

# **Advisory Council of Partnerships UK**

Annual Report 2002/3

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October 2003



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# **THE ADVISORY COUNCIL OF PARTNERSHIPS UK**

## **ANNUAL REPORT FOR 2002/2003**

### **1. Introduction**

The Advisory Council of Partnerships UK was set up by Treasury Ministers at the same time as HM Treasury sold 51% of Partnerships UK to the private sector in February 2001. The role of the Advisory Council is to ensure that Partnerships UK meets its public sector mission in line with the wishes of Treasury Ministers and Scottish Ministers. The Advisory Council reviews the scope of Partnerships UK's public sector mission and the manner in which Partnerships UK operates to fulfil this mission. The Advisory Council has no executive authority over Partnerships UK but the Company's Articles of Association state that Directors must have regard to the conclusions of the Advisory Council in formulating Partnerships UK business plans. The full terms of reference for the Advisory Council can be found on the Partnerships UK website.

This is the second annual report from the Advisory Council covering the second full year of Partnerships UK's and the Advisory Council's activities. The previous Advisory Council report was produced for the 2001 calendar year. After discussions the Council decided to change the reporting period to a financial year basis to move into line with Partnerships UK's annual report. Therefore this report covers a 15 month period from January 2002 to March 2003.

I believe that this report demonstrates that the Council is successfully carrying out its duties to oversee the work of Partnerships UK to ensure that Partnerships UK fulfils its public sector mission. This report was approved by the Advisory Council at its May 2003 meeting.

As Chairman of the Council, and having consulted my fellow Council Members, I am pleased to submit to Treasury Ministers and the Scottish Minister for Finance the Annual Report of the Council's activities in monitoring the work of Partnerships UK during the financial year 2002/2003.

### **2. Membership**

The Council comprises representatives of Government Departments, the Devolved Administrations, Local Authorities and other public bodies that are amongst Partnerships UK's most significant clients. Members are selected by HM Treasury to serve for unspecified terms. The membership is exclusively drawn from the public sector and I am supported by a small team of officials from the Treasury and

Partnerships UK in my role as Chairman. In this, the second year of the Council, there have been a number of personnel changes through retirement and Members being appointed to new posts. Annex A to this Report lists the members of the Council that have served up to March 2003.

### **3. Meetings**

The Council met twice during the period, in May and November 2002. I am very pleased that Derek Higgs, the Chairman of Partnerships UK, and his executive team have attended all of these meetings. At each of these meeting the Council has benefited from meeting a number of Partnerships UK staff and received presentations covering the separate parts of Partnerships UK s business. Issues covered by these presentations have included Partnerships UK s work assisting the development and procurement of on-going transport projects, the development of new initiatives such as LIFT, the work of Partnerships UK s equity investments team as well as presentations on Partnerships UK s accounts and the business plan.

### **4. Council Business**

The presentation by the Partnerships UK executive team has allowed the Council to familiarise itself with Partnerships UK personnel and the business generally. The Council has also been provided with the opportunity to consider the Annual Accounts and attend Partnerships UK s Annual General Meeting.

The Council has considered a wide range of issues relating to Partnerships UK and its business during the year. Specific items of business which the Council would like to highlight in this report are:

#### **(a) Partnerships UK s Business Development and Growth**

The Council was able to monitor Partnerships UK s continued growth both in terms of projects undertaken, and the resources available within the Company.

By March 2003 Partnerships UK had grown to 47 staff (c.f. 40 March 2002) a number which is expected to grow to 56 during the coming year. This increase included a small number of staff recruited specifically to assist in Partnerships UK s work in the Devolved Territories.

During the year Partnerships UK completed a number of projects<sup>1</sup> that it had been assisting with through Development Partnerships. Partnerships UK signed four further Development Partnership

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<sup>1</sup> Completed projects: BW Property, BW Watergrid, Mid Lothian schools, East Lothian

Agreements<sup>2</sup> up to March 2003 and a number of other potential partnerships were at an advanced stage of discussion and expected to be signed in the first half of 2003/04. Partnerships UK also made its first three equity investments<sup>3</sup>.

