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Dear Jon,

UK Government Investments

You have asked for additional information on the choice of operating model for UK Government Investments (UKGI) following my letter to you of 19 November.

As I outlined previously, UKGI will be a government company (GovCo) - a Companies Act company with HM Treasury as its sole shareholder. It will continue to offer impartial advice directly to the Secretary of State and Permanent Secretary of the Department that owns the relevant company, asset or project.

The need for change

A key factor in the decision to move ShEx into BIS, was that a large part of its work at the time was focused on BIS assets and projects. Over time, ShEx has developed a wider role as a specialist provider of corporate finance advice across government. This includes advising on asset sales, launch aid and broader forms of assistance for significant government projects. ShEx now has a portfolio of around 24 government businesses, and works with 10 departments and management teams. Moving to a Treasury owned GovCo reflects this shift in focus; it will allow UKGI more effective and influential operations across Whitehall, and to take a leading role in a wider range of larger, higher profile commercial work across Government.

At the same time, UKFI, a limited company wholly owned by HM Treasury, has been successfully disposing of the Government's holdings in financial sector assets. As the stock of remaining assets in UKFI's stewardship reduces it was the right time to start planning for the next phase of the Company's existence to ensure UKFI can

fulfil its mandate, while looking at opportunities and synergies by bringing together two complementary bodies with strong synergies and matching skill sets.

Why make UKGI a company?

We believe that moving the ShEx operations into a corporate structure, together with UKFI, will provide the best balance of being close to the centre of government through its Treasury shareholder, but with sufficient independence to ensure an effective relationship with customer Departments and to have the ability to attract the skills required. UKGI's independence will be enshrined in governance arrangements and board duties. In addition, a corporate structure will enable greater organisational autonomy and flexibility to:

- Strengthen the governance arrangements and commercial disciplines essential for driving performance;
- Attract top talent from the private sector and the civil service;
- Build a unique identity and culture; and
- Improve service to customer Departments.

How will UKGI work in practice?

UKGI will be governed by a Board, led by an independent non-Executive Chair, and will include a shareholder and customer representative at Permanent Secretary level. The Board will focus on corporate strategy and oversee the appropriate allocation of UKGI resources to UKGI according to cross-government priorities.

UKGI will establish memoranda of understanding with customer Departments. This will include protocols to ensure advice continues to be provided directly by UKGI to Ministers and Accounting Officers. The details of these arrangements will be finalised prior to UKGI going live on 1 April 2016.

I can also reassure you that this is not about seeking to privatise the advice provided to Ministers or to create an internal alternative to external professional advisers. It is still expected that external advice will be procured where necessary as is the case now.

Warm regards,

A handwritten signature in black ink that reads "Lucy Neville-Rolfe". The signature is written in a cursive, flowing style.

BARONESS NEVILLE-ROLFE DBE CMG