such situations.

A range of options are available, which could include UKGI using its full hard levers (such as those set out in constitutional documents) and/or soft levers (by leveraging senior relationships).

For highly confidential matters which the Asset is reluctant to be circulated, the UKGI General Counsel can be used as a first port of call for advice, particularly for the Shareholder NED. They can also advise where the Asset is not sharing information in an appropriate manner.

If timing permits, a Portfolio Peer Review session should be held to socialise concerns more widely to peers, and to help the shareholder team consider an appropriate response.

If shareholder teams think that they need to intervene above and beyond their shareholder role, they must alert the UKGI CEO, Portfolio Director, and General Counsel so they can consider how best to manage the particular issue.

If a shareholder team has significant concerns about the way the Asset is handling an important matter, they should ensure the department is well sighted at the appropriate levels. This is likely to include informing the Permanent Secretary and potentially ministers.

Each situation will be different so the appropriate response from the shareholder team will depend upon circumstances. **However, examples of further escalation teams have historically used include:**

- Seeking assistance from Internal Audit to conduct an internal review of key matters and report to the Board
- Using HMG assurance processes, such as via the IPA or GIAA
- Requesting that the Board commissions an independent review, or advising Ministers that government commissions an independent review into the matter or, in the case of material litigation, a second opinion
- Requesting Ministers and/or Permanent Secretaries deliver clear messages on the need for change (including by formally writing to the Asset setting out concerns)
- Advising the Board or Minister to replace senior executives, board members and/or chairs
- In extremis withholding funding or refusing to sanction particular business cases

UKGI Non-Executive Director Responsibilities

The UKGI Target Shareholder Model, as set out by these Portfolio Operating Principles, includes a UKGI Non-Executive Director on the Board of the Asset. UKGI sees this as an essential lever through which it can perform its shareholder role and be at the heart of its Assets' governance.

UKGI NEDs are expected to draw upon the expertise of both the UKGI team responsible for an Asset, and the wider UKGI portfolio, through learning and knowledge sharing. Nevertheless, the UKGI NED has responsibilities to the Asset which are distinct and sit with the individual. These cannot be devolved to UKGI or others.

Unless stated otherwise by Constitutional Documentation, the duties of the UKGI NED on an Asset's Board must be the same as those of all the other Directors, including any other Directors appointed by Ministers. Those include to act in a way they consider, in good faith, most likely to promote the success of the Asset for the benefit of its shareholders. These responsibilities have different parameters to those of UKGI as an organisation, performing the shareholder role. The personal responsibilities of Directors of companies incorporated under the Companies Act 2006 (or predecessor legislation) are set out in section [171 to 177](#) of the Companies Act 2006¹. The responsibilities of the Board cannot be delegated, and include (but are not restricted to) the following:

- Duty to promote the success of the company
- Duty to exercise reasonable care, skill and diligence
- Duty to exercise independent judgment
- Duty to act within powers
- Duty to avoid conflicts of interest
- Duty to declare interests in proposed transactions
- Duty to declare interests in existing transactions
- Duty not to accept benefits from third parties.

UKGI understands that the UKGI NED will seek support in carrying out their responsibilities from their shareholder teams, and UKGI encourages this insofar as UKGI team members can provide expertise and insight. However, responsibility for Director duties cannot be borne by anybody other than those on the Board of the Asset, including the UKGI NED.

Despite the need for UKGI NEDs to have the same responsibilities as all other Directors, UKGI accepts that their functional relationship will differ from Independent NEDs. UKGI NEDs by virtue of their HMG-facing roles, have a special ability to facilitate relationships and understanding between Departments and their Assets. UKGI NEDs will act as interlocutor between Departments and Assets as necessary, to give HMG better insight as to the quality of the Board in the performance of its governance function, as well as to promote HMG perspectives and information flow at the Asset Board. This role is critical in helping to deliver all of the objectives of UKGI and HMG. Examples of how the UKGI NED can assist in this regard can be found throughout the Portfolio Operating Principles Guidance.

¹ UKGI acknowledges that many of its assets are not constituted as "Companies" and are therefore not legally subject to the Companies Act 2006. Nevertheless, in terms of Director's responsibilities, UKGI applies the principles of the Companies Act as far as possible.

OFFICIAL - INTERNAL UKGI DOCUMENT - UKGI PORTFOLIO OPERATING PRINCIPLES WITH GUIDANCE

UKGI NEDs should consult with UKGI Legal in instances in which they wish to clarify their responsibilities as a NED. UKGI NEDs should also liaise with UKGI Legal to ensure that they have the appropriate appointment letters and indemnities in relation to their appointments and resignations from Asset Boards. UKGI NEDs should attend the appropriate UKGI training regarding Directors' duties before taking a position on an Asset Board. UKGI NEDs should also read two internal documents that focus on the role and responsibilities of directors and board members: the [UKGI NED Induction Pack](#) and the [UKGI NED Guide: Assets with a Public Purpose](#). A Guidance note on the role of the UKGI NED can be found [here](#).

Activities Outside of UKGI's Target Operating Model

For some of its Assets, UKGI performs a number of activities in variation to its Target Operating Model. It is imperative that all such activities are recorded in the Asset's Framework Document or the relevant Departmental MoU and are well-understood by both UKGI and the Department. UKGI has template wording for [Framework Documents](#) and [Departmental Memoranda of Understanding](#) (and [activities annex](#)).

There are certain activities which should only be undertaken with the **explicit understanding of the Asset's responsible Director and the UKGI Portfolio Director**, these include:

- Setting Government policy
- Assuring satisfaction of policy objectives
- Mediating between departments on policy conflicts
- "Holding the Board to account" as principal²
- Assuring or approving business cases
- Assuring or approving procurement activity
- Determining funding allocation or funding strategy.

UKGI does not prohibit itself from undertaking any of the activities set out above with regards to its Assets. However, these must be properly understood and documented, and will be subject to periodic review by the UKGI Board and internal review processes.

UKGI's role is contingent upon the effective split between the shareholder function, which UKGI performs, and any other sponsor roles. Government can have up to five sponsor responsibilities for its ALBs: customer, policy setter, funder, regulator and owner / shareholder. If there are complex or significant trade-offs between government's different sponsor functions, they should be conducted separately with capable and dedicated resource. UKGI conducts the shareholder role on behalf of government departments, which must remain separate from the department's policy setting role. This is because teams must be able to critically assess the impact and effectiveness of policy in the context of Assets and are not unduly influenced by policy considerations. More detail on the role of UKGI in ALB sponsorship including a diagram setting out the various government sponsor roles and their respective responsibilities can be found in this Guidance Note [here](#). UKGI must not perform any role beyond that of the shareholder function unless properly understood and agreed by the UKGI Board. **UKGI should seek clarity in the delineation between the roles and responsibilities of the Shareholder Team and departmental counterparts, and seek to codify such relationships through constitutional documentation.** Where UKGI feels that the roles and responsibilities are either not understood by the department, or are not being followed in practice, Shareholder Teams should highlight this to the Portfolio Director.

² UKGI does not act as a proxy for Ministers with regards to holding the Board to account. Whilst the UKGI NED performs a crucial role as interlocutor between HMG and the Board, as well as a vital link for the shareholder team in performing its functions, only Ministers have the power to hold Boards to account. For more detail on the role of the UKGI NED in this area, see "[UKGI Non-Executive Director Responsibilities](#)".

Glossary of Terms

Activity	An activity required by UKGI as set out in the Portfolio Operating Principles
Asset	The entity in relation to which UKGI performs the shareholder role
Board	The Board of the Asset
Business Plan	An annual or multi-annual plan that sets out the Asset's strategy and forms the basis to which budgets set and performance is evaluated
Constitutional Documentation	All documentation concerning the incorporation and establishment of the Asset, including founding Legislation, Royal Charters, Memoranda of Understanding, Framework Documents, or treaties
Core Internal Governance Documentation	High level governance documentation for the Asset such as Board and Committee Terms of Reference, Articles of Association, high level delegated authorities etc.
D&I	Diversity and Inclusion
Department	The Department within HM Government with the overall policy responsibility for the Asset
ESG	Environmental, Social and Governance – non-financial performance indicators which include ethical, sustainable, and corporate governance issues
FWD	Framework Document – for the Asset
Guidance Provision	Guidance to an Activity for UKGI as set out in the Portfolio Operating Principles Guidance
HMG	HM Government
HMT	HM Treasury
KPI	Key Performance Indicators – underpinning a business plan
MoU	Memorandum of Understanding – between UKGI and the Department
NED	Non-Executive Director (or Non-Executive Board Member where the Asset is not a limited company)
OCPA	Office of Commissioner for Public Appointments
Portfolio Director	UKGI Director responsible for Corporate Governance, the UKGI Portfolio, and Stewardship
SID	Senior Independent Director
ToR	Terms of Reference
UKGI	UK Government Investments
UKGI Board	The Board of UKGI
UKGI Legal	The UKGI Legal Team – reporting to the UKGI General Counsel
UKGI NED	The UKGI Shareholder NED

Portfolio Operating Principles with Accompanying Guidance

Principle A: Establish and maintain appropriate and effective corporate governance foundations which govern the department-asset relationship

*UKGI should work with the Department and Asset to **establish and maintain appropriate corporate governance documents and systems**, through up to date and fit for purpose governance documents, including Framework Documents, Articles of Association where relevant, Board Terms of Reference, chair letter etc.*

Core Areas for Consideration

- UKGI-Department Memoranda of Understanding
- Framework Documents
- Asset Governance Documentation and Legislation
- Delegations of Authorities
- Chair's Letters

Shareholder Activities with Guidance

1. **UKGI must agree a Memorandum of Understanding between the sponsoring Department and UKGI. As the profile of work UKGI undertakes for specific Departments may alter over time, UKGI should seek to review MOUs at regular intervals.**
 - 1.1. **UKGI should establish a Memorandum of Understanding with Departments** for whom UKGI performs both advisory and shareholder work. Where UKGI commences either a shareholder role or corporate finance work for a Department with whom UKGI does not have an MoU, UKGI Legal and UKGI Portfolio Director should be informed.
 - 1.2. **UKGI should work closely with appropriate personnel within the Department** when working to establish or refresh an MoU. The responsible UKGI EDRM will usually lead discussions on behalf of UKGI, supported by the UKGI Portfolio Director. UKGI Legal should be engaged at the earliest possible opportunity, including being asked to approve the initial draft being circulated to the Department. Any significant deviations proposed by the Department to [MoU template wording](#) and [activities annex](#), particularly regarding the description of the shareholder role, should be discussed with UKGI Legal and the UKGI Portfolio Director at the earliest possible opportunity.

2. **UKGI should work with the Department and the Asset to establish a Framework Document which clearly allows for the Department (and UKGI where delegated) to exercise meaningful oversight of the Asset's strategy and performance, pay arrangements and/or major financial transactions. UKGI should encourage a review and updating of the Framework Document as necessary, at least every three years.**
 - 2.1. **Responsibility** for maintaining and updating Framework Documents lies with the Department. The Department should ensure that the Asset's Framework Document consists of all key criteria as set out in Managing Public Money (see annex [7.2](#)). The Framework Document and associated documentation should set out clearly the Asset's relationship with the sponsor Department, and with any other Departments, local government or devolved administrations with interest(s) in the Asset's business, including the role of UKGI, and where applicable, any subsidiaries of the Asset. The Treasury Office of Accounts should be the ultimate custodian of the Framework Document.
 - 2.2. In performing the shareholder role, UKGI is very likely to be heavily involved, if not to lead, in **the drafting** of a Framework Document. UKGI should seek to reflect the agreed delegations of authorities in accordance with UKGI's Memorandum of Understanding with the Department (see Activity 1) as well as any relevant legislation (see Activity 3) and applicable government controls (see Activity 4). UKGI should seek to be extensively involved in the drafting of the Framework Document, using the Framework Document [templates](#) as a base. UKGI should follow the drafting [guidance](#) issued by UKGI Legal, concerning certain UKGI in-house developed provisions (not included in MPM or the templates) which must be included in the Framework Document. UKGI should lead work, as appropriate, with all relevant other stakeholders, including the Asset, in order to gather their feedback and drafting suggestions. Drafting will require material consideration and negotiation with other key stakeholders. The Framework Document should be presented to the Board of the Asset to comment.
 - 2.3. It is imperative that **UKGI Legal** has the opportunity to review every Framework Document before it is agreed with all parties. UKGI should engage UKGI Legal at the earliest opportunity during the Framework Document drafting/review process, to ensure that they can assist most readily. UKGI Legal will usually review at the outset of the drafting process and towards the finalisation of the document. As well as checking template provisions have been included, it will also review to assure consistency from a corporate governance perspective and to check that all additions from parties are appropriate given the Asset's constitutional and legal framework.
 - 2.4. The Framework Document is often the most important foundational guide to the respective powers of the Asset and its stakeholders. Its purpose is best set out in Managing Public Money which can be found [here](#). UKGI has a responsibility on behalf of the shareholder to ensure that the Framework Document properly reflects the **working relationships** and exercise of powers concerning the Asset. To this end the Framework Document should be reviewed on at least a three-yearly basis. UKGI should, as part of its shareholder function and responsibility to establish and maintain appropriate and effective corporate governance foundations for the Asset, take a view as to the utility of the current Framework Document. UKGI should highlight, as a matter of urgency, any ways in which the Framework Document is not reflective of the functioning relationships of one or more parties, or ways in which the Framework Document ought to be updated. It is inevitable that responsibilities will evolve between UKGI, the Department, the Asset, and other stakeholders. In instances in which

material responsibilities are consciously changed, or delegated authorities transferred, UKGI should ensure that these are properly understood and documented for any interim period before this can be reflected in an update of the Framework Document. For example, a signed letter recognising such a transfer of powers from a senior person within the Department (such as the Permanent Secretary or a relevant Director General) should be provided. These should be reviewed by UKGI Legal.