The Council monitored the range of Partnerships UK's work and satisfied itself that Partnerships UK was meeting its mission to cover a wide range of activity in both the sectors covered and geographically. In terms of sector coverage, in line with Government targets, Partnerships UK focussed on the health, education and transport sectors. Notable activity during the year included:

- The work of Partnerships UK's and DoH's joint venture company Partnerships for Health in providing central expertise and support for a substantial investment in primary health care. By the end of March all three tranches of LIFT were in the market. The first LIFT company was due to be established in May 2003.
- Partnerships UK, DfES and the National Society have been working together to develop a similar model to PfH to assist the Voluntary Aided schools sector. Partnerships for Church Schools, a joint venture of the three parties, was formed in March. The objective is to deliver a standard approach to delivering PFI projects across the estate of over 2000 CofE schools.
- In February 2003 DfES launched a consultation paper on new approaches to delivering investment to achieve renewal of secondary schools. Building Schools for the Future envisages the establishment of a national procurement vehicle, involving Partnerships UK alongside central and local Government, to deliver a major long term investment programme. Partnerships UK has appointed a project director to take this initiative forward.
- In transport Partnerships UK continued work on two major tram projects, in Leeds and Hampshire. Partnerships UK played an important role helping to establish Network Rail as the successor to Railtrack.

During 2002/03 the Council noted that Partnerships UK had managed to make some inroads into sectors that have previously proven difficult for the PPP market. Partnerships UK signed a Development Partnership with Ashford Borough Council to assist in a housing regeneration scheme and are helping ODPM with

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<sup>2</sup> New DPAs: Ashford housing, Paddington Health Campus, Argyle & Bute schools, Forestry Commission Enterprise.

central guidance in this sector. There has been some progress in helping to improve the PPP market in the waste sector although there is still much work to be done in this particular area.

Partnerships UK continued to demonstrate a commitment to work on a geographically diverse range of projects, one of Partnerships UK's original objectives. One significant achievement was Partnerships UK's help in establishing the Northern Ireland Strategic Investment Board. The SIB will oversee a major investment programme in Northern Ireland. Partnerships UK continues to work closely with the Scottish Executive both on a number of individual projects and in developing new PPP models. This includes the pilot for a non-profit distributing PPP model in the Argyle and Bute schools project.

Some members of the Council have commented that there are times when the public sector would like to make use of Partnerships UK's expertise but may find it difficult to meet the costs of this service. It is important to the Council that Partnerships UK's services remain available to the whole of the public sector. Partnerships UK indicated that while it must still make a small return on its capital it is investigating ways of making its services more affordable, a move that the Council welcomes.

Throughout the year Partnerships UK provided strategic troubleshooting and policy advice to central and local government. Under the Treasury Framework agreement Partnerships UK continued to provide a free help desk facility for both the public and private sectors. The Council noted that Partnerships UK will be more proactive in publicising the existence of the help desk. Monitoring of helpdesk activity indicates a significant increase in the number of enquires received, particularly following the publication of new standard contract guidance in July 2002.

(b) Partnerships UK Policy Support

Part of Partnerships UK's mission is to expand and improve the Government's PPP programme. The Council has been monitoring the policy support Partnerships UK provides with particular focus on the revision of standard PFI contract guidance and the issue of refinancing.

The Standardisation of PFI Contracts (SoPC) was published by OGC in July 2002, this itself being an up-date of the Treasury Taskforce guidance published in 1999. The publication of SoPC represents a significant achievement on the part of Partnerships UK after a very considerable consultation process with both the public and private sectors. It is hoped that the introduction of central guidance will improve the flow of high quality VFM PPP

deals. Partnerships UK has been assigned the task, by HM Treasury, of enforcing the new standardised contract. The Partnerships UK helpdesk is available for use by both the public and private sectors to discuss issues of compliance with SoPC. In the local authority sector compliance will be enforced through Partnerships UK's work with the Projects Review Group.

Refinancing is a topic that has exercised the public sector for some time. SoPC details a treatment for refinancing for all deals in procurement after July 2003. HM Treasury and Partnerships UK have worked with private sector organisations to develop a voluntary code for refinancing that covers past deals not covered by SoPC. The Council welcomed the introduction of the Voluntary Code. The Council also welcomed Partnerships UK setting up a Refinancing Taskforce to act as a central source of expertise to help the public sector when they are encountering a refinancing.

