

FROM THE CITY TO WHITEHALL

The UK government has a broad range of investments – and may well have a few more by the end of 2021. Marc Mullen asked Charles Donald, CEO of UKGI, about spreading corporate finance expertise across all the sectors



'The public sector, public policy and government have always been of interest to me'

After spending more than 30 years in investment banking, Charles Donald took on a new challenge in 2018. The vice-chairman and head of UK Advisory and Corporate Broking at Credit Suisse moved to UK Government Investments (UKGI). UKGI was set up as a wholly owned subsidiary of HM Treasury in 2016, to bring together the functions of the Shareholder Executive and UK Financial Investments (UKFI). It works across government departments, and with both the private and public sectors, advising on complex commercial tasks.

When he joined, Donald took on the role of head of its financial institutions group. Less than two years later, he was promoted to chief executive of UKGI, taking over from interim CEO Justin Manson, who also had a background in investment banking. Mark Russell had been the previous boss for seven years, until he left the post in October 2019 to become chairman of the Ministry of Defence's buying agency, Defence Equipment and Support.

However, just five days after Donald was due to start his new role, the UK was plunged into (what is now known as) Lockdown 1.0.

"To be honest, I don't feel I've really had the chance to do the job of CEO in a normal environment yet," he says. "But I have had the benefit of being at UKGI since May 2018, so I knew the

In March this year, UKGI announced the successful sale of part of HM Treasury's shareholding in NatWest Group, raising £1.1bn

organisation and the people, and had learned a fair bit about how to work across government."

Prior to joining Credit Suisse in 2009, Donald headed up UK investment banking at Nomura. Previously, he'd been in charge of equity research and then corporate broking at Lehman Brothers. Before that, he held roles at Donaldson, Lufkin & Jenrette and UBS.

"When I joined UKGI, it was a big change of culture. After 30-plus years in banking, I thought it would be interesting to do something a bit different. The public sector, public policy and government have always been of interest to me."

Donald says that the combination of private sector and civil service backgrounds runs through the 130-plus staff who work at UKGI. "We work hard to blend those two skills, so we can provide the best advice to government departments. We second people from those two constituencies on something of a perpetual basis, to blend the experience of staff."

The background of private-sector staff is in banking, consulting and law firms, and there are also ACA-qualified accountants. As well as advice and recruitment, there are secondments from big advisory firms. Then there are professionals with experience in the Treasury, the Department for Education, the Department for Business, Energy and Industrial Strategy (BEIS), the Cabinet Office and the Ministry of Justice.

"The corporate finance or governance advice we give needs to be robust, of course. But it also needs to be communicated in such a way that the government can make best use of it," says Donald. To those steeped in the private sector, it is probably most akin to getting industry specialists to work alongside financial experts.

Key workers

The UKGI team works across three main areas: corporate finance; corporate governance; and asset realisations. UKGI is also establishing a fourth discipline, to advise government on contingent liabilities. "This is related to its balance sheet review work, to help government inform its risk management and contingency planning – exposure on a contract it has, or there may be exposure on a contract the government has, or residual exposure as backstop guarantor," says Donald. This new group was announced in the spending review



Government portfolio

UKGI works with the following enterprises in which the UK government has a stake:

- **British Business Bank** – business development bank.
- **Celsa Steel** – South Wales manufacturing company.
- **Channel 4** – commercially funded public sector broadcaster.
- **HM Land Registry** – register of land and property in England and Wales.
- **National Nuclear Laboratory** – research and innovation service provider.
- **NatWest Group** – UK-focused financial services company.
- **Nuclear Decommissioning Authority** – responsible for the clean-up of the UK's nuclear legacy.
- **OneWeb** – low-earth orbit satellite operator.
- **Ordnance Survey** – UK mapping organisation.
- **Post Office** – network of UK postal service shops.
- **The Royal Mint** – the world's leading export mint, which produces all the coins of the UK.
- **UK Export Finance** – the UK's export credit agency.
- **UK Asset Resolution** – manager of the closed mortgage books of Bradford & Bingley and NRAM.
- **URENCO** – international supplier of enrichment services.

last November. That team will be built around a director, with secondments to the team, to ensure the same blended approach is taken.

UKGI helped the government assess the economic and fiscal risk that resulted from COVID-19, and the risks and impact of some of the measures taken last year – some of which have continued into 2021. It supported the Treasury with resource to help with the work it was doing in connection with the Bank of England's commercial paper – the Covid Corporate Finance Facility scheme. The British Business Bank, where UKGI director Ceri Smith sits on the board, saw a significant expansion in its role through the crisis.