2.5. A Guidance Note on Framework Documents can be found [here](#).

3. **UKGI should fulfil its role within any constraints, and in accordance with the shareholder requirements, of any legislation or legally binding documentation relating to the Asset.**

3.1. In instances in which Assets are founded, governed, or referenced in legislation, UKGI should be aware of all responsibilities and duties set out therein. Such responsibilities and duties must be reflected in **delegated authorities**, or codified, as necessary, within either the Memorandum of Understanding, or the Asset's Framework Document.

3.2. UKGI's shareholder role must be undertaken within the **constraints of relevant legislation**. In certain cases, legislation may set out, for example, ministerial powers, such as the power to appoint Non-Executives; reporting requirements, such as transparency requirements for the Business Plan or annual report; or third-party responsibilities, such as requirements to consult with regulators. Insofar as these legal requirements affect the undertaking of the shareholder role, UKGI must operate within these parameters. UKGI must also be cognisant of any additional shareholder responsibilities arising from such legislation. Specific shareholder responsibilities set out in legislation must be properly delegated, referenced and codified within delegated authorities, as set out in Guidance Provision 3.1.

3.3. Assets may be governed by **legally binding documentation** in addition to founding legislation. For example, Assets which are limited companies will have Articles of Association which set out the governing principles and parameters in which they can operate. UKGI shareholder teams must understand the legal obligations on the Asset that flow from such documentation, particularly with respect to how this affects the performance of the UKGI shareholder role. In accordance with Activity 2, UKGI should work to highlight any obligations that affect the performance of the shareholder role flowing from such documentation in the Framework Document, (for example shareholder consent matters and mechanics for Board appointments). In instances in which provisions of a Framework Document appear to conflict with any legally binding documentation, the view of UKGI Legal should be sought.

4. **UKGI should be aware of the requirements of relevant government controls and guidelines relating to the Asset.**

4.1. UKGI should be aware of government controls and assurance requirements that apply to the Asset and its projects, including any new controls as they are published. UKGI should consult the **list of general internal governmental controls and compliance requirements** kept by UKGI. This can be found [here](#). Asset Framework Documents should also contain a list of policies that are applicable to the Asset which can be a useful reference point, although this position will evolve over time. As set out in Activity 8, the applicable government controls and assurance requirements should be

embedded in the Asset's internal policies and be subject to periodic review by internal audit.

- 4.2. Assets may be **exempted from government controls** for various reasons. Such exemptions often apply to the [approval of senior pay](#). In such instances, UKGI should secure or confirm that there are written exemptions from a responsible authority, such as the Permanent Secretary of the Asset's responsible Department, or the Department issuing the controls, such as HM Treasury.
- 4.3. UKGI shareholder teams should be confident that their Asset consistently meets all relevant **environmental related regulatory and reporting obligations**. Including compliance with relevant environmental permits/licences, compliance with applicable reporting requirements under Companies Act, GGC, TCFD etc. The Environmental Stewardship Guidance note can be found [here](#), which includes reporting requirements for Assets at Annex A, based upon their classification.
- 4.4. In instances in which there is **a lack of clarity** relating to whether or how such controls should be applied to the Asset, UKGI should consult the UKGI Portfolio Director for advice.
5. **UKGI should work with the Asset and the Department to record clearly and accessibly all delegated authorities relating to the Asset.**
 - 5.1. The principal source of delegated authorities concerning UKGI and other HMG stakeholders is the **Framework Document**. In keeping with Guidance Provision 2.4, UKGI should be confident that the divisions of responsibilities and authorities within the Framework Document are a proper representation of the functioning relationship of stakeholders to the Asset.
 - 5.2. UKGI should properly understand the **internal delegated authorities at senior levels** within the Asset. Assets should document their internal delegated authorities in order to allow for a functional understanding of the roles of Asset personnel and governance instruments. The easiest and most readily accessible way of documenting delegated authorities is through a chart of authorities. A chart of authorities should set out the various instruments and powers within the organisation, including financial delegations at various levels, and the authorities required to carry them out (these are often presented as a RACI matrix). UKGI is not responsible for drafting and documenting internal delegated authorities within the Asset. Nevertheless, UKGI should strongly encourage the Asset to do so, and should challenge the utility of any chart of authorities, particularly through their periodic review at Board level. In accordance with Guidance Provision 5.1, relevant UKGI and Departmental authorities should be properly documented within any chart of authorities.
 - 5.3. UKGI should encourage **senior personnel** within the Asset to familiarise themselves with both the internal delegated authorities, and the delegated authorities of Government and other stakeholders.
6. **UKGI should seek to ensure the Department issues a Chair's letter on an annual basis, and contribute, where appropriate, to its content.**
 - 6.1. The annual Chair's letter represents a key means by which the Department and UKGI, can convey **priorities for the year to the Chair of the Asset**. The letter should be issued by either the Department, or UKGI, both of whom should work together on the

drafting of the letter. UKGI should attach, as an annex, its “[Governance expectations of the Chair](#)”. This should set out the basic expectations of a Chair, (covering how the Chair is expected to conduct the Board, and the periodic requirements of the position, including annual performance assessments of NEDs and annual effectiveness reviews). The Chair’s letter itself therefore should set out the Department and UKGI’s strategic priorities for the Asset for the coming year, and how the Chair is expected to undertake these. These shall form a part of the Chair’s annual performance appraisal, as set out in Activity 27.

6.2. A Guidance Note on “How to Work with Asset Chairs”, which contains guidance on Chair’s letters, can be found [here](#). Cabinet Office’s example Chair’s letter can be found [here](#).

7. UKGI should encourage the Department or Asset to issue Appointment Letters to all NEDs. UKGI should provide feedback on the terms and conditions as necessary.

7.1. **Upon appointment**, non-executive directors (including the Chair, who should also receive a “Chair’s letter”, set out in Activity 6), should receive a letter of appointment. This should be issued by an appropriately senior person within the Department where it is a Ministerial appointment. This letter should convey the Department’s decision to appoint the individual, and welcome them to the Asset. Where the appointment is made by the Asset Board the letter should come from the Chair. In addition to this, the individual should be provided with a document, setting out the terms and conditions of their appointment to the position.³ UKGI should not issue either of these letters, except in exceptional circumstances. UKGI Legal, and where appropriate the legal team within the Department, should review the terms and conditions, and UKGI should relay any comments or edits to the Asset before they are issued. A signed copy should be kept by the Asset and UKGI for their joint records.

7.2. **Upon reappointment**, non-executive directors (including the Chair, who should also receive a “Chair’s letter” set out in activity 6) should receive a confirmatory letter of reappointment in the same manner as an appointment letter, set out in Guidance Provision 7.1. In addition to this, the individual should be sent a similar letter, either setting out any updated terms and conditions to their previous term of office, or confirming that their reappointment shall be on the same terms as previously. UKGI should not issue either of these letters, except in exceptional circumstances. UKGI Legal, and where appropriate the legal team within the Department, should review the terms and conditions both to review proposed amendments and to review the relevance and appropriateness of any reissued terms. UKGI should relay any comments or edits to the Asset before they are issued or reissued.

8. UKGI should assess the sufficiency and quality of the Asset’s core governance documentation. The Asset should have all appropriate governance documentation in order to function effectively. All documentation should be reviewed and updated as appropriate by the Asset’s Board at least once a year.

³ There is no standard NED appointment letter although there are terms and conditions which UKGI do expect to be included, these should be discussed with UKGI Legal. From a good corporate governance perspective, it is usual that the Asset issues the terms and conditions of appointment. However, this is not always possible for UKGI Assets. For example, the legislation applicable to the Asset may require a Minister to set and issue the terms and conditions of appointment. UKGI Legal should be consulted where this is unclear.

- 8.1. UKGI should have sight of the Core Internal Governance Documentation of the Asset, and comment upon its adequacy, in order to effectively perform its shareholder function. The ownership of internal governance documentation sits with the Asset itself, and in most cases, with the Asset Board. It is incumbent upon the **Board to review its core governance documentation**, at a minimum its Board Terms of Reference and its Committee Terms of Reference, (though this may also include Articles of Association, or group governance documentation, see Guidance Provision 8.3) on an annual basis, as part of its rolling review of effectiveness. Reviews of internal controls and policies are covered in Activities 19 and 20 respectively. UKGI can most meaningfully reflect upon the sufficiency and quality of the Asset's governance documentation through the UKGI NED, pursuant to activity 39. UKGI should (through the UKGI NED as appropriate) encourage the Board to place a review of its internal governance documentation on its annual rolling calendar. Some template examples can be found at the following links for an: [Audit and Risk Committee](#), [Remuneration Committee](#), and other [specialised Committee](#).
- 8.2. When reviewing the Asset's core internal governance documentation, the Board, and UKGI, should consider its **relevance and its utility**:
- 8.2.1. Asset governance documentation should be **relevant**. It must be compatible with the governance arrangements understood by HMG, pursuant to Activities 1-5 above. UKGI must flag instances in which this is not the case. Such instances may include a presumption to powers otherwise retained by HMG, such as the power to appoint or decide remuneration for senior executives or non-executives. Similarly, delegated authorities to the Board or its committees, as understood by HMG, must be properly recorded within governance documentation, so as to allow senior personnel within the Asset to have sight of the powers which HMG understands them to exercise. UKGI should raise concerns and propose drafting amendments to core internal governance documentation to the Asset Secretariat and the Chair. This is most easily done via the UKGI NED at the Board. Any concerns or queries UKGI has relating to the relevance of core governance documentation and its fit within the Asset's structure of delegated authorities should be raised with UKGI Legal for advice.
- 8.2.2. Asset governance documentation should be **useful**. It must be easily accessible, usable, and in line with corporate governance best practice as far as possible. UKGI should encourage this. UKGI may wish to promote external standards for terms of reference,⁴ and incorporate private sector best practice developments in Board and committee functioning.⁵ In encouraging annual reviews of core governance documentation, as set out in Guidance Provision 8.1, UKGI can help increase internal visibility of corporate governance arrangements within the Asset. Any concerns or queries UKGI has relating to the drafting of core governance documentation and emerging corporate governance best practice should be raised with UKGI Portfolio Director for advice.
- 8.3. Where the **Asset operates within a group structure** as a parent with one or more subsidiaries, the Asset Board must review the core governance documentation of the subsidiaries, at a minimum their Articles of Association (or equivalent), their Board Terms of Reference, and their Committee Terms of Reference, on a sufficiently regular basis. UKGI must have sight of the internal governance documentation of the Asset,

⁴ Such as the Chartered Institute of Internal Auditors "[Model Audit Committee Charter](#)".

⁵ Such as the [UK Corporate Governance Code 2018](#) from the Financial Reporting Council

and comment upon its adequacy, in order to effectively perform its shareholder function. UKGI can most meaningfully reflect upon the sufficiency and quality of the Asset's governance documentation through the UKGI NED, pursuant to Activity 39. Subsidiary governance documentation should be reviewed to assess the extent to which it reflects the functioning group structure and understood delegations of authorities. UKGI should review such documentation in line with any delegated authorities set out in relevant legislation (see Activity 3) or the Framework Document (see Activity 2).

9. UKGI should assess the sufficiency and quality of the Terms of Reference of the Asset's non-executives. Non-executives should have all appropriate governance documentation in order to function effectively.

- 9.1. UKGI must have sight of the **terms of reference for non-executives, including the Chair** (for further information on the Chair, see Guidance Provision 9.3). As set out in Activity 7, UKGI, in consultation with UKGI Legal, must be able to comment upon director terms of reference when they are issued or updated. UKGI must be comfortable that the terms and conditions are fit for purpose. UKGI should consult the UKGI [Public Appointments Reference Guide](#) to determine whether the terms of reference are consistent with all requisite approvals received before the terms of reference are issued. Any queries should be addressed to the UKGI Appointments and Remuneration team.
- 9.2. Where there is a **UKGI non-executive** on the Board, as set out in activity 39, the UKGI non-executive must be issued terms of reference by the Asset, similarly to all other non-executives, as set out in Guidance Provision 9.1. UKGI non-executives must have the same duties and responsibilities as all other non-executives, as far as possible. Provisions which may differ for the UKGI non-executive from other non-executives, should be limited to remuneration, terms of termination and notice periods (these should be tied to the NED being a UKGI employee), and term lengths as necessary (UKGI NEDs may be issued indefinite term lengths)⁶. UKGI should consult UKGI Legal for bespoke language regarding the role of the UKGI NED for inclusion within their terms of appointment. In keeping with the requirements of [Section 172](#) of the Companies Act 2006 (from which UKGI applies best practice, including in instances where the Companies Act 2006 does not apply to an Asset), all NEDs have a duty to act in a way that would be most likely to promote the success of the Asset for the benefit of its shareholders. A UKGI NED must not be given responsibilities distinct to those of other NEDs as outlined in their terms of reference.
- 9.3. UKGI should issue the **Chair** with the UKGI's "[Governance Expectations of the Chair](#)" on an annual basis, as set out in Guidance Provision 6.1. UKGI should encourage the specific responsibilities of the Chair are correspondingly set out in the Chair's terms of reference, in accordance with Constitutional Documentation.
- 9.4. UKGI does not encourage Assets to have **Deputy Chairs**. Where Deputy Chairs exist, often as a result of multi-stakeholder relationships which have established them, the Deputy Chair must also be issued terms of reference by the Asset. UKGI, in consultation with UKGI Legal, must be able to comment upon Deputy Chair terms of reference when they are issued or updated. UKGI should consult the UKGI [Public](#)

⁶ Whilst UKGI NEDs may be issued indefinite term lengths, subject to any constraints in the governance documentation of the Asset, UKGI should take stock at appropriate intervals as to whether the incumbent UKGI NED should continue in post or be replaced. It may be appropriate, such as after six years in post, for the UKGI NED on the Board to rotate. This is a matter for UKGI ExCo to consider, informed by the UKGI shareholder team. As with all NEDs, the UKGI NED should be subject to an annual performance appraisal performed by the Chair, as per Activity 29.

[Appointments Reference Guide](#) to determine whether the terms of reference are consistent with all requisite approvals received before the terms of reference are issued. UKGI should pay particular attention to whether the Deputy Chair has the requisite ministerial understanding and approval to be able to assume the position of the Chair should the Chair be unable to do so, either temporarily or permanently. Any queries should be raised with the UKGI Appointments Lead.