The Refinancing Taskforce was established in November 2002. Up to March 2003 the Taskforce had organised a number of meetings with public sector bodies, advisers and project shareholders to promote the refinancing voluntary code. The Taskforce also actively monitors the PFI market to identify projects that are likely to be refinanced in the near future. A major task has been the establishment of a PFI database from which to identify potential refinancings. The Taskforce also assists all parties in implementing the voluntary code in a consistent manner. The series of meetings and seminars will continue during 2003/04.

During 2001, at the request of Partnerships UK, the Council considered the criteria which Partnerships UK should apply when deciding whether to work with a public body on a particular project. In light of the publication of SoPC Partnerships UK requested that the Council consider an amendment to the criteria that would allow Partnerships UK to work on more mainstream PFI/PPP projects. The reasoning for this was to assist in the implementation of SoPC and improve deal flow. The Council considered the request and approved the change to the Partnerships UK project selection criteria. The full selection criteria can be viewed on Partnerships UK's website.

(c) Codes of Practice

In 2001 the Council agreed with Partnerships UK's executive team that guidance should be produced which would set out how Partnerships UK would operate as a PPP in relation to its shareholders, its employees and its public sector clients. This guidance would be issued in the form of codes of conduct. The first code of conduct, a Code of Practice on Partnerships UK's relations with its shareholders, was approved by the Council in 2001.

At both the May and November 2002 meetings of the Council Partnerships UK executives presented a second code of conduct on how Partnerships UK would operate to mitigate the potential for conflicts of interest to occur. Partnerships UK consulted with the appropriate UK audit bodies whilst producing this code and the November Advisory Council meeting approved its adoption. The code of conduct is attached at Annex B. Both of these codes of conduct are published in full on Partnerships UK s website.

## **5. Look Forward**

The Council plans to hold two meetings in 2003/04. The Council will continue to monitor the growth and trends in Partnerships UK s business activity. The Council will be particularly interested in monitoring the progress of new initiatives and the delivery of better PPPs in sectors where progress has to date proved difficult. We will continue to monitor the scope of Partnerships UK s activity to ensure that it continues to meet Government objectives and Partnerships UK s public sector mission.

As Chairman I will be seeking to bring new members onto the Council to continue to represent a cross section of Partnerships UK s clients. The Council will also continue to be used as a forum for exchanging information about different PPP projects in different sectors, and the role which Partnerships UK can play in assisting PPP development.

## **7. Conclusions**

I believe that the Council has had a successful second year and I would like to thank personally those colleagues that have dedicated time to serving on the Council during the year. I believe the Council is operating as a proper check and balance on Partnerships UK s work, and that our work during 2002/03 has assisted Partnerships UK in delivering its public sector mission.

Under the terms of reference for the Council, it is for Treasury Ministers and the Scottish Minister of Finance to decide whether to publish this Annual Report. Having consulted my fellow members, I can confirm that the Council would welcome such publication.

Sir Andrew Turnbull  
Cabinet Secretary  
May 2003

## ANNEX A

### MEMBERSHIP OF THE ADVISORY COUNCIL DURING 2002/2003

MEMBER	Organisation	Notes
Sir Andrew Turnbull	Cabinet Office	Chairman
Jimmy Andrews	Glasgow City Council	Retired February 2003
Colin Balmer	Ministry of Defence	
Ken Beeton	Department for Education and Skills	
Jeannie Bevan	National Savings	Retired from Council Sept 2002
Dr. John Bridge	One North East	
Brain Briscoe	Local Government Association	
Prof. Grahame Bulfield	Roslin Institute	Retired from Council Nov 2002
Pat Carvill	Department of Finance Northern Ireland	
Jeremy Colman	National Audit Office	
Richard Douglas	Department of Health	
Dave Fletcher	British Waterways	Retired from Council Nov 2002
Peter Gershon	Office of Government Commerce	
Ken Gillespie	Kirklees Council	
Les Haugh	Home Office	Retired June 2002
Rachel Lomax	Department for Transport	Joined Oct 2002
Mavis McDonald	Office of the Deputy Prime Minister	Joined Oct 2002
Sir Richard Mottram	Department for Transport, Local Government & the Regions	Retired from Council June 2002
David Richards	National Assembly for Wales	
Sandy Rosie	Scottish Executive	
Paul White	Barts and the London NHS Trust	Joined April 2002
John Yard	Inland Revenue	

## **ANNEX B**

### **2<sup>nd</sup> Code of Conduct.**

How Partnerships UK will manage its business activities to ensure that conflicts of interest are identified and appropriately managed.

