UK GOVERNMENT INVESTMENTS

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Government ownership of businesses always involves some risk of conflict of interest. Either the politicians that control the business may push decisions that benefit them personally or serve short term political interests at the expense of the broader community. Or those that run it may seek to benefit themselves by exploiting what is often a monopoly position at the expense of the public.

This is an important reason why governance matters in state-owned enterprises. Done properly it can help to strike a good balance between the objectives of public policy and the requirement for efficiency that delivers value to the public. UK Government Investments (UKGI) provides one example of how this challenge can be met.

Despite the wave of privatisation during the Thatcher years, the British government still owns a wide portfolio of businesses, ranging from the Nuclear Decommissioning Authority which is responsible for the clean-up of nuclear waste, to the Met Office which provides weather forecasts, to Channel 4 television, the Land Registry which records the ownership of land throughout the country through to UK Export Finance which guarantees trade deals. Following the financial crisis of 2007-08, it also found itself a leading owner of some leading banks and of the assets of lesser banks which had failed.

UKGI does not formally hold these stakes but it manages many of the more significant bodies on behalf of the government, fulfilling the stewardship role of shareholding and occasionally advising on sales. It was created in 2016 through the merger of the Shareholder Executive and UK Financial Investments, the previously separate entity set up to manage the stakes in British banks acquired by the government during the crisis. Its chairman is Robert Swannell who is currently also chairman of the retailer Marks & Spencer and has a background in investment banking. Its chief executive is Mark Russell, a former corporate finance partner in KPMG and an independent non-executive director of DP World.

UKGI describes its purpose as being the government's centre of excellence in corporate finance and corporate governance. Its principal objectives are to:

• Act as a shareholder for those arm's length bodies of the UK government that are structured to allow a meaningful shareholders function and for other government assets facing complex transformation, especially if governance is at the heart of a model change;

• Prepare and execute all significant corporate asset sales by the UK government;

• Advise on all major UK government financial interventions into corporate structures(such for example as rescue arrangements for failing companies that are deemed to have national strategic importance);

• Advise on major UK government negotiations with corporates.

UK Government Investments

The organisation itself is wholly owned by the Treasury (Finance Ministry), although the businesses under its wing are sponsored by a range of different ministries. The relationship with the Treasury is set out in a framework document which states that it will be underpinned by the UK Corporate Governance Code so far as applicable. Its board structure reflects this with a majority of independent non-executive directors drawn from the private sector. The Framework Document places specific emphasis on professionalism, efficiency and trust.

Two elements stand out from this mandate. First, corporate finance expertise matters, not only where privatisation is being considered but also in the way businesses are being run and sometimes when the government is outsourcing services to the private sector. Yet corporate finance is not necessarily a natural skill of civil servants. The UKGI staff are divided roughly 50:50 between executives with private sector corporate finance experience and civil servants. Second, the UK government attaches high importance to corporate governance for its contribution to efficiency and accountability.

However, UKGI operates with different models tailored to the nature and the status of the business it is dealing with. In some cases, such as the Post Office (which sells stamps and receives letters and parcels for delivery by the separate Royal Mail), it has a seat on the board. With Network Rail, which manages the UK railway infrastructure, it has an observer on the board, while with the banks it has no board presence but takes a keen interest in board appointments and governance generally.

A common feature is a Memorandum of Understanding with the sponsoring ministry setting out the objectives of the enterprise concerned. While a number of them produce services that could be undertaken by a private organisation, most of them embody some element of public policy, according to Mr Swannell. For example, the Land Registry and Companies House which stores financial records of all British companies control data that could be commercialised. "However, the government may take the view that some or all of the information should be available free to commercial organisations and that its use will benefit the economy," he says.

The critical point in these circumstances is that the service provided is reliable and efficient and this is where arm's length approach to ownership, independent management and good governance comes in.

Less common are situations where the government has a controlling stake of companies which have outside shareholders. The exception is the banks which were brought into government ownership in the wake of the financial crisis. UKFI, which remains a subsidiary of UKGI, controls these investments was specifically set up to ensure that the government did not seek to interfere with the commercial policy of the banks, for example, by seeking to direct lending to sectors or companies of political interest. UKFI is chaired by James Leigh-Pemberton an experienced investment banker. He is also Deputy Chairman of UKGI.

Broadly speaking, according to portfolio investors who hold the shares on the stock market, this principle has been applied though in some early stages there was felt to be some official pressure to direct lending to small businesses. Without the UKFI to act as a buffer between the banks and the civil servants and politicians the pressure might have been much greater and harder to resist.

The UK approach is therefore one which aims to ensure that the entities under government control can deliver public policy objectives while also ensuring high standards of efficiency reliability and value to users as well as good governance. It relies on a clear mandate from the government, which in turn implies a clear and transparent policy objective, but the UKGI ensures consistent delivery and arm's length execution of the role of shareholder. It avoids micro-management and capricious interference by politicians and bureaucrats. There may be different ways of achieving this, but they are laudable objectives for any SOE.