- 9.5. UKGI encourages Assets to appoint a **Senior Independent Director (SID)**, (see activity 26, and the [Senior Independent Director Guidance Note](#)). Upon appointment, the SID should be issued with terms of reference for the position. Alternatively, owing to the limited responsibilities of the SID additional to their duties as a non-executive director, the Asset may deem it sufficient to issue a confirmatory letter to the SID, outlining their responsibilities. UKGI, in consultation with UKGI Legal, must be able to comment upon SID terms of reference or confirmatory letter when they are issued or updated. UKGI should pay particular attention to the role of the SID with regards to the annual appraisal of the Chair. UKGI should encourage this to be consistent with UKGI's [Chair appraisal policy](#), the [Cabinet Office/UKGI Chair appraisal guidance](#), and Activities 26 and 27.

Principle B: Promote effective objectives, business planning and performance against business plan

*UKGI should assess and challenge from an owner's perspective the Asset's **Business Plan**, the clarity of the objectives, the quality of the Business Plan and the financial, and where relevant commercial, strength underpinning it, and its effectiveness as a tool for the Asset*

*UKGI should monitor and challenge the Asset and its Board as to the **performance** against its Business Plan or equivalent document, in terms of how the Asset is performing as an organisation (as opposed to monitoring the success of the policy delivery itself)*

*UKGI should challenge the Asset's Business Cases, and other HMG approvals outside the Asset's executive delegations, through the **UKGI NED on the Asset Board only** (this will be limited to the degree of challenge that any non-executive Board member can provide. UKGI is not responsible for formally reviewing such business cases, providing advice to the department and ministers, or obtaining HMG approval for Business Cases, unless explicitly agreed otherwise)*

Core Areas for Consideration

- Objective Setting
- Business Planning
- Financial and Overall Performance and Reporting

Shareholder Activities with Guidance

10. **UKGI should promote clear objectives from the Department to the Asset, to support clarity of the Asset's purpose between the Department, the Asset, and where appropriate, HMT, in accordance with the relationship set out in the Framework Document.**

10.1. The Asset can only function effectively with a clear **policy direction from the Department, underpinning the Asset's purpose**. This policy should be translated by the Department into clear objectives for the Asset, which shall dictate its strategy, operations, and business plan. UKGI should be confident that this is the case. Through regular meetings with the Asset (such as via shareholder meetings, as per Activity 36) and its Board, as well as via regular contact with the Department, UKGI should monitor the extent to which the Asset and the Department have an effective relationship from a governance perspective, and the Department can set meaningful objectives for the Asset. Where UKGI believes that there is not a functional alignment, and this cannot be resolved at an operational level, UKGI should report this to an appropriately senior level, as per Activity 38.

10.2. UKGI should not review or assure the Asset's objectives from a policy perspective. UKGI should encourage the Asset to have **robust internal procedures** through which it can consider and discuss its objectives on a multi-year basis with the Department. The Asset can most meaningfully do so via the Accounting Officer and the Board.

UKGI should engage with the Department and other stakeholders to be confident that objectives have been set in an appropriate manner. UKGI should be confident that all processes and internal procedures conform to those set out in the Asset's Framework Document, as per Activity 2.

10.3. UKGI should be confident that the Asset, through its own internal governance framework as set out in Guidance Provision 10.1, works with the Department to establish clear objectives to frame its strategy, on an annual or multi-year basis, in accordance with the Asset's business planning cycle (see Activity 12). Beneath this, UKGI should encourage the Asset to establish robust and meaningful **Key Performance Indicators** against which the Asset can monitor its performance, both financial and non-financial. KPIs should be useful metrics, preferably quantitative in order to allow for objective assessment, and relevant to the Asset's operations. Guidance from the FRC on performance metrics can be found [here](#). KPIs should stretch the Asset, and yet be realistic and achievable. It is the responsibility of the Asset to discuss and develop relevant KPIs in coordination with the Department. The Asset's Board should lead on internally challenging and assuring KPIs within the Asset, and should be able to provide feedback on their appropriateness to the Department in a functional manner, as per Guidance Provision 10.1. UKGI should be confident that the Asset has sufficiently challenged its KPIs, and that both the Department and the Asset deem them appropriate. It is not for UKGI itself to determine the strength of the KPIs, though it may, via the UKGI NED most readily, provide feedback into the process in which they are determined based on internal expertise and experience.

10.4. UKGI expects the following metrics to be reported against in each reporting period (typically monthly or quarterly), this list is not exhaustive:

- Revenue
- Operating Costs
- Capital Expenditure
- Financing Costs
- Any other realised gains/losses
- Any other Balance Sheet adjustments (revaluations, pension scheme valuations, impairments, provisions etc)
- Cashflow and other applicable liquidity measures (e.g. headroom on RCFs / other overdrafts)

Other metrics should be reported against on a more periodic basis, for example:

- Full year forecast updates / budget reviews etc.
- Information on major upcoming financial events (refinancing; accounting reviews; audits and financial reporting notifications etc)

UKGI should interrogate the quality of the information, metrics, and KPIs provided by the Asset (as per Activity 37), as well as its content, as part of regular shareholder meetings (as per Activity 36).

10.5. UKGI should encourage Assets to establish a **D&I strategy** or have an acceptable alternative in place. This strategy should set out the Asset's ambitions for the D&I outcomes it wants to achieve, and the means by which it will achieve these ambitions, in a proportional manner to the Asset in question. UKGI should interrogate the Asset as to how the D&I strategy (or equivalent) is linked to wider organisational strategies.

in particular workforce engagement and planning strategies, and whether the strategy sets ambitions which are comprehensive, stretching, and credible. A Guidance Note on Diversity and Inclusion, and the role UKGI should play in promoting it within its Assets, can be found [here](#).

- 10.6. UKGI should encourage its Assets to establish/regularly review and update its environmental strategy setting out how it plans to achieve relevant KPIs, including reaching net zero by 2050. UKGI should communicate its expectation to see continuous improvement across relevant environmental metrics and associated governance across all Assets. A Guidance Note on Environmental Stewardship, which sets out the responsibilities of UKGI, as well as the sorts of reporting UKGI expects from its Assets, can be found [here](#).

11. UKGI should work with the Department and the Asset to promote the need for the Asset to have a Business Plan.

- 11.1. A business plan, linked to the long-term strategy of the Asset, as set out in Guidance Provision 10.1, is essential to direct and monitor the performance of the Asset, and ultimately support clear accountability. UKGI therefore must encourage the Asset to **establish an effective business plan**, and to agree it with the Department in accordance with the Framework Document or equivalent document. UKGI should encourage the Asset to consider what sort of business plan would best suit the Asset, such as over what timeframe the plan is refreshed, what the KPIs ought to be and how they link to the strategy and other objectives, as well as whether and how the business plan should undergo consultation with stakeholders. We would expect that any multi-year business plan would be broken down into annual budgets. UKGI should encourage the Asset to discuss these matters with the Department and key stakeholders (such as the relevant regulator if there is one).
- 11.2. UKGI should encourage the Asset to **take account in their business plan of broader governmental priorities and policy commitments**. For example, the business plan must take account of ESG priorities, for example commitments to Net Zero. A Guidance Note on UKGI's role in **environmental stewardship** with its Assets can be found [here](#).
- 11.3. UKGI should encourage the Asset to consider regularly whether its business planning cycle best suits the Asset's activities. The Asset should make **amendments to the process** where suitable and possible (noting that certain aspects of the business planning cycle may be established in the Asset's constitutional documentation, including founding legislation).
- 11.4. UKGI should encourage the Asset to establish an **effective business plan**, in line with the Asset's purpose, as set out in Activity 10. Key aspects to consider include:
- Is the business plan achievable? Is it high risk?
 - Does the business plan align financially with the Asset's operations? Can the business plan be operationalised with appropriate performance metrics?
 - Does the business plan have Board and Executive support?
 - Does the business plan align with the Department's strategy and budget envelope?

- Can project performance be properly scrutinised against KPIs within the business plan?
- Does the business plan credibly forecast any expected investment, spend, or return?
- Does the business plan consider non-financial targets in line with Departmental policy, such as D&I or environmental risks and opportunities?
- Does the Asset have the appropriate delegations to enact the business plan?

11.5. The business plan should be both achievable and sufficiently challenging so as to incentivise executive performance. The business plan should encourage mission delivery and scrutiny in line with policy objectives. UKGI should be satisfied that this is the case. In so doing, **UKGI should consider both historical performance data, as well as the robustness of projections, against which the business plan can be interrogated.** Some appropriate ways to review this include trend analysis looking at performance over time, benchmarking data on Asset performance against potential comparators in both the public and private sector, analysis of margin evolution, and performance data for returns on investment and returns on capital employed. Whilst such examples may be most relevant for public corporations as opposed to other central government Assets, in all cases UKGI should be satisfied that there is extensive evidence that the business plan is sufficiently challenging and appropriate for the Asset. Challenge can be most meaningfully made by the UKGI NED via the Asset Board, however **the shareholder team should also be prepared to interrogate the business plan on such grounds as part of working level interactions with the Asset, and be confident so as to be able to advise the Department on the strength of the business plan.**

12. UKGI should promote a workable and reasonable business planning cycle for the Asset. This cycle should include interaction between UKGI, the Department, and HMT.

12.1. The Asset should consider the **timeframe during which it needs to prepare its business plan for each year.** The Asset should begin to draft its business plan in good time ahead of the start of the financial year. With regards to an annual business plan, for most Assets (for whom the reporting year follows a financial year of April - March) this means starting preparations in the preceding October. Whenever the Asset begins work preparing an annual, or multi-annual, business plan, UKGI should be confident that the Asset has built a robust and workable timetable for its formulation, challenge, consultation (where necessary), and approval. UKGI should pay particular attention to the approvals process for the business plan. UKGI should be confident that the Asset Board owns the business plan, and be prepared to have meetings outside of the normal board meeting schedule. The Board should therefore approve the business plan in the first instance. Ideally this will be before year end so that ministerial approval can also be secured ahead of the new financial year. Thereafter, the Asset (via UKGI as necessary) may be required to submit the business plan to the Department for Ministerial clearance. Where this is done, UKGI should accompany the submission with a written explanation of the processes of internal assurance up to that point, (see Guidance Provision 10.1). UKGI should not provide written assurance of a business plan itself, but be confident in the governance processes through which it has been considered and its view on the strength of the business plan, before being

presented to Ministers. Subsequently, as set out in Activities 13 and 13.5.1, the business plan should be continually monitored over the course of the year (or other cycle) both internally, by the Asset Board, and externally, such as by UKGI, the Department, and a regulator. Regular shareholder meetings, as set out in Activity 36, provide a good opportunity to do so periodically.

- 12.2. UKGI should encourage the Asset to **engage with the Department, HMT where appropriate, and UKGI at all relevant stages of the business planning cycle**. As set out in Activity 10, in the majority of cases business plans should stem from a policy direction from the Department, underpinning the Asset's purpose. To that end, the Asset should engage regularly with the Department whilst formulating the business plan in order that it operates in conjunction with the Department's policy objectives. UKGI should be confident that the business plan is set within the Asset's financial delegations (these should be set out within the Asset's Framework Document, as per Activity 2). UKGI should challenge the Asset to undertake all business planning activities, and engagements with the Department, HMT and others as required, in a reasonable and workable timeframe so as to allow sufficient external, and internal scrutiny.
- 12.3. UKGI should understand the Asset's **business and forecasting cycles, both in-year and multi-year**, and develop a timeline of shareholder challenge around this. UKGI should be well aware of how and when budgets are created, how frequently forecasts are made and reforecasts considered, as well as in what format all such management information is recorded and presented (see Guidance Provision 14.1). UKGI should understand what key sources of management information best suit the Asset as a means of tracking and managing performance within the performance cycle. These may include management accounts, KPIs, and business reports, among further HMG-specific information, examples of which can be found in Guidance Provision 13.4.
- 12.4. UKGI should encourage the Asset to consider which **stakeholders should be involved** in the business planning cycle. In some instances, the Asset may be required to consult stakeholders for comment, such as the regulator, or even required to publish a business plan for public consultation. UKGI should consider whether any additional stakeholders, such as industry groups or other Government Assets or Departments should be consulted whilst formulating the business plan. It is likely that stakeholders may be consulted as part of a multi-year strategy consultation. However, stakeholders are less likely to be involved in an annual business plan and the setting of KPIs, as set out in Guidance Provision 10.2. Where the Asset operates in a group structure, UKGI should encourage the Asset to engage with its subsidiaries in good time when setting its business plan. It is likely that many of the objectives of the business plan will be enacted by the subsidiary organisations.
13. **UKGI should monitor and challenge the Asset and its Board as to the performance, including financial and non-financial performance, against its Business Plan from a shareholder perspective.**
- 13.1. UKGI should continually challenge the **performance** of the Asset against budgets, business plans, and KPIs, as well as any risks to delivery and any **mitigating actions taken by management to address these risks**. In addition to being content that the Board is undertaking its duties in challenging the Asset's performance, UKGI should provide additional challenge from a shareholder's perspective. As part of regular shareholder meetings (see Activity 36), and as part of ongoing relations with the

Asset's Executive team and working level meetings (see Activity 15), UKGI should regularly interrogate actions being taken/considered by management against its business plan and ongoing corporate objectives.