**This is the 2<sup>nd</sup> code in a series produced by Partnerships UK for its stakeholders, employees and shareholders. The code is also available publicly on the PUK website. The code addresses issues arising from Partnerships UK s status as a PPP and its public sector mission.**

#### **Summary**

Partnerships UK (PUK) engages with the public sector in a variety of ways. Usually PUK will be acting in a single capacity and conflict of interest issues do not arise. On some occasions where PUK, either through a Development Partnership Agreement (DPA) or joint venture with a public sector body, generates a new PPP it might be beneficial to all parties if PUK also makes an equity investment in the new PPP. PUK will only make an equity investment with the support of the other public and private sector shareholders. However, there is a concern that this may create a conflict of interests. PUK is aware that such a potential for conflict of interests exists but is confident that such conflicts can be managed to ensure they do not have an adverse impact on the public body concerned. PUK s corporate governance, internal working practices and external scrutiny will ensure that the public sector can work with PUK confident that the public sector s interests are always put first by PUK. This code describes the measures in place to ensure that conflict of interest which may arise are managed appropriately. **Appendix A** summarises the code.

### **1. Partnerships UK is a private sector organisation with a public sector mission.**

#### **1.1 Partnerships UK has public sector and private sector objectives.**

1.1.1 Partnerships UK is a Public Private Partnership, majority owned (51%) by private sector shareholders. PUK aims to play a major role in developing PPPs and PPP style models of service delivery to meet Government service priorities. It is PUK s role to deliver better, stronger and sometimes novel PPPs more efficiently. At the same time PUK is expected to make an appropriate return for its shareholders.

1.1.2 PUK s public sector mission is emphasised by PUK working exclusively with and for the public sector. This public sector mission is set out in PUK s Memorandum and Articles of Association and clearly stated in PUK s Values Statement: Our commitment is to put the interests of our public sector client first. The public sector mission is also represented in PUK s corporate governance structure at the apex of which is the Advisory Council.

#### **1.2 Partnerships UK works with the public sector in a variety of ways.**

1.2.1 There are a number of ways in which PUK and the public sector engage in activities. They include a simple one-off call to the PUK help desk or a larger advisory mandate under a framework agreement. Where PUK is acting as a joint sponsor to a project a public body and PUK will usually sign a DPA, where PUK shares the risks and rewards of the procurement. Where the DPA role involves developing a new PPP particularly if the PPP involves a new model of procurement or service delivery,

possibly creating a joint venture organisation, PUK may wish to invest an equity stake in the project.

### **1.3 There are good reasons for PUK investing equity in some projects.**

1.3.1 It will not always be appropriate for PUK to take an equity stake in projects where it is working as a joint project sponsor. However, in some circumstances, particularly where a new model of PPP is being developed, it may be entirely appropriate for PUK to consider investing equity in the project. There are good reasons for this:

- a) It demonstrates PUK's long term commitment to a project.
- b) It may encourage further private sector investment, thus expanding new markets.
- c) PUK's equity investment will aid the long term growth of the venture.
- d) Putting PUK's capital at risk shows its confidence in the delivery model, and will encourage all parties to support such an initiative
- e) Many new initiatives fail for want of the capital that can be put at risk, at a stage before the private sector investor would consider investing. PUK's capital, allied with its public mission, may meet such a need.
- f) Where a public body is itself investing in an initiative, it may welcome PUK's participation as a co-investor because of PUK's public sector remit coupled with commercial experience.

### **1.4 Partnerships UK must demonstrate good management of actual or perceived conflicts of interest.**

1.4.1 Even where there are good reasons for PUK taking an equity investment in a project, by acting as a project co-sponsor (in the DPA or joint venture) as well as an equity investor there is the potential for conflicts of interests to develop. In this dual role PUK may be perceived to be structuring a PPP deal in such a way as to benefit the equity investment rather than ensuring the best VFM deal for the public authority. Therefore it is imperative that PUK always acts with the utmost probity and is always seen to act in such a way. This requires the development and governance of transparent internal and external working processes.