In the November spending review, the government announced greater resource to manage complex assets that may well be acquired as a result of intervention because of the pandemic. For instance, the Treasury has set up an advisory credit committee to advise on potential financial interventions, and UKGI has been helping on that exercise.

“There is a significant corporate finance element to the work on the various assets we have looked at with various government departments over the past 12 months,” explains Donald. UKGI worked together with the Treasury on one intervention in June 2020 – the £30m bailout support

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for Celsa Steel, the South Wales-based steel company.

One new asset that UKGI will look after is OneWeb. In July 2020, the government made a \$500m (£364m) investment in the low-earth orbit satellite operator. OneWeb is based in the UK, but has substantial operations in the US. It had filed for Chapter 11 bankruptcy protection in the US in March 2020. The government's bid (completed in November 2020) was as part of a consortium, with Indian billionaire Sunil Bharti Mittal also investing \$500m. OneWeb plans to create a low-latency, high-speed internet service by 2022, but it will face stiff competition from other ventures led by the likes of SpaceX's Elon Musk and Amazon's Jeff Bezos. Neil Masterson, former co-chief

operating officer of Thomson Reuters, has taken over as chief executive.

“The horizon on how long the investments are held for, and the different way of thinking around them, is a policy decision from government,” says Donald. “One thing we always say about UKGI is we don't do policy, we act as a function. The government decides the policy and then we advise in support of whatever the policy is. So, if the government decides it's going to have a long-term hold, or an arm's-length body with a long-term role, then we can work on that basis. If it's something short term, we work on a short-term basis. That is a difference to my previous job, where making the overarching decision was central to it.”

Multi-tasked

UKGI works with about 12 different departments (see 'Government portfolio', page 9). “BEIS is our largest and most important 'client department,’” says Donald. “Then there is the Ministry of Defence, the Treasury, the Department for Transport, and the Cabinet Office. We also look after Channel 4 with the Department for Digital, Culture, Media and Sport (DCMS), and UK Export Finance for the Department of International Trade. Each of those departments is a client in exactly the

Broad church

The rest of the UKGI senior team has vast experience and breadth, too.

Chief operating officer **Susie Timlin** joined at the start of 2019 from Hays Talent Solutions. As global director of people and culture, she built complex international teams, which is relevant to her role at UKGI – recruiting staff capable of complex, multi-layered relationships within government and with the private sector. She previously worked for Lloyds.

CFO **Robert Razzell**, who qualified as an ACA at PwC, joined in September 2016 from the London Legacy Development Corporation, where he was head of finance. He was previously head of finance at the Olympic Delivery Authority, and worked in finance for central and local government.

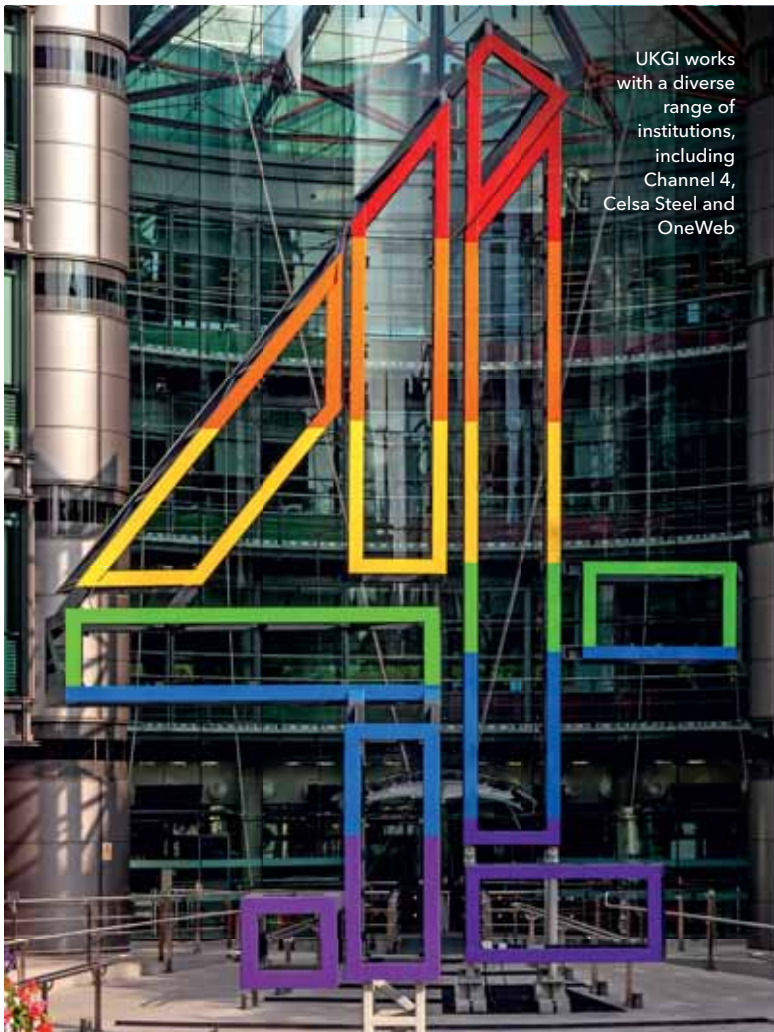
Chairman **Robert Swannell CBE** was previously chairman of the Shareholder Executive, until it merged with UKFI to become UKGI. His board experience is immense. He was chairman of HMV from 2009 to 2011 and of Marks & Spencer from 2011 to 2017. He is currently chairman of Ahren Innovation Capital's advisory committee and Royal SpringBoard, and a member of the Takeover Appeal Board. Prior to 2010, he'd had a 30-year career in investment banking with Citigroup. He was formerly chairman of its European investment bank. He was also senior independent director of British Land and 3i Group until 2010.