- 13.2. As set out in Guidance Provision 10.2, the business plan should be founded in robust and meaningful KPIs. The Asset should provide regular management information which tracks the performance of the Asset against these KPIs and other metrics (see Activity 37). Shareholder meetings should be held sufficiently regularly, as per Activity 36, to allow the proper flow of Management Information, and to allow **UKGI to meaningfully challenge and discuss Asset performance**.
- 13.3. When challenging the Asset on its performance, UKGI should consider requesting **independent assurance**. Such requests should be proportionate and made on a timely basis. Government best practice is to have an Assurance Framework at organisation level and Integrated Assurance and Approval Plans for any significant projects. Independent assurance may be organised or delivered by the Asset's internal audit function, the Government Internal Audit Agency, or the Infrastructure and Projects Authority.
- 13.4. UKGI teams should familiarise themselves with budgeting in the public sector, particularly for ALBs, as set out in HMT's [Consolidated Budgeting Guidance](#). UKGI will benefit from building a strong working relationship with the Departmental Finance team, who can provide additional financial insight from an HMG perspective as appropriate. As per Activity 37, the Asset should provide regular and sufficiently detailed financial information to UKGI, its parent Department as well as its Board, in order to allow ongoing assessment of its financial performance. UKGI recognises that **financial information and performance monitoring** will differ **depending on the Asset type**. The two principal Asset types for UKGI, separated by their applicable HMT budgeting rules, are central government organisations and public corporations (other Asset types, such as trading funds, will require similar financial monitoring). UKGI teams should consider and challenge information provided by the Asset, as appropriate to its type as set out below:
- 13.4.1. **For central government Assets**, UKGI should challenge the Asset's performance in line with its spending controls as per its financial delegations and, if appropriate, Supplementary Estimates. This should include looking at each control total, for instance Admin, Resource DEL, Capital DEL and Annually Managed Expenditure. UKGI should challenge the Asset's assumptions as per their financial forecasts set out in the business plan on an annual and a multi-year basis as appropriate. Guidance on spending controls, published by the ICAEW, can be found [here](#). In addition, UKGI and the Board should regularly analyse and interrogate the Asset's balance sheet as against budget and financial targets.
- 13.4.2. **For public corporations, or central government Assets which have relevant commercial or investment activities**, financial reporting should be interrogated in a manner similar to that of a company operating as a going concern. UKGI should challenge the Asset according to cashflow; income statement; balance sheet, as against budget and financial targets; strength and level of detail of forecasting; minimum cash requirements and fluctuations etc. In addition to this, UKGI should challenge the Asset as per its ongoing assumptions which may include, returns on investments; appropriateness of financial targets; impacts upon liquidity should

risks materialise (including upside and downside forecasts); and the robustness of financial models.

13.5. UKGI should monitor and challenge both the long-term and the short-term financial health of the Asset, taking into account the following considerations as appropriate:

13.5.1. **Long term performance** may be assessed by reviewing how the Asset is performing in line with established long-term or lifetime forecasts and financial models. These forecasts may encompass an overall spending envelope established and anticipated for the Asset, or part of its operations, such as an overall project or programme budget. UKGI should challenge, via the Board and the UKGI team as appropriate, the extent to which the Asset is performing in line with these projections in an ongoing basis. Both regular reporting, as well as annual and multi-annual business plans, should be assessed and challenged against long-term projections of financial performance and spend.

13.5.2. **Short term performance** should be assessed against the agreed business plan within the year, this includes both income (where relevant) and expenditure in line with in-year forecasts. Ongoing financial risks, such as cashflow, should also be regularly interrogated. Performance of projects should be carefully scrutinised against appropriate KPIs, both in-year and on a portfolio and multiyear basis where appropriate. Reviews of short term performance should be done at both regular shareholder meetings (see Activity 36) and Asset Board meetings, and UKGI should be confident that this is the case. UKGI should pay particular attention to risks and implications which are more specific to government and may be less familiar to Boards, and seek advice as appropriate from the Departmental Finance team. These risks include the likelihood that the Asset may need to go back to HMT or the Department for additional funding, such as via the supplementary estimates; as well as how any deviation from the business plan, such as deferred or incomplete work, may impact financial performance and spend in future years.

13.6. As well as financial performance, UKGI should interrogate the Asset as to their **performance against non-financial metrics and wider commitments**. These may include policies pertaining to organisational health and corporate culture (see Activity 21), diversity and inclusion (see Guidance Provision 10.5), or governmental policies pertaining to the environment and Net Zero commitments (see Guidance Provision 11.2). Non-financial performance should be reported against robust KPIs. UKGI should encourage the asset to establish these within their business plan (see Activity 10).

13.7. In addition to regular shareholder meetings, as per Activity 36, the UKGI NED should challenge **Asset performance at the Board**. UKGI should be confident that the Board is challenging Asset performance on a regular basis. Where UKGI does not feel that this is happening, it should inform the Department, by way of a regular update, as per Activity 38.

14. **UKGI should promote a regular assessment by the Asset of its own performance and performance reporting to UKGI and the Department.**

14.1. UKGI should d promote a **regular flow of management information**, including financial information, from the Asset to the Department, as per Activity 37. Such information may include data regarding the performance of functional areas or business lines of the Asset, project and operational performance against agreed KPIs

and metrics, employee statistics, information on developing risks and their mitigations, and up-to-date financial and non-financial performance data. All such information should be presented in light of any assumptions and established models which underpin the business plan, both in-year and multi-year (see Guidance Provisions 11.5 and 12.3). Whilst performance against KPIs should form the basis of much management information provided, the Asset should consider whether other useful metrics or written updates from key executives, can help to demonstrate Asset performance.

- 14.2. UKGI should encourage the Asset to consider regularly how it presents information on performance against both its business plan, and its overall strategy. UKGI should also challenge the Asset on whether there is adequate **independent assurance in place for the KPIs**. Such assurance may provide confidence and deeper insights in key areas of performance. This may be particularly important where management information is relevant to policy priorities, public announcements, or corporate incentive schemes.
- 14.3. UKGI should encourage the Asset to include, within its regular management information to UKGI and the Department, as per Guidance Provision 14.1, **a balanced view of areas of positive performance, as well as areas of poor performance**, with accompanying mitigation plans. Such information should be presented according to short, medium, and long-term objectives as appropriate. Where UKGI passes on any such information to the Department from the Asset, likely as part of regular dashboard reporting, UKGI should highlight any areas of concern.
- 14.4. **The Chair's letter**, in addition to the business plan, offers the most direct route for the Department and UKGI to communicate their priorities to the Asset, as per Activity 6. The letter will form the basis of much of the Asset's target setting for the year, and should thus inform its ongoing reporting. UKGI should challenge the extent to which the Asset is meaningfully reporting upon the priorities as set out in the Chair's letter both at regular shareholder meetings (see Activity 36) and, where relevant, as part of the annual appraisal of the Chair (see Activity 27).

Principle C: Promote strong corporate capability

*Through the shareholder team, as well as through the UKGI representative on the Asset board, UKGI should promote **the strength of the Asset's governance systems which support organisational performance**, by providing high level challenge to the Asset (and its Board) on:*

- a. *governance framework compliance – defined as the Asset's view on its compliance with its governance framework (as set out in its Framework Document, delegated authorities, and any other specified governance documents), and*
- b. *the adequacy and strength of the Asset's reporting on these issues.*

Core Areas for Consideration

- Governance Framework Compliance

Shareholder Activities with Guidance

15. There should be an Accounting Officer (or other Senior Accountable Person) within the Asset, appointed by the sponsoring Department. UKGI should have regular contact with this person/persons.

15.1. In **accordance** with Managing Public Money ([Chapter 3](#)), all Assets must have an Accounting Officer (subject to paragraph 15.6 in the case of public corporations where there is a requirement for an Accountable Officer). The Accounting Officer is likely to be the most senior executive within the Asset. UKGI should be satisfied that **the responsibilities of the Accounting Officer** are set out in the Framework Document (or appropriately signposted, see activity 2). These should include all responsibilities set out in Managing Public Money ([Chapter 3](#)). UKGI should be content that they are sufficient to allow the Accounting Officer to fulfil their role and “be able to assure Parliament and the public of high standards of probity in the management of public funds”.

15.2. UKGI should **meet the Accounting Officer on a regular basis**. UKGI should encourage the Accounting Officer to attend the regular Quarterly Shareholder Meetings, see provision 36. Should the Accounting Officer be unable to attend these meetings, then the Accounting Officer should provide regular reports of key developments and areas of significant shareholder concern to the meetings, to be followed up and presented by a senior executive in their stead.

15.3. UKGI should encourage the Accounting Officer to **meet with an appropriately senior person within the Department** (such as the Permanent Secretary or a relevant Director General) on at least an annual basis. UKGI may benefit from briefing the Department ahead of such meetings with its views and any concerns from a shareholder perspective, and particular areas which to probe. UKGI may benefit from attending these meetings. Where the Accounting Officer is also the Chief Executive, the Asset Chair should also attend.

- 15.4. Where **Accounting Officer appointments** are Ministerial appointments, UKGI should be involved in the appointments process, with a representative on the interview panel as appropriate. Most Accounting Officer recruitment processes will be led by the Asset, specifically the Asset Nominations Committee and Asset Chair. Where the process is led, by agreement with the Department and the Asset, by UKGI, UKGI should follow the appointments processes and guidance as if the position was for a non-executive, this is set out in Activity 22. Responsibilities for appointing the Accounting Officer should be detailed within the Framework Document.
- 15.5. UKGI should have confidence in the ability of the Accounting Officer to **perform their duty effectively**. This may be done via the Accounting Officer appointment process, as per Guidance Provision 15.4, but also by encouraging the Accounting Officer to understand the distinct responsibilities of the role. UKGI should encourage Accounting Officers to undertake all reasonable learning and development in order to understand both the Asset and the role itself. To this end, UKGI encourages incoming Accounting Officers to undertake [Public Accountability for New Accounting Officers](#) training. The Board should also undertake all relevant trainings to understand the role of the Accounting Officer and work effectively with them, as per Guidance Provision 32.2.3.
- 15.6. Public Corporations should have an **Accountable Person** in place of an Accounting Officer. UKGI should treat the Accountable Person as an Accounting Officer regarding their duties, insofar as this is possible (recognising that the Accountable Person is not required to act in accordance with Managing Public Money), and establish the same working relationship with the Accountable Person as if an Accounting Officer.
16. **UKGI should encourage the Department to issue an Accounting Officer letter to the relevant person(s) within the Asset. This should be reviewed on an ongoing basis.**
- 16.1. Upon appointment, pursuant to Guidance Provision 15.4, the Accounting Officer should receive an **initial letter from the Department's Principal Accounting Officer**. This letter should set out the principal functions of the Accounting Officer with respect to the Asset, and is a good place within which to introduce the Accounting Officer to significant stakeholders, such as the Department, HMT, UKGI, and regulators. UKGI should review this letter (and in certain circumstances may draft the letter before providing it to the Principal Accounting Officer), in light of its fit with all delegated authorities set out in the Framework Document, see Activity 2. UKGI should raise to the Department any instances in which the Accounting Officer letter contradicts agreed delegated authorities within the Framework Document.
- 16.2. The Department should issue an **Accounting Officer letter** (or an Accountable Officer letter where appropriate) on an annual basis. This should coincide with the Asset's financial reporting year. The letter should set out the financial delegations and delegated authorities of the Accounting Officer within the Asset. UKGI should encourage the Department to issue this, and raise concerns to the Department (at a senior level such as the Permanent Secretary as necessary) in instances in which this has not been done.
- 16.3. UKGI should be aware that HM Treasury, via the Department's Principal Accounting Officer (in most cases the Permanent Secretary) shall periodically issue **Dear Accounting Officer letters**. These are used to provide specific advice on issues of accountability, regularity and propriety and annual accounting exercises, supplementary to guidance published in [Managing Public Money](#).

17. UKGI should challenge the adequacy and strength of the Asset's reporting on its own governance framework.

- 17.1. In accordance with Activity 8, UKGI should review the internal governance of the Asset via its documentation. UKGI should also report any significant concerns it has with regards to Board functioning and relationships with or among Senior Executives by way of its regular reporting cycle, as per Activity 38. The Asset is, however, responsible for overseeing its **own internal governance**, in accordance with its governance framework. The Asset should provide a governance statement in its Annual Report and Accounts (see Activity 18), in accordance with the [UK Corporate Governance Code](#) (which UKGI Assets follow in accordance with best practice). This statement should provide a comprehensive report into the effectiveness of its governance arrangements, including referencing any governance reviews or Board effectiveness reviews that it has undertaken (see Activity 28). UKGI should challenge the extent to which the information the Asset provides is sufficient, so as to give a meaningful and extensive overview of how the Asset is governed.
- 17.2. UKGI should challenge the Asset's internal governance as part of **regular reviews of Asset strength**, such as via shareholder meetings, as per Activity 36. UKGI should be able to call upon the Asset to provide additional reports into its governance, such as the results of internal audits into governance, or workstreams to develop and amend internal governance within the Asset.
- 17.3. **Where the Asset operates in a group structure**, UKGI should challenge the extent to which the Asset reports the adequacy and functioning of subsidiary governance and the group structure, either via the Asset Board, or as part of the Asset's Annual Report, as set out in Guidance Provision 36.6.

18. UKGI should provide feedback on the drafting of relevant parts of the Asset's annual report where appropriate, particularly into the governance statement.

- 18.1. **Responsibility** for drafting the annual report lies with the Asset. Assets have ultimate responsibility for ensuring that annual reports comply with [The Government Financial Reporting Manual](#) (FReM). UKGI, however, should assist the Asset to plan for the publication of its annual report. The Asset should have an annual report timetable to plan for its drafting, generally before the end of the financial year. In instances in which annual reports require ministerial or departmental sign off, a plan and timetable for obtaining such clearances, and requisite feedback, should be established. UKGI should assist the Asset in such timetabling. UKGI should receive a copy of the draft annual report for review ahead of its publication, and should be given sufficient time to review and comment upon it, providing input into its drafting as appropriate, and significant issues should be raised with the Department. Ideally UKGI, in conjunction with the Department as required, should have around six weeks to do this ahead of any internal Asset sign-off. This should be reflected in the timetabling of the process, and the timetable should also provide for any Departmental approvals. UKGI should be cognisant of any requirements for the Asset's annual report to be published before a certain date, or laid before Parliament. It is likely that in these instances the Asset's annual report publication will be coordinated with the Department.
- 18.2. UKGI should pay particular attention to [The Accountability Report](#) in the annual report and its subset, the **Corporate Governance Report**. This should contain a comprehensive account of the governance framework of the Asset, including an

explanation of the working relationship between the Asset and government, distilling the roles of UKGI and the Department as necessary. Where the Asset is part of a group, the group relationship should be clearly explained, often with the use of an organisational chart. UKGI should be confident that the annual report reflects the governance arrangements of the Asset, and provide feedback on the drafting as necessary.