## **2. There are mechanisms in place to manage conflicts of interest that do arise.**

### **2.1 No unmanageable conflicts of interest should occur.**

2.1.1 PUK does not believe that any unmanageable conflicts of interest will occur as a result of its work with and for the public sector. To ensure that this is the case PUK has developed a number of mechanisms and working practices to meet the challenges raised by potential conflicts of interest. These mechanisms are both internal and external to the organisation.

2.1.2 It should be noted that an obvious area for potential conflicts of interest lies in the relationship of PUK with its private sector shareholders. The relationship between PUK and its shareholders was the subject of the first code of conduct adopted by PUK, and approved by the Advisory Council, and as such this risk is not specifically addressed in this code of conduct.

### **2.2 There are internal mechanisms in place to manage conflicts.**

#### **2.2.1 PUK has a strong corporate governance structure.**

2.2.1.1 For PUK to work effectively the public sector must have total confidence that PUK will always act in its clients' best interests. This approach to PUK's work is enshrined in PUK's Values Statement. It is also demonstrated in the strong corporate

The corporate governance structure works to mitigate conflicts of interest in the following ways:

- a) **The Advisory Council.** The Advisory Council consists of representatives of Government departments, the devolved administrations, local authorities and other public bodies and represents many of PUK's most significant clients. It is currently chaired by Sir Andrew Turnbull, The Secretary of the Cabinet and Head of the Home Civil Service. The Advisory Council does not have executive authority over PUK but its role is to ensure that PUK fulfils its public sector mission. It does this by meeting (currently twice a year) to review the activities of PUK and question its Board and management. The Board of PUK must take into account the conclusions and recommendations of the Advisory Council.
- b) **The Board of PUK.** The Board consists of 9 Directors. 6 of the Directors are non-executive charged with ensuring that PUK fulfils its public sector mission in its day to day activities. Two of the non-executives are nominated by HM Treasury ensuring that the public sector is represented at board level.
- c) **Audit Committee.** The Audit Committee, comprised of non-executive directors, has responsibility for over-sight of internal management controls, including those relating to the management of potential conflicts of interest. The Audit Committee must also consider external risks which include the perception of conflicts of interests.

## **2.2.2 Internal working practices limit the potential for a conflict to develop.**

2.2.2.1 PUK has developed a set of working practices that alleviate the potential for a conflict of interest to develop.

- a) **The Role of the Investment Committee.** The Investment Committee approves all investments that PUK enters into. These include both DPA work and any subsequent equity investment. When reviewing an application to enter into a DPA it will not be known whether PUK will ultimately be making an equity investment. Therefore the Investment Committee will be judging the DPA application on the basis that the project meets PUK's public sector mission and return requirements, in the assumed absence of equity investment. As part of the Investment Committee process all applications are reviewed by PUK's head of risk management who is not involved in transacting. The Risk Manager may request that an application also goes through a peer review process. The Investment Committee is chaired by the Chairman of PUK and 2 non-executive directors sit on the Investment Committee. There is no opportunity for a single individual to exert undue influence on the decision to enter into a DPA agreement. Several of PUK's Investment Criteria, as set out in PUK's Information Memorandum, also reduce any potential for conflicts of interest to adversely affect a public sector body. These criteria include:
  - Consistency with PUK's public sector mission.
  - PUK will only invest equity in projects when both the public and private sector shareholders of the joint venture company support PUK taking a shareholding.
  - The interests of PUK, the public sector and private sector shareholders must be aligned.

- b) **PUK has separate working teams.** When PUK is working in a DPA role and might make an investment in the project, separate DPA and equity teams are established with separate internal reporting lines.
- c) **Individual Responsibility.** Within PUK individuals are asked to:
  - Comply with the general requirement to disclose information on a need to know basis and may be asked to sign a project specific confidentiality undertaking.
  - Make a declaration of any shareholding in an interested party.  
The staff incentive structure within PUK emphasises adherence to the public mission and public sector objectives, and does not encourage maximisation of PUK's investment returns or the creation of investment opportunities on the back of advisory or support work. The practical impact of this is that:
    - One of the criteria used to appraise the performance of PUK staff is adherence to PUK's public sector mission.
    - No member of PUK will have an objective to sell an equity investment to a public sector body where the public sector body has not first approached PUK.
    - No member of PUK will be appraised on the basis of the terms and conditions achieved within an individual equity investment.
    - No member of PUK will have any part of their salary, including any potential bonus, based on the terms and conditions of an individual equity investment.