Deputy chairman is the **Hon Sir James Leigh-Pemberton**, who was chairman of UKFI until it became part of UKGI. He

had joined UKFI as CEO in 2013, from Credit Suisse, where he was UK CEO. He spent more than 30 years in investment banking, having worked for S G Warburg Securities before Credit Suisse.

Jane Guyett CBE joined as senior independent director in 2016, having spent 15 years with Bank of America Merrill Lynch.

In March, because of its growing mandate and workload, UKGI hired eight people to its senior executive team. **Sukhi Johal**, a former RSM corporate finance partner in the Midlands, and former EY corporate finance director **Nancy Zhang** have joined. The others are **Elena Ciallie**, **Jonathan Gorrie**, **Samantha Harris**, **Lucie Lambert**, **Robert Mackie** and **Aidan Smith** (see page 32).



UKGI works with a diverse range of institutions, including Channel 4, Celsa Steel and OneWeb



same way as in my past role – you just swap large corporate clients for the different government departments.”

There will be obvious cultural differences within departments, as well as a difference in the level of financial expertise across them. “In the DCMS, there are lots of civil servants who are experts on the responsibilities they have,” says Donald. “We’re trying to bring expertise around, for example, corporate governance, best practice or corporate finance skills, and apply them to their individual situations. We work pretty closely with those departments, to dovetail into their individual expertise areas.”

Some will be more corporate finance and corporate governance savvy than others. “As a banker or adviser, you’re dealing with different levels of understanding too. Particularly at a senior level, you will be dealing with people who have had pretty deep and extensive experience of working with

an arm’s-length body,” Donald explains.

There have been regular seminars (online for now, of course) to improve the knowledge within the government departments they are working with – on environmental, social and governance considerations, as well as other matters of corporate governance that arm’s-length bodies are grappling with. Achieving this over the past year has been rather a logistical challenge.

Value judgement

So, what about asset realisations? “It comes back to that constraint of ensuring we secure value for money,” replies Donald. “Anything that we do in terms of asset realisation is likely to be examined closely by the National Audit Office, so securing value for money is critical. It’s the analysis around whether we can achieve it that is really the key determinant of whether realisations happen or not in 2021. For NatWest shares, for example, there’s

quite a lot of complex analysis that we do to judge whether or not it would be value for money if we sold at a point in time. There’s a market expectation that UK banks will pay dividends within certain parameters during 2021. Whether a bank is a dividend-paying organisation or not is a fairly important component of our value-for-money analysis.” In March, UKGI announced the sale of 590,000 of HM Treasury’s shares in NatWest, raising £1.1bn.

Back in January 2020, UKGI published a paper setting out the success factors it views as important for arm’s-length bodies. “One of the things that is important is that there is transparency and effective management information across the arm’s-length body,” says Donald. “Like many, the boards of arm’s-length bodies have had to cope with a lot of short-term changes in what they were thinking about during 2020, but the fundamentals must remain robust and long term.”