- 18.3. If the Asset is required to, or chooses to (as is UKGI best practice), report against the [UK Corporate Governance Code](#), or any other industry code, then a comprehensive statement of compliance should be included within the annual report. To the greatest degree possible a report upon the Asset's compliance should be consistent with the [guidelines](#) set out in the code. It is accepted that provisions of the UK Corporate Governance Code do not suitably apply to many of UKGI's Assets. Similarly, many Assets choose to report on the Code, which are not otherwise compelled to. UKGI encourages Assets to do this, in order to follow the highest standards of corporate governance. To this end, the Asset may choose to include a statement within its annual report on how it has sought to comply with the Code. This statement should give sufficient visibility to significant areas of non-compliance and provide ample explanations for these. If an Asset is required by the FRC to report against the UK Corporate Governance Code, **then it must do so in line with the Code [guidelines](#)**, and provide an explanation of non-compliance in all instances. In all cases, UKGI should be satisfied that the annual report sufficiently explains the governance of the Asset, and reports it transparently, significant issues should be raised with the Department.

19. UKGI should promote an effective internal controls governance framework, providing feedback as necessary on the process by which these have been internally assured.

- 19.1. Responsibility for robust internal controls lies with the Asset. Internal controls can best be thought of according to the **three lines of defence model**. This is defined by the Chartered Institute of Internal Auditors (see [here](#)) as below, along with UKGI's role:

19.1.1. **The first line of defence** – *functions that own and manage risk and controls* – UKGI should consider whether the Asset is effective *on the ground* at managing risks. UKGI can probe these by way of regular shareholder meetings pursuant to Activity 36. UKGI is limited in the extent to which it can have sight of the first line of defence. However, UKGI can consider corporate culture as a good indicator, as per Activity 21. In addition to this, UKGI should encourage the Asset's Executive Team to consider the strength of this function.

19.1.2. **The second line of defence** – *functions that oversee or specialise in risk management and compliance* – UKGI should consider whether the Asset has the correct people, structures, and policies within its internal risk and controls function. UKGI can probe these by way of regular shareholder meetings pursuant to Activity 36. UKGI should promote effective internal controls policies, as per Activity 20. In addition to this, UKGI should encourage the Asset Board and Audit Committee to review the Asset's internal strength in these regards.

19.1.3. **The third line of defence** – *functions that provide independent assurance, above all internal audit* – UKGI should consider what checks and balances are there in place within **the** Asset to assure the internal risk and controls framework,

and how the Asset evidences this to the Board and stakeholders, including UKGI. (See Guidance Provision 19.2 for further details.)

19.1.4. Depending on the nature of the asset and its relationship with government, UKGI should also promote the role of the Government Internal Audit Agency (GIAA) and Infrastructure & Projects Authority (IPA) as providers of **independent assurance** and good practice guidance. UKGI shareholder teams should check whether the asset is subject to IPA requirements for its projects to go through assurance reviews. UKGI should also consider the role of the National Audit Office as a potential financial auditor and provider of assurance to Parliament.

19.1.5. Additional UKGI guidance on what to consider across the three lines of defence, including what internal policies and structures should be in place, can be found [here](#).

19.2. UKGI should challenge and promote an **effective internal controls ecosystem**. This includes promoting effective internal policies, as per Activity 20, and effective corporate culture, as per Activity 21. Above these however, UKGI should consider the strengths of the Asset's own checks and balances for their internal controls, the third line of defence, principally the internal audit function.

19.3. UKGI should encourage the Asset to report **material litigation** which it is involved in to UKGI in a transparent manner and on a regular basis (typically quarterly). This should be detailed within the Framework Document, as per Activity 2. Where an Asset is experiencing significant legal concerns the shareholder team may want to do more to assess the Asset's legal capability in addition to developing a relationship with the Asset General Counsel. Further detail can be found in the Guidance Note on Material Litigation [here](#).

19.4. UKGI should focus primarily on the third line of defence when considering internal controls within the Asset. UKGI's role in providing challenge over the three lines of defence, as set out in Guidance Provision 19.1.3, should be led by the UKGI NED (where UKGI does not have a UKGI NED on the Board of the Asset, UKGI's role here may be limited). The UKGI NED should meet with the Head of Internal Audit, or equivalent, including if this has been externalised, on an annual basis, to consider the strength of **the internal audit function**. This can either be done as a part of the functioning of the Audit Committee, or on a separate basis as necessary. The UKGI NED, should also meet with the Chair of the Audit Committee on an annual basis. UKGI should assess the extent to which there is a robust reporting line from Internal Audit to the Audit Committee, and upwards to the Board, within these conversations. Overall, UKGI should consider the following areas relating to the internal audit function, as part of third line of defence:

19.4.1. **Reporting** – Are the findings of internal audit being reported to the Audit Committee and then to the Board adequately? Does the Board properly consider the findings of internal audit? Is anybody within the Asset amending the findings of internal audit?

19.4.2. **Operational autonomy** – Is internal audit independent of those people/areas which it has responsibility to interrogate? Is internal audit free to challenge all areas of the organisation as directed by the Board?

19.4.3. **Scope** – Is internal audit reviewing those areas of risk and compliance which are of key interest to the Asset and the Board? Is internal audit's scope, in UKGI's opinion, adequately challenging the Asset?

19.4.4. **Resourcing** – Is the internal audit function properly resourced to carry out its function effectively? Is adequate Audit Committee and Board time given to matters of internal audit? Where necessary, does internal audit have functioning relationships with subsidiaries and regulators?

19.4.5. **Actions** – Are the actions recommended by internal audit followed up on and implemented by the Asset?

19.5. UKGI should encourage Asset audit functions to continually **review their own effectiveness**. Audit functions should feel comfortable that they are being properly engaged, and are recommendations are being followed up by the Board and the Executive, this includes the Audit Committee. The UK Corporate Governance Code, [section 4](#), sets out principles of transparency, reporting, and risk management which audit and risk functions are expected to exhibit. UKGI should encourage the Audit Committee to review the effectiveness of the audit and risk functions in line with these principles. The easiest means by which the audit and risk function can be reviewed is as part of an annual review of Audit Committee effectiveness. This is often completed as part of a review of Board effectiveness, as set out in activity 28. This review should be completed mindfully of the principles of the UK Corporate Governance Code, and effective internal audit and controls, as set out in Guidance Provision 19.2. There are several toolkits which can be used to assist a review of the internal audit function, one such useful toolkit to assess Audit Committee effectiveness is the National Audit Office's [Audit and Risk Assurance Committee Effectiveness Checklist](#). UKGI should encourage Assets to use this, or similar checklists, to assess Audit Committee effectiveness.

20. **UKGI should promote appropriate internal policies to underpin the Asset's governance framework and encourage the Asset to review its own compliance with such policies. Policies should allow an appropriate reporting upwards within the organisation to the Board and above into the Department and UKGI.**

20.1. **Responsibility for internal policies and compliance** lies with the Asset, (usually under the Chief Compliance Officer or similar) and the Board. The Board should review its core internal policies on a sufficiently regular basis. The core internal policies should include policies such as: human resources (or other organisational health policies), procurement, health, safety, and environment, cyber risk, whistleblowing, anti-corruption, anti-slavery, and anti-money laundering, etc. Assets should also be mindful of any sector or Asset specific policies and controls which may apply to them such as: nuclear safety, environmental standards, and banking or financial controls. It is the responsibility of the Board to draft and continually review policies relevant to them. UKGI, through the UKGI NED, should encourage this to be done, and flag to the Department any instances in which the Asset is not doing so.

20.2. **UKGI does not provide an assurance function** on behalf of its Assets' internal policies. Instead, UKGI should interrogate Assets to understand how they have become comfortable themselves as to the appropriateness and effectiveness of their own internal policies and compliance with them.

- 20.3. All core internal policies should be **reviewed and updated as appropriate** by the Asset at least once a year, and by the Board or Audit Committee as appropriate, (see the National Audit Office's Audit and Risk Assurance Committee Effectiveness Checklist, items [24-28](#)). All documentation should be consistent with the Framework Document, and UKGI should challenge the Asset to confirm this. Internal policies should be updated in line with evolving corporate governance best practice, as set out by guidance such as the [UK Corporate Governance Code](#).
- 20.4. **Whistleblowing is an example of a core internal policy which Boards should be regularly reviewing.** UKGI should be satisfied that the Asset Board (including its Committees) is demonstrating sufficient curiosity and rigour when it comes to interrogating whistleblowing policies and their internal controls, and that the Board has, for example (i) appropriate visibility on the volume and thematic details of whistleblowing claims arising within the Asset at regular intervals (ii) the conduct and governance arrangements for investigations (including whether the Asset has access to independent advice where necessary) (iii) enhanced visibility on potentially significant and/or high-profile whistleblowing claims, including where there may be material, financial, reputational and/or high-profile risks associated with allegations.
- 20.5. The Whistleblowing Guidance Note [here] provides further information on the types of issues/questions to consider when **examining the sufficiency of an Asset's whistleblowing policies and procedures**; and how UKGI can consider challenging an Asset further, including examples of actions and how to escalate issues within UKGI and the Department. If UKGI consider that there is an issue their Asset is facing that requires greater UKGI engagement, that matter should be escalated to the UKGI Portfolio Director and General Counsel.
- 20.6. UKGI should challenge the Asset with regards to its view of the adequacy of its core internal policies, on a regular basis. This is most readily done at **regular shareholder meetings** in accordance with Activity 36. UKGI may encourage Assets to seek external advice or assurance on internal policies and controls frameworks, or encourage the Asset to seek guidance from other sources, such as specialists inside or outside HMG or other assets within the UKGI portfolio.
21. **UKGI should promote effective organisational health systems and corporate culture within the Asset.**
- 21.1. UKGI should encourage the Asset, via regular discussions with Executives and via the Asset Board as appropriate, to consider its organisational **health and effective corporate culture**. UKGI should promote systems to encourage this within the Asset, sharing UKGI best practice where appropriate. The FRC guidance on [Corporate Culture and the Role of Boards](#) provides a useful and extensive outline of key cultural and HR considerations for Assets and their Boards, (such as diversity of thought within the organisation, the openness of management, and the quality of succession planning). UKGI should promote these, among other elements of corporate culture. This can be done most readily at the Board via the UKGI NED, (see Activities 39 and 40), at regular shareholder meetings (see Activity 36) and in discussions with the Asset CEO and Chair.
- 21.2. UKGI should encourage the Asset to develop **appropriate metrics and reporting arrangements** to substantiate work regarding their organisational health and corporate culture. Where the Asset is undertaking work to improve their organisational

culture this should be an area of particular focus from the UKGI team, and may be a special topic at Quarterly Shareholder Meetings, as per Activity 36 or similar interactions. An assessment of corporate culture is something that the UKGI team ought to feel sufficiently sighted to provide to senior officials in UKGI or the Department as appropriate.

- 21.3. Asset Boards are responsible for establishing, aligning and promoting the Asset purpose, values, strategy and culture. We expect Shareholder teams and NEDs to promote and challenge our Assets effective culture including through Board effectiveness reviews, at Quarterly Shareholder Meetings and in performance reviews of Chairs and CEOs. A Guidance Note with more detail on what we expect our Assets and our Shareholder Teams and NEDs to do to promote effective organisational culture as part of effective governance and performance can be found [here](#).

Principle D: Promote effective leadership (high quality boards and senior management)

*UKGI should promote and advise the department on the **effectiveness of the Asset's leadership**, specifically through:*

- a. *promoting high quality and diverse boards, challenging the board's capability and effectiveness, and monitoring the Asset's succession planning*
- b. *promoting the implementation of effective board composition, recruitment, remuneration and appointment processes*
- c. *acting as the shareholder non-executive director on the Asset's Bboard*
- d. *giving a view on the Asset's board level executive capability in relation to its responsibilities, and remuneration*

Core Areas for Consideration

- Board Composition
- Appointments and Reappointments
- NED Remuneration
- Senior Independent Directors (SIDs)
- Chair Appraisals
- Board and NED Performance Reviews

Shareholder Activities with Guidance

22. Where Non-Executive appointments are made by HMG, UKGI should lead (in coordination with the Department) the recruitment and appointment processes.

22.1. The UKGI shareholder team should have a clear understanding of **the Asset's appointment process for Non-Executives**. In some cases, processes may differ for Non-Executive Directors (or Board Members) and Chairs. UKGI should consult with the UKGI Appointments and Remuneration team where the appointment processes are unclear. UKGI should pay particular attention to whether the appointments are regulated by the [Commissioner for Public Appointments](#), and familiarise themselves with the Cabinet Office's [Governance Code for Public Appointments](#), which sets out the overall principles of all public appointments. UKGI should be aware of appointments that are of interest to the Prime Minister and seek guidance from the UKGI Appointments and Remuneration team accordingly. The process should be agreed by UKGI, the Asset, and the Department, and recorded in the Framework Document, as per Activity 2.

22.2. UKGI shareholder teams should familiarise themselves with the processes for appointments on their Asset, including who is responsible for leading such work, see Guidance Provision 22.1. According to the UKGI Target Operating Model, **UKGI should lead on appointments for Non-Executives**. UKGI should continually consider the composition of the Asset Board, and be aware, in good time, of any forthcoming Non-Executive appointments. Additionally, as per Activity 30, UKGI should

consider, in conjunction with the Asset Chair and the Department as appropriate, whether incumbent Non-Executives should be reappointed at the conclusion of their term of office, or whether a replacement should be sought via a public appointment. UKGI should draft a plan for the appointment process in the first instance, allowing up to twelve months from the commencement of the recruitment process to the candidate taking up their post on the Asset Board. UKGI should lead in drafting all submissions to Ministers (or the Permanent Secretary), these may concern job descriptions, remuneration, panel membership, the use of executive search firms, longlisting, shortlisting, the outcomes of interviews, and final decisions. UKGI may wish to draft these submissions with input from the Department, in particular, with the Department's partnerships or public appointments team.