## **2.3 External approvals and scrutiny provide comfort for the public sector**

2.3.1 The decision for PUK to make an equity investment in a project will be taken after negotiations between PUK and the relevant public and private sector organisations. An investment will only be made with the agreement of all parties. Therefore there are several levels of approval by the public sector body to protect them against a PUK conflict of interest. These include:

- The public body will, on a statutory basis, have an officer responsible for the proper use of its resources and protection of the public purse from poor value for money. The officer concerned will have to be satisfied that PUK's investment represents good VFM, and does not adversely affect achievement of the public body's objectives.
- PUK will only make an investment when the public sector also intends to make an investment in the project. The terms and conditions of these investments will be similar, thus ensuring that the interests of PUK and the public sector are aligned.
- The public sector has the right to stop PUK taking an equity stake in a project.
- The public sector has the right to approve the terms and conditions of the equity investment.
- PUK will, except where there are good reasons to the contrary, usually have a minority stake in a joint venture, or be an equal partner with the public sector, and therefore cannot control the joint venture for its own interests.

2.3.2 A further measure to instil confidence in the public sector is the potential for the National Audit Office (or the devolved Supreme Audit Institutions of Scotland, Wales or Northern Ireland if appropriate) to examine the role of PUK in any PFI/PPP project. The NAO might choose to do this either by looking at an individual project to

ensure that public funds have been spent wisely or as a more general review through an examination of the public sector shareholding in PUK.

### **3. An Investigation and Reporting Protocol has been established.**

PUK has established a protocol for investigating allegations of inappropriate or unethical behaviour by PUK, either corporately or individually. This protocol covers all aspects of PUK's work including issues raised by third parties regarding potential or perceived conflicts of interest. The Protocol provides that:

- An issue should be raised first with the Chief Executive Officer (CEO).
- The CEO will respond to the matter raised. If the party raising the grievance is not satisfied, the matter will be passed to the Chairman of PUK.
- The Chairman of PUK together with the PUK Board will conduct an investigation into the matter raised. The Chairman will respond to the party raising the grievance. If the matter is still not resolved the Advisory Council Chairman will be notified.
- The Chairman of the Advisory Council will take whatever steps he thinks necessary to investigate the matter. The Chairman may appoint an independent party to conduct the inquiry should he wish to do so. Any person conducting an inquiry will have unrestricted access to PUK people and records.
- The Chairman of the Advisory Council shall report to the Advisory Council. The Council will determine the validity of the issue raised and the Chairman will respond to the party that has raised the matter.
- The Advisory Council may choose to notify the PUK Board of their findings and make any recommendations as they see fit (including any remedies should they find any substance in the matter raised) with regards to the particular issue raised and the practices and policies of PUK in general. The Council may direct the Board to inform PUK's shareholders of its determination on the matter.

If applicable the PUK Board will report to the Advisory Council on how any recommendations have been implemented.

## Appendix A.

CORPORATE GOVERNANCE, WORKING PRACTICES, POLICES AND OVERSIGHT IN PLACE TO ENSURE POTENTIAL CONFLICTS OF INTEREST DO NOT ADVERESLY AFFECT THE PUBLIC SECTOR.

**The vast majority of the work undertaken by Partnerships UK (PUK) will involve PUK acting in a single capacity. In these cases the possibility of a conflict of interest arising is negligible. In a small number of cases PUK can find itself in the position of developing a PPP, often a new model of PPP, with the public sector and also investing in the same PPP. In this situation a potential for a conflict of interests arises. It is important that PUK identifies the situations where a conflict of interest arises and ensures that the conflict is well managed to avoid actual or perceived impropriety.**

**PUK has a public sector mission and will always put the interests of its public sector clients first. It is of the utmost importance that the public sector retains confidence in PUK to always act in the public sector s best interests. PUK believes that its strong corporate governance structure and the working policies and practices that it has in place will ensure that PUK will always act in the best interests of the public sector.**

**The practical effects of the corporate governance structure and working practices in place to manage conflicts are detailed below. Finally, should any party consider that PUK has acted improperly and raise an issue regarding PUK s conduct or propriety, PUK has adopted an Investigation and Reporting Protocol to ensure such issues are dealt with in an open and transparent manner.**

### 1. Corporate Governance

#### The Advisory Council

- The Advisory Council represents the public sector to ensure PUK s policies and work are consistent with PUK s public sector mission.
- The Advisory Council reviews PUK s business activities to monitor their compatibility with the public sector mission.
- The Advisory Council meets with the directors of PUK from time to time to examine past and future business activity.
- The Advisory Council holds the directors of PUK to account with regards to the Company s public sector mission and makes recommendations as to the running of the business as they see fit.
- The Advisory Council approves PUK s selection criteria for choosing which projects to work on with the public sector.
- The Advisory Council publishes an annual report detailing how PUK has fulfilled its public sector mission.