- 22.3. **Fuller guidance on the appointments process**, key considerations, and UKGI's role can be found in the [UKGI Public Appointments Reference Guide](#). UKGI should consult the UKGI Appointments and Remuneration team for guidance for all Non-Executive appointments for additional guidance.

23. UKGI should encourage the Asset Board to undertake effective succession planning for Board and senior Executive positions.

- 23.1. UKGI should engage the Chair and significant stakeholders, such as the Department, in planning for the succession of Non-Executives. This planning should take account of the anticipated timeline of Non-Executive appointments, as well as Director's skills, and the performance of Non-Executives as evaluated by the Chair (see Activity 29) and UKGI.

- 23.1.1. UKGI shareholder teams should keep a **timeline** of Non-Executive terms to see, at a glance, the anticipated turnover of Directors (this should also be held centrally by the UKGI **Appointments and Remuneration** team). This turnover should be regularised and spaced apart as far as possible, so as to prevent high Director turnover where it can be avoided. In instances in which multiple Directors term dates coincide, UKGI may wish to issue differing term lengths to incoming Directors (as far as this is expedient) to avoid such coalescence and high turnover in future.

- 23.1.2. **UKGI** should work with the Asset, and encourage the Asset Chair, to track the **skills and expertise of Non-Executives**. These should be reported at a glance within the Corporate Governance report of the annual report, see Guidance Provision 18.2. UKGI, led by the Asset Chair, should evaluate the skills the Board requires, including those that it will require following the conclusion of the terms of any current NEDs, and plan for the recruitment of NEDs accordingly, in accordance with activity 22. Where UKGI is of the view that an Asset Board has a need for additional or specialist skills, whether on a temporary or permanent basis, UKGI may need to encourage the departments or Asset Chair to make further appointments, even where this may take the total membership above the suggested maximum levels.

- 23.1.3. Where there is a need for a particular skillset or expertise at the Board for a short time, or to enable the resolution of a specific issue, UKGI should consider, with the Asset, the appointment of a **Board adviser**. This is particularly relevant where an Asset is experiencing significant challenges that are technical in nature. A Board adviser would not be a member of the Board but a specialist who can provide expertise for limited items for a limited time. UKGI Legal can provide

Shareholder Teams with examples of whether Assets in UKGI's portfolio have appointed Board advisers

23.2. The Board is responsible for scrutinising the **Executive succession planning** of the Asset. The Chair will lead the regular scrutiny of succession planning with the support of the CEO and HR Director. UKGI, led by the UKGI NED, should encourage the Board to review Executive succession planning on a sufficiently regular basis. For most Assets this may be done annually, however in new or distressed Assets it may be necessary to review succession planning more regularly. The Board should review the succession risks of each senior executive position, and develop actions as necessary for the senior executive to bolster internal resilience for key positions, or put in place contingencies for external recruitment. Where the Asset is part of a group, succession planning for key executives within subsidiary companies should be considered by the Asset Board. UKGI should report the strength of executive succession planning as part of its regular reporting cycle. UKGI should encourage succession planning to take account of the resilience of functions key to the implementation of government policy. These may include Asset specific functions, or more generic functions, such as environmental stewardship.

23.3. A Guidance Note on Executive succession planning, including the role UKGI can play to assist Assets in this process, can be found [here](#).

24. **UKGI should encourage Assets to adopt and document a definition of Director Independence.**

24.1. UKGI should encourage the Asset Board to **adopt and document a definition of Director independence**. It is likely that traditional definitions of independence, such as the UK Corporate Governance Code 2018 definition, (see provision [10](#)), will not be appropriate without some amendments. Such definitions of independence, written for Boards of listed entities, consider independence of appointment to be synonymous with independence of operation. A NED will be considered independent by such a definition if not directly appointed by a shareholder or if not a shareholder representative. As per Activity 30, NEDs appointed to the Board of the Asset will probably be HMG appointments, made by the responsible Minister, therefore not satisfying traditional definitions of independence by *appointment*. Nevertheless, NEDs will likely be *operationally* independent if they are not appointed to represent the shareholder in an ex officio capacity (unlike the UKGI NED) or do not have, or have not recently had, a significant relationship with the Asset or the shareholder. UKGI therefore should allow the Asset to adopt a definition of independence which includes all NEDs except the UKGI NED and the Chair (subject to caveats regarding any personal relationships they have with the Department or Asset, as set out in the 2018 UK Corporate Governance Code provision [10](#)).

24.2. UKGI should encourage Boards to adopt a definition of Director independence (as per Guidance Provision 24.1) in order to both aid **declarations and reporting**, (such as within the annual report, pursuant to activity 18), and to apply any **legislative requirements** relating to Board composition and independence which may apply to the asset, pursuant to activity 3.

24.3. Definitions of independence should be cognisant of the **UKGI NED**, who, by most definitions (including that set out in Guidance Provision 24.1), is unlikely to be considered independent upon appointment owing to their appointment directly by the shareholder. However, this should not preclude UKGI NEDs from fulfilling their duties,

such as sitting on the Audit Committee (which UKGI NEDs are strongly encouraged to do, see Activity 39), which would normally be reserved for *independent* non-executives. UKGI should consider this therefore when reviewing composition requirements of the Audit Committee within its terms of reference (pursuant to activity 8), so as not to preclude the UKGI NED from sitting on the committee, as the UKGI NED should be encouraged to do.

25. UKGI should provide a view as to whether the Asset contains sufficiently independent Directors to carry out its duties effectively to the Asset and the Department.

25.1. UKGI should continually consider the strength and **composition of the Asset Board**. Board effectiveness reviews, as set out in Activity 28, provide an expedient opportunity to consider the size and composition of the Board, and UKGI's overall role here can be found in Activity 40. One core consideration of the Board's composition, however, relates to the Board's independence. The Board should be constituted so as to be able to offer a voice independent of the Executives, of Government, and of any other particular stakeholder group. UKGI should discuss with the Chair and Department and propose, as necessary, amendments to the size of the Board to allow for the Board to possess an independent voice and function effectively. A Board without sufficient Independent Non-Executives will be unable to provide effective challenge, whereas too large a Board will be unable to operate effectively. Information on trends regarding Board size and independence within the private sector can be found [here](#).

26. UKGI should encourage the Asset's Independent Directors to appoint a Senior Independent Director from amongst their number to provide a sounding board for the Chair and to serve as an intermediary for other stakeholders and Directors where appropriate.

26.1. UKGI should encourage the Non-Executive Directors, except the Chair, and including, as appropriate the UKGI NED, **to select the Senior Independent Director from appropriate** candidates. This should be independent of government advice. UKGI should only intervene in this process where absolutely necessary and appropriate to ensure the proper functioning of the Board.

26.2. A Guidance Note on Senior Independent Directors can be found [here](#).

27. UKGI should oversee and collate an annual appraisal of the Chair.

27.1. The Senior Independent Director, see Activity 26, (or an appropriate independent Director), should lead the appraisal of the **Chair's performance on behalf of the Board**. This appraisal should be shared with and discussed between the Senior Independent Director and UKGI as appropriate. UKGI should assess the performance of the Chair against the priorities set out in the Chair's letter, see Activity 6, gathering feedback from the Department and other stakeholders as necessary. UKGI should collate all information gathered as part of the Chair's appraisal, from both the Senior Independent Director and HMG sources, and provide it to the person responsible for providing feedback to the Chair. The person providing the feedback to the Chair should be agreed with the Department and the Board. It is likely that this will be the Portfolio Director somebody from the Department (such as the responsible Director General or the Permanent Secretary), however in certain circumstances this may be delegated to UKGI. Feedback should be given to the Chair in a face-to-face meeting. UKGI should

keep written records of the appraisal, using its conclusions as necessary for future reference, such as with regards to the Chair's reappointment, see Activity 30.3.

27.2. UKGI should **act where appropriate** on any concerns arising from the review. These may include encouraging additional training to the Chair, proposing amendments to the delegated authorities of the Chair or the Board, or, in cases of poor performance, considering whether to reappoint the Chair or terminate the Chair's term early.

27.3. A Guidance Note on Chair appraisals can be found [here](#) and Cabinet Office/UKGI guidance on Chair appraisals can be found [here](#).

28. UKGI should encourage the Asset's Board to conduct a formal and rigorous annual evaluation of the performance of the Board and its committees. This should be externally facilitated at least every three years. The results of the annual evaluation and proposed actions should be shared with UKGI in an appropriate manner.

28.1. UKGI should be aware of Cabinet Office Guidance on [Board Effectiveness Reviews](#) and **share this with their Asset Chairs and Company Secretaries**. This guidance sets out what Cabinet Office expect to be within the scope of the Board Effectiveness Review, as well as post-appraisal activities. UKGI should make sure its Assets are aware of these responsibilities, in particular, the requirements for the Chair to share the Board effectiveness reviews with the Department, the Principal Accounting Officer, as well as relevant Ministers. The Chair may request that UKGI shares the report on the Board's behalf.

28.2. The Board has the ultimate **responsibility** for commissioning, establishing, and conducting Board effectiveness reviews, as well as following up on their recommendations. Chairs should commit to leading these appraisals on behalf of the Board as part of the [Governance Expectations of the Chair](#) annex to the Chair's letter (see Guidance Provision 6.1). UKGI, via the UKGI NED and relationships with the Chair as appropriate, should encourage the Asset to undertake Board effectiveness reviews. In accordance with the UK Corporate Governance Code provision [21](#), these should be conducted annually, and should be externally facilitated every three years. Board effectiveness reviews should be led by the Chair, with input from other NEDs as appropriate, therefore UKGI can most meaningfully assist the Asset via input from the UKGI NED. A Board effectiveness review is a useful means by which UKGI can gather objective feedback on the performance of the Asset and the Board in key areas, such as organisational values and Boardroom culture.

28.3. UKGI should encourage the Asset to conduct a review, whether internal or external, which covers all meaningful elements of the Board's functioning. UKGI should be provided with the **scope of the reviews**, and input as appropriate. Key areas to cover should include those set out in the Cabinet Office/UKGI note on [Board Effectiveness Reviews](#), as well as the [Guidance on Board Effectiveness](#) from the FRC.

28.4. UKGI, often through the UKGI NED, should also **encourage input into the process from the Board's stakeholders**, including HMG. An important function of all Asset Boards is their ability to report and engage with responsible Ministers and the Department. The Board may therefore wish to canvass opinion from senior personnel from the Department as to the functioning of such reporting lines. This may be done directly, such as via an interview with those leading the review (externally or the Chair internally), or indirectly, via the UKGI NED who can cavass such opinion ahead of providing feedback into the review.

- 28.5. All Board Effectiveness Reviews should be drafted into a **written report which should be shared with UKGI**. Where the report is externally facilitated the Chair should share the report with the Department, Principal Accounting Officer and relevant Ministers as per Guidance Provision 28.1. UKGI should consider all actions arising from the review, and encourage the Asset to establish an action plan to implement them insofar as they accept them and are able to. If the review has been externally facilitated, the consultant may work with the Asset to establish a plan to implement the arising actions. In any case, UKGI should monitor the Asset's implementation of the review findings, and challenge the Asset as necessary regarding these, such as via regular catch ups with the Chair, Company Secretary, and CEO, as well as via the UKGI NED.
- 28.6. In accordance with Guidance Provision 18.2, UKGI should encourage the Asset to report, at an appropriately high level, in the annual report the processes and findings of the Board Effectiveness Review. This should be a brief summary of the areas of focus of the review, and actions the Board has agreed to undertake to address its findings (insofar as they are appropriate for publication). Any external parties involved in the review should be detailed in the annual report.
29. **UKGI should encourage the Chair to conduct formal and rigorous annual appraisals of the Non-Executive Directors. The Chair should share the results of these appraisals with UKGI in an appropriate manner.**
- 29.1. **Responsibility** for reviewing the performance of Non-Executive Directors sits with the Asset Chair. The Chair should conduct these reviews at least annually. The Chair is free to decide how to conduct these appraisals, however it is likely that the Chair will combine their own experience from the Non-Executive's input throughout the year, or their tenure, with a one-to-one meeting with the individual. Appraisals should focus upon the contributions and effectiveness of Directors, opportunities for development (including training and skills), and succession plans. Meetings should be constructive, and offer the Director an opportunity to feed back any observations regarding either their own performance, or that of the Board, to the Chair. These appraisals should be conducted on an annual basis. The Chair may wish to involve the SID in the appraisal process should their assistance be of use. UKGI should remind the Chair of this responsibility, and encourage the Chair to conduct these appraisals. This can be done most readily via the UKGI NED.
- 29.2. The **annual** appraisal of Non-executives should be **shared with UKGI in an appropriate manner**. In most instances this will be done via short written appraisals of the NEDs, which can be sent to the UKGI shareholder team. UKGI should handle and keep written records of these, and not distribute them to anybody who does not have an immediate need to receive them. Alternatively, the Chair may feel more comfortable discussing the Non-Executive appraisals with UKGI, likely via the UKGI NED. UKGI should use this feedback to inform decisions regarding **Non-Executive reappointments**, as set out in Activity 30. Where Departments request written feedback on Non-Executive performance in order to consider a proposed re-appointment, UKGI should request this from the Chair.
- 29.3. UKGI/Cabinet Office guidance on Non-executive Director Appraisals can be found [here](#). A UKGI internal Guidance Note on Non-Executive Director appraisals can be found [here](#).

30. UKGI should lead on reappointing Non-Executives, including the Chair, where Non-Executive appointments are made by HMG. Reappointments should be considered on merit and the effective contribution of the Director.