#### The Audit Committee

- The Audit Committee is chaired by and consists of non-executive directors.
- The Audit Committee identifies areas where potential conflicts of interest may occur.
- The Audit Committee examines the internal controls and procedures of PUK to ensure processes are in place to manage potential conflicts of interest.
- The Audit Committee makes recommendations as to how internal controls can be improved to effectively manage conflicts of interest.

- The Board of PUK manages the business so that PUK fulfils its public sector mission.
- The non-executive directors on the Board are charged with ensuring that the executive directors are always mindful of PUK s public sector mission.
- HM Treasury will always appoint at least two non-executive directors ensuring that the public sector is represented at Board level.

## 2. Internal Working Practices

### Role of the Investment Committee in managing conflicts of interest.

- The Investment Committee examines all applications for PUK to enter into DPAs, joint ventures and equity investments with public sector bodies.
- The Investment Committee assesses projects on the basis of the investment criteria approved by the Advisory Council.
- The PUK risk manager may ask for applications to be peer reviewed.
- At least three non-executive directors sit on the Investment Committee.
- The primary investment criteria is whether the investment is consistent with PUK s public sector mission.
- PUK only makes an equity investment when the public sector is also investing in the project or joint venture.
- PUK is not a profit maximising organisation. PUK seeks to make a return on its investments that is consistent with PUK s objective to make a reasonable rate of return for PUK s shareholders.
- PUK will not make an equity investment when either the public or private sector party to the project/joint venture objects to PUK s investment.

### Internal working structures

- PUK ensures that there are clearly identifiable and separate project and equity investment teams.
- The project and equity investment teams report to different directors.

### Individual Conduct

- All staff, including secondees, sign confidentiality clauses when joining PUK.
- If appropriate staff will be asked to sign project specific confidentiality undertakings.
- PUK staff make an annual declaration of shareholdings in any of PUK s shareholders.
- PUK staff will declare any shareholdings in any company involved in projects on which they work.
- Annual performance appraisals consider individuals adherence to PUK s public sector mission.
- Personal objectives will not encourage selling unsolicited equity investments.
- Personal objectives will not be set that are based on the terms and conditions of individual equity investments.
- Salary, including bonuses, will not be set on the basis of the terms and conditions of individual equity investments.

### 3. External Approvals

- The Accounting Officer (or similar responsible public sector officer) will have to approve the DPA signed between PUK and the public sector body.
- The Accounting Officer (or similar responsible public sector officer) will have to approve the public sector's equity investment in a project on the basis that it is a good use of public funds and represents VFM. This provides assurance to the public sector that any investment made by PUK is not to the detriment of the public sector.
- The National Audit Office (or the relevant Supreme Audit Institution of Scotland, Wales or Northern Ireland) can choose to conduct a review. This could be looking at PUK's role in a particular PFI/PPP project where the use of public money is involved or through an examination of the public sector shareholding in PUK.
- The public sector body has the right to object to PUK taking an equity stake in a project and can stop PUK from doing so.
- The public sector has the right to approve the terms and conditions under which PUK takes an equity stake in a project or joint venture.
- The public sector can expect to receive similar terms and conditions to PUK for any investment that it takes, or where the terms and conditions are different understand the reasons why.
- PUK will, except where there are good reasons to the contrary, usually have a minority interest in the PPP/joint venture and will not be able to unduly influence the operation of the project to PUK's sole benefit.

### 4. An open and transparent investigation and reporting protocol has been adopted to examine issues regarding conduct and propriety.

- The Chief Executive Officer (CEO) of PUK to be the first point of contact should an organisation or individual wish to raise an issue regarding PUK's conduct.
- The first response will be from the CEO of PUK. If this response is not considered adequate