- 30.1. As set out in Activity 22, UKGI should understand and document **the appointments process for the Asset Board, and this should similarly be done for reappointments**. UKGI should consult with the UKGI Appointments and Remuneration team ahead of all appointments processes. UKGI should pay particular attention to whether the reappointments are regulated by the [Commissioner for Public Appointments](#), and familiarise themselves with the Cabinet Office's [Guidance on Reappointments and Extensions](#), which sets out the overall principles of all public reappointments. The process should be agreed by UKGI, the Asset, and the Department, and recorded in the Framework Document, as per Activity 2.
- 30.2. UKGI should consider the strength of the Asset Board on a continual basis, as per Activity 40. UKGI should discuss the **individual contributions of Non-Executives** with the Asset Chair, and consider whether each Non-Executive should be reappointed if eligible. In order to determine this, UKGI and the Asset Chair should consider the skills that the Board requires, and whether these are met by incumbent Non-Executives, or whether additional skills should be brought into the Board by way of alternative appointments. In addition, UKGI and the Chair should consider whether alternative appointments could bring increased diversity or greater access to stakeholder voices into the Boardroom, before determining whether or not to reappoint an incumbent.
- 30.3. According to the UKGI Target Operating Model, see Guidance Provision 30.1, **UKGI should lead on reappointments for Non-Executives**. UKGI should continually consider the composition of the Asset Board, and be aware, in good time, of any forthcoming Non-Executive appointments or reappointments. UKGI should draft a plan for agreed reappointment processes in the first instance, allowing up to twelve months to consider and confirm a reappointment. UKGI should lead in drafting all submissions to Ministers (or the Permanent Secretary), and these should demonstrate why the incumbent is proposed for reappointment. It is likely that these submissions will require supporting evidence regarding the contributions of the Director (or Board Member) and why they are critical to the Board. Such supporting materials can be most readily supplied by way of a written report of the NED's performance by the Chair, arising from their annual appraisal as per Activity 29. This should be shared with the Department in support to a submission in a sensitive manner. UKGI may wish to draft these submissions with input from the Department, in particular, with the Department's partnerships or public appointments team.
- 30.4. Reappointments **of the Chair** should be considered on merit, similar to all other Non-Executives, as set out in Guidance Provision 30.2. UKGI should gather feedback on the performance of the Chair from the Department (most likely at Permanent Secretary or Director General level), observations from the UKGI NED, and the performance appraisal of the Chair as set out in Activity 27.

31. UKGI should advise on setting remuneration for Non-Executive Directors, including for the Chair.

- 31.1. UKGI should work with the Asset and Department as appropriate to determine suitable remuneration for Non-Executives, including for the Chair. UKGI should be aware of all

approval processes and principles for remuneration relating to the Asset, these are set out broadly in the HMT [Guidance for Approval of Senior Pay](#). These processes may include internal Departmental approvals, approvals from HMT (primarily from the Chief Secretary of the Treasury), and approvals at Ministerial level. Additionally, UKGI should be aware of any exemptions from internal processes regarding remuneration for each Asset. UKGI should consult with the UKGI Appointments and Remuneration Manager where the appointment processes are unclear.

- 31.2. All submissions to Ministers (or the Permanent Secretary) should be sent by UKGI, alongside a justification for the **pay package being proposed**. UKGI may wish to support remuneration packages with accompanying benchmarks of pay in similar organisations. Forthcoming Non-Executive appointments require an agreed pay package before any position is advertised. UKGI should be aware of this, and factor the agreement of a remuneration package into any appointments timeline, as per Guidance Provision 22.2.
- 31.3. **Fuller guidance on setting remuneration for Non-Executives**, key considerations, and UKGI's role can be found in the [Approval of Senior Remuneration: UKGI Principles and Process Guidance](#). UKGI should consult the UKGI Appointments and Remuneration manager for guidance for all Non-Executive appointments for additional guidance.
32. **UKGI should support the Chair of the Asset in developing and undertaking an effective induction process for NEDs upon their appointment to the Asset Board.**
- 32.1. Inductions for NEDs are the responsibility of the Asset, and should be **led by the Chair, supported by the Company Secretary**. UKGI should work with Asset Boards, Departments, and public appointments teams (including the UKGI Appointments and Remuneration Manager) on all appropriate NED recruitment exercises (see Activity 22), and keep the Asset well informed of all processes concerning any NED's appointment to the Board. This will ensure that Assets are given sufficient time to prepare an induction process for a NED ahead of them joining the Board.
- 32.2. Induction processes will usually involve **meetings with key personnel, the distribution of constitutional and operational documentation, and training and orienteering exercises** for the NEDs. UKGI can assist with all of these elements, as set out below.
- 32.2.1. UKGI should encourage Assets to consider which **key personnel** the incoming NED should meet within the organisation itself. At a minimum this should include all other Non-Executives, the CEO, all direct reports to the CEO, the Head of Internal Audit, Head of Compliance (where the position exists), the lead external auditor, the General Counsel, and the Company Secretary. If a NED is appointed because they bring specific expertise to the Board they may benefit from meeting others with responsibilities in this area, such as an incoming Audit Committee Chair meeting the head of Internal Audit. Additionally, UKGI can play a more direct role in inducting an incoming NED to working in the government environment. An incoming NED will likely benefit from meeting Departmental personnel, such as the Director or Director General responsible for their Asset (or a Minister or Permanent Secretary depending upon the position), as well as UKGI personnel, such as the Shareholder Director or the wider UKGI Shareholder Team (or the UKGI CEO or

Portfolio Director depending upon the position). UKGI should explain the often-complex relationships between the Department, UKGI, and the Asset.

32.2.2. UKGI should encourage Assets, through the Company Secretary where possible, to keep a record of all **key constitutional and operational documentation** to be distributed to the NED. UKGI may wish to add further documents to this if they believe that they hold any documents which can help the NED's understanding of current issues for the Asset, or the Asset's governance. UKGI will likely be able to assist in providing documentation outlining the Asset's relationship with the Department and UKGI, as well as other parts of HMG as appropriate, further to the Framework Document.

32.2.3. UKGI should encourage Assets to consider what **training or orienteering exercises** would benefit the incoming NED. Assets should have a plan for NED training dependent upon the knowledge and skills of the Board, and the incoming NED should be brought into this process upon appointment. UKGI should also consider any trainings or orienteering exercises which would help the incoming NED to understand the relationship with government. UKGI encourages incoming NEDs to undertake [Accountability And Governance For Arm's Length Bodies](#) training. Departments are likely to have periodic events to welcome new NEDs and induct them into government, and Cabinet Office offers a quarterly induction training event for new Non-Executives, information about which can be found by emailing the address [here](#). Cabinet Office has also published the [Public Body NED](#) Principles of which all NEDs should be made aware during their induction.

32.2.4. **Induction processes for the Chair** will follow all of the processes set out above. However, UKGI may find that it plays a more central role, often through the UKGI Director, in establishing and introducing key personnel, in the absence of an incumbent Chair. Incoming Chairs are more likely to meet Ministers (see Guidance Provision 32.2.1). UKGI should help to facilitate this as appropriate.

33. UKGI should provide a view to the Department, and Ministers where appropriate, as to the suitability of senior management within the Asset.

33.1. UKGI should build and maintain effective relationships with Senior Executive within the Asset, as set out in Activity 35. In so doing UKGI should continually assess the suitability, and capability of the Senior Executive team. It is not UKGI's responsibility to monitor individual effectiveness, nevertheless, **UKGI should have overall confidence in the senior team** within the Asset to carry out the policy objectives of the Department and to manage the Asset effectively. In instances in which UKGI is not confident in the capability and capacity of the overall Senior Executive team, this should be raised with the Department.

33.2. **The Board has a responsibility** to assess the strength of the overall Executive team on a continual basis, and plan for its succession, see Activity 23. As such, the UKGI NED will be involved in this process, and will be well-placed within the UKGI team to consider Executive effectiveness. As a Non-Executive, the UKGI NED should raise any concerns regarding individual Executive effectiveness with the Chair and the wider Board. The UKGI NED is also well placed to act as a conduit between the Board, UKGI, and the Department should any concerns arise at the Board regarding the strength of the Executive team, and should do so as appropriate.

OFFICIAL - INTERNAL UKGI DOCUMENT - UKGI PORTFOLIO OPERATING PRINCIPLES WITH GUIDANCE

- 33.3. **The Board effectiveness review**, see Activity 28, offers an opportunity to canvass Board opinion regarding the effectiveness of the Senior Executive team. UKGI, most readily via the UKGI NED, can encourage this to be a significant topic covered by the review. This allows NEDs to provide their opinion on the strength of the Senior Executive team should they feel unable to do so in a wider Board setting.

Principle E: Promote effective relationships between the department and the asset

*UKGI should support effective **relationships between the department and Asset**, including through:*

- a. *building effective relationships with the Asset's board and senior management*
- b. *promoting effective interfaces and communications between the department and Asset, including through regular shareholder meetings*
- c. *maintaining an effective regular meeting "rhythm" with the Asset chair, board and executive to ensure appropriate flow of information (management information) between the Asset, UKGI and the department, including effective reporting to the department*

Core Areas for Consideration

- Shareholder Relationship
- Shareholder Meetings
- Asset Reporting to the HMG
- Management Information
- Shareholder activities in relation to other sponsor roles and remits

Shareholder Activities with Guidance

34. UKGI should agree, with the Department, and document UKGI's specific priorities each year regarding the Asset.

34.1. UKGI should meet with the Department on a regular basis, in order to maintain a regular and **effective** reporting rhythm, as set out [here](#). As part of this, UKGI should discuss, on at least an annual basis, **UKGI's own priorities for the following year**. These should be agreed with the Department, and recorded as necessary (such as in a letter to the Department). These priorities may include routine activities, such as appointments, as well as specific developments arising. UKGI should only agree to conduct activities for which it is comfortable, and for which it has the requisite authority, as set out in its Constitutional Documentation, such as Departmental MoUs. UKGI's priorities should be consistent with the Department's overall policies for the Asset. Consideration of the priorities of individual Departmental sponsor teams will help to build a full picture of activities UKGI should undertake. A diagram of suggested activities across all governmental sponsor roles can be found [here](#). UKGI should use this to review shareholder roles and responsibilities against those of other sponsor teams in order to understand respective activities, and be confident that all are covered.

35. UKGI should build effective relationships with Senior Executives and Non-Executives within the Asset.

35.1. UKGI should establish regular contact with the **Senior Executives** within the Asset. This can be most meaningfully done during the Quarterly Shareholder Meetings, as set out in Activity 36. Outside of this, UKGI should be sure to engage as regularly as possible with the Asset's Executives, often in conjunction with counterparts within the Department, to establish and maintain an effective working relationship within the Asset.

35.2. UKGI should foster a constructive relationship with the Asset's **General Counsel** to encourage the transparent sharing of information relating to key legal matters (including as required, as per Guidance Provision 19.3). For complex Assets, UKGI should encourage the Asset's General Counsel to be in close and open dialogue with UKGI Legal.

35.3. UKGI can most readily establish effective relationships with **Non-Executives** within the Asset via the UKGI NED at the Board. Aside from this, as part of the induction process for Non-Executives, as set out in Guidance Provision 32.2.1, UKGI may wish to introduce incoming Non-Executives to the wider shareholder team. On an ongoing basis, UKGI should maintain regular contact with the Chair, in order to foster a productive working relationship.

35.4. Where shareholder teams **do not feel confident** that they have a constructive and effective relationship with either the Senior Executives or Non-Executives within the Asset, this should be flagged internally within UKGI. This can be done either to a responsible Director, the Portfolio Director, or during a regular internal reporting cycle, such as a Portfolio Review. The maintenance of such relationships is key to UKGI's shareholder role, and ability to operate effectively with its stakeholder base.

36. UKGI should hold regular shareholder meetings with appropriate representatives of the Asset, including the Accounting Officer.

36.1. Frequent shareholder meetings with representatives of the Asset are essential to maintaining a functioning shareholder relationship. As such, UKGI should arrange to meet senior executives within the Asset **at least quarterly**, by way of a shareholder meeting. For some Assets meetings may be required monthly. Shareholder meetings are the formal point of contact between the shareholder team and the Asset (though relationships should be such that UKGI have regular contact as needed with relevant senior personnel within the Asset).

36.2. UKGI should **chair shareholder meetings and set their agenda**. The meetings will likely cover recurring reporting requirements but should allow for targeted agenda items focussing upon areas of concern or interest of the shareholder team.

36.3. UKGI should use these meetings to **challenge the Asset on the adequacy of their governance** arrangements and its performance in line with **its strategy and Business Plan**.

36.3.1. **Governance** challenge should include a review of whether the Asset contains adequate and suitable personnel at senior levels, and whether the cascading of information within the Asset is sufficient to give the Board, UKGI, and the wider government, sight of the Asset's operations. The Asset should provide an update

on key governance workstreams and developments, and on material internal governance activities. UKGI should also encourage the Asset to review its compliance with the governance arrangements set out in the Asset's Constitutional Documentation.

- 36.3.2. **Performance** challenge should include a review in terms of financial, operational, and delivery performance. This should be underpinned by regular meetings in between where issues can be identified, discussed, and prioritised from a shareholder perspective. Performance should be presented through adequate and appropriate management information. UKGI should challenge the Asset's management information and discuss any issues that it raises during the meetings. UKGI should provide a view to the Department on any issues raised by the Asset's management information.
- 36.4. As well as an opportunity to challenge, UKGI should encourage Assets to use shareholder meetings as an **opportunity to raise concerns** that they have to UKGI, especially where they would benefit from UKGI assistance. UKGI provides the Asset with their first point of contact within government in some cases, particularly in terms of shareholder issues. To this end, UKGI should be open to using these meetings as an opportunity for the Asset to seek assistance in unlocking processes or reaching relevant personnel within government. UKGI should structure the agenda of shareholder meetings accordingly to allow time for this.
- 36.5. **Attendance** at shareholder meetings should include senior executives from within the Asset, such as the Chief Executive, Chief Financial Officer, Chief Operating Officer, Head of Risk, Head of HR, or General Counsel. UKGI should give the Asset sufficient sight of the meeting agenda to allow the relevant executives for each agenda item to be present. The Accounting Officer (or Senior Accountable Person) is encouraged to attend shareholder meetings at least quarterly. UKGI should also encourage representatives from the Department to attend (such as representatives from the policy team and departmental finance team), as well as HM Treasury, as appropriate. UKGI should encourage input from all attendees, but should ensure that all parties are aware that these meetings are owned by UKGI. UKGI may wish to coordinate these meetings with the Department and any Policy Meetings both in terms of agenda items and logistics.
- 36.6. UKGI should have good visibility of the Asset's **top tier governance structures**, such as at Board and Senior Executive level, via the UKGI NED. **Below this level**, UKGI should challenge the Asset with regards to its governance and functioning. UKGI can meaningfully do this via its UKGI NED and the ongoing review of performance of the Asset in the course of the duties of the Board. Should UKGI have substantive items of concern or interest, such as the strength of a particular business line within the Asset, UKGI should table this as an item for regular shareholder meetings. UKGI should also challenge the extent to which areas of particular concern are reported by the Asset to UKGI and the Department.
37. **UKGI should encourage a robust reporting structure and flow of relevant management information from the Asset to UKGI and the Department; this should include financial and non-financial reporting.**
- 37.1. UKGI should encourage the Asset to provide **management information that is appropriate and sufficiently regular for UKGI** and the Department to understand the performance of the Asset and any issues. Management information should come to

UKGI directly from the Asset and not come via the Department, (information is likely to come to the Department and UKGI concurrently). UKGI should develop a regular rhythm with the Asset for receiving management information. UKGI may wish to regularise reports they receive from the Asset in accordance with their regular shareholder meetings, as per Activity 36.

- 37.2. UKGI should challenge the **content and adequacy of the management information presented by the Asset**. The information provided by the asset should include all information pertinent to the functioning of the Asset, which allows UKGI the visibility to carry out its shareholder role effectively. A list of the key management information UKGI expects from the asset can be found at Guidance Provision 10.4. UKGI should promote agreement between the Department, the Asset and UKGI on the format, timing and contents of management information provided by the Asset. Management information may be tied to the objectives setting process. The Asset may require external assistance in order to develop appropriate management information. UKGI should encourage this where necessary. Management information should track the financial performance of the Asset against previous projections, and any ongoing concerns regarding financial pressures upon the Asset. Where the Asset operates in a group structure, management information should contain detail where relevant as to the performance of subsidiaries.
38. **UKGI should provide regular reports to the Department regarding the Asset's business from a shareholder's perspective, and forthcoming UKGI decisions and submissions to Ministers.**
- 38.1. As part of UKGI's regular **reporting rhythm** within government, as set out [here](#), UKGI should provide regular reports to the Department on the strength of the Asset and UKGI's undertakings as shareholder. For most UKGI Assets, reports should be submitted either quarterly or biannually, to senior Departmental personnel (usually at Director General or Permanent Secretary level). These reports should give a rounded picture of developments within the Asset from a UKGI perspective.
- 38.2. Reports should provide a **qualitative view from UKGI** (though consultation with the Department and other relevant stakeholders is encouraged) with regards to the Asset. UKGI should feel free to report whatever concerns arise with regards to the Asset. In particular, however UKGI may wish to focus on the following:
- 38.2.1. **Governance concerns and internal capacity and capability:** In accordance with many of the Activities set out under [Principle D](#), UKGI should raise any concerns pertaining to the internal governance of the Asset, particularly relating to personnel either at Board or senior Executive level.
- 38.2.2. **Financial performance and performance against delivery targets:** In accordance with **Activity** 13.5.1, UKGI should provide an ongoing update on the financial performance of the Asset in line with its business plan and financial projections, as well as wider delivery performance. UKGI should raise any material financial risks, such as income shortfalls.
- 38.2.3. **Strategic Risks:** Whilst UKGI should not engage in risk assurance on behalf of the Asset, UKGI should raise any concerns it has with regards to significant and strategic risks faced by **the** Asset.

38.2.4. **Group performance:** Where the Asset operates within a group structure, UKGI should report any significant concerns (as set out in 38.2.1, 38.2.2 and 38.2.2) with regards to subsidiaries **and** wholly or partially owned businesses. Where the Asset contracts a significant amount of its work to an external party (such as via a Parent Body Organisation), performance should be picked up in such reporting.

38.2.5. **Upcoming submissions and decisions:** Reports provide UKGI a good opportunity to flag future decisions and submissions to the Department and Ministers to avoid unnecessary delay.

38.3. Whilst Guidance Principle 38.2 sets out how UKGI should use its regular reports to raise issues and concerns regarding the Asset, UKGI should similarly use these reports as a good **opportunity to note successes and achievements**. These successes may relate to developments within the Asset itself in which HMG had little direct involvement, or actions directly taken by either the Department or UKGI. Alongside flagging issues, UKGI should outline its successes in terms of specific outcomes it has helped to deliver, and should avoid situations in which it only reports to senior Departmental personnel on negative developments.

Principle F: Supporting and supplementing the activities above by providing an experienced shareholder NED on the asset board

UKGI should act as government shareholder representative on the Asset board, through:

- a. *providing an appropriately skilled board member to carry out the non-executive director role effectively, drawing on the support and analysis from the UKGI team*
- b. *attending the Asset's board committees as appropriate, but usually Remuneration Committee, Audit and Risk Committee, and Nominations Committee*
- c. *acting as an interlocutor between the department and the Asset board*
- d. *providing a view to the department on the strength of the Asset board*

Core Areas for Consideration

- UKGI Non-Executive Directors

Shareholder Activities with Guidance

39. UKGI should nominate an appropriately skilled person to be appointed to the Board as a Non-Executive Director, who should also sit on Board committees as appropriate.

39.1. UKGI should agree with the Department and the Asset that a senior employee of UKGI should sit on the Board as the UKGI NED. The role of the UKGI NED should be set out in the relevant Framework Document (as set out in Activity 2). Where this is a new practice for the Asset, UKGI should consider reviewing and updating any relevant Board governance documentation to allow for this. UKGI Legal should be consulted for guidance in this regard.

39.2. UKGI should propose an appropriate person from within the organisation (usually a Director or an Executive Director) to sit as the UKGI NED on the Asset Board. Unlike other **appointments** to the Asset Board, where an open competition may be required, it is for UKGI to select the NED it proposes to sit on the Board as the UKGI NED. Where appointments to the Asset Board are made by HMG, as per Activity 22, UKGI should send a request for the proposed individual to join the Asset Board to the Department, in most cases to an appropriate Minister.

39.3. The UKGI NED should be issued with an appointment letter upon appointment, as per Activity 7. Similarly, the UKGI NED should have Terms of Reference for their role which are as consistent as possible with those of other Non-Executive Directors, in order that the UKGI NED has no additional or fewer responsibilities than other NEDs. This is set out in Guidance Provision 9.2. The UKGI NED should be issued with an Indemnity Letter from the Department, which should be agreed with UKGI Legal. Guidance and a template for this letter can be found [here](#). Countersigned copies of both documents should be shared with the Asset for their records.

39.4. The UKGI NED is not a public appointment, and is therefore not subject to rules governing the appointment process (guidance for which can be found in the [UKGI](#)

[Public Appointments Reference Guide](#)). The position should be treated as if an *ex officio* appointment from UKGI. It may however be subject to Ministerial approval. This should be documented in the Asset's Framework Document (as per Activity 2). The UKGI NED should be given a fixed term length in a manner comparable to other Non-Executives.

- 39.5. The **UKGI NED should sit on Board Committees** in the same manner as other NEDs. The UKGI NED should work with the Asset Chair to determine which committees they should sit on. UKGI encourages the UKGI NED to sit, as a minimum on the Audit (and Audit and Risk where combined), Remuneration, and Nomination Committees. This should allow the UKGI NED to have sufficient overview of the financial performance of the Asset, its underlying risks, and its considerations regarding remuneration and performance of Executives and Non-Executives. The UKGI NED should not be precluded from sitting on the Audit Committee on the basis that they are not deemed independent (see UK Corporate Governance Code Provision [24](#)), for further clarification see Guidance Provision 24.3. The UKGI NED should sit on any other committees as per their availability, expertise, and considerations of the Asset Chair. UKGI NEDs should not chair Board Committees except on an exceptional basis, (such as where the standing committee chair is unable to attend); to do so would undermine the independent challenge provided by Board Committees.
- 39.6. UKGI discourages members of the shareholder team, except for the designated UKGI Director, from attending **Board meetings or Committee meetings**. Where this is done it should be made clear that the UKGI person is attending in an "observer" capacity, not as a participant. In all cases, UKGI Legal should be consulted. UKGI Legal should consider whether the observer should sign a non-disclosure agreement with the Asset, and whether the Asset should acknowledge the observer role. UKGI may encourage the Asset to appoint a Board adviser for a specific item, as per Guidance Provision 23.1.3. All Board and Committee observers should follow the UKGI Observer Guidance which can be found [here](#).
- 39.7. The UKGI NED should receive an **induction to the Asset Board** as per Activity 32, including requisite training for the position depending upon experience.
- 39.8. As per the guidance set out [here](#), UKGI understands that the UKGI NED will draw upon **the assistance of the UKGI shareholder team**. This assistance may include advice on Board papers, or suggested items to raise given ongoing dealings with the Asset. The UKGI shareholder team and the UKGI NED must understand that this dedicated "NED" support is separate to the role that the UKGI team performs in its capacity as shareholder. Board papers should not be shared beyond the shareholder team, either to the Department or any other stakeholders. It is particularly important that the team notes when support to the UKGI NED includes "Activities Outside of UKGI Scope", as set out [here](#), so that the separation of roles can be continuously drawn.
- 39.9. A guidance note on the role of the UKGI NED can be found [here](#).
40. **UKGI should regularly provide a view to the Department on the composition and performance of the Asset Board.**
- 40.1. The UKGI shareholder team, led by the UKGI NED, should have **regular communication with the Asset Chair** and the Asset Chief Executive (or equivalent). The effectiveness of the Board should be a regular item during these discussions.

OFFICIAL - INTERNAL UKGI DOCUMENT - UKGI PORTFOLIO OPERATING PRINCIPLES WITH GUIDANCE

UKGI should work with the Asset Chair to assess the independence (see Guidance Provision 25.1) and skills of the Board. UKGI should consider, via consultation with the Asset Chair and the Department, whether the Board contains the correct skills to undertake its responsibilities, and how these can be bolstered where necessary.

- 40.2. UKGI should regularly **consider whether the Asset Board is effective** and properly composed to undertake its responsibilities (including sufficiently independent, as per Action 25). This can be done most effectively via feedback from the UKGI NED. UKGI should, via regular reports to the Department, as per Activity 38, provide a view as to the composition of the Asset Board. As per Guidance Provision 38.2.5, UKGI should raise forthcoming decisions regarding appointments and reappointments in good time, and provide advice as appropriate from UKGI's perspective.

UKGI Internal Assurance Processes

In addition to encouraging the above, UKGI provides support to shareholder teams through its internal assurance processes. Shareholder teams should engage with the reporting procedures below:

- Risk Registers – to be completed on a monthly basis
- Portfolio Reviews – to be conducted as frequently as required for the Asset according to UKGI policy
- UKGI Dashboard – to be completed using the UKGI reporting spreadsheet on a bi-monthly basis
- Reporting to the UKGI Board as required

The above list is not intended to be exhaustive. Shareholder teams should monitor and keep a record of any internal control guidance that each Asset is required to follow and ensure that this is done.

List of compliance documentation and guidance for UKGI Assets by principle

This list will evolve over time and is not intended to be exhaustive. This list represents the principal compliance and guidance documentation applicable to many of HMG's Assets. UKGI must comply with any requirements of Constitutional Documentation above any guidance listed here or within the Portfolio Operating Principles.

UKGI maintains this list of documentation also found on the intranet [here](#). However, any items which are missing, or items listed which are no longer relevant, should be flagged to the UKGI Corporate Governance team who can amend this list accordingly.

Establish and maintain appropriate and effective corporate governance foundation which govern the Department-Asset relationship

- [The Sponsorship Code of Good Practice](#)
- [Corporate Governance in Central Government Departments: Code of Good Practice](#)
- [The Parliamentary and Health Service Ombudsman's Principles of Good Administration](#)
- [The UK Corporate Governance Code 2018](#)
- [FRC: Guidance on Board Effectiveness](#)
- [The UK Stewardship Code](#)
- [The Wates Corporate Governance Principles for Large Private Companies](#)

Promote effective objectives, business planning and performance against business plan

- [The Green Book](#)
- [Managing Public Money](#)
- [The Outsourcing Playbook](#)
- [Regularity, Propriety and Value for Money](#)
- [HMT Consolidated Budgeting Guidance](#)

Promote strong corporate capability

- Financial and commercial guidance
- [The Government Financial Reporting Manual](#)
 - [Government Commercial Operating Standards](#)
- [HM Treasury Guidance on Tackling Fraud](#)
- [HMT Dear Accounting Officer Letters](#)
- [Audit and assurance best practice:](#)
 - [Orange Book: Management of Risk: Principles and Concepts](#)
 - [Public Sector Internal Audit Standards](#)
 - [Assurance frameworks guidance](#)
 - [Guide to implementing integrated assurance \(Integrated Assurance and Approval Plans\)](#)
 - [IPA project assurance review toolkit](#)
 - [Treasury approvals process for programmes and projects](#)
 - [Major Project approval and assurance guidance](#)

OFFICIAL - INTERNAL UKGI DOCUMENT - UKGI PORTFOLIO OPERATING PRINCIPLES WITH GUIDANCE

- Other guidance
 - [Equality Act 2010: Guidance](#)
 - [Slavery and human trafficking in supply chains: guidance for business](#)
 - [Social Value Act](#)

Promote effective leadership (high quality boards and senior management)

- [Cabinet Office Controls](#)
- [Cabinet Office Model Code for Staff of Executive Non-Departmental Public Bodies](#)
- [Civil Service Pay Guidance 2019/20](#)
- [Code of Conduct for Board Members of Public Bodies](#)
- [Guidance for approval of senior pay](#)
- [Guidance for Ministerial Appointments to Public Bodies](#)
- [Guidance Note on public sector pay and terms 2016](#)
- [Governance Code on Public Appointments](#)
- [Principles of Governance for all Public Body NEDs](#)
- [Public sector pay and terms: Guidance Note](#)

Promote effective relationships between the Department and the Asset

- [Non-departmental public bodies: characteristics and governance](#)
- [Partnerships between Departments and Arms' Length Bodies: Code of Good Practice](#)
- [Public bodies: Information for Departments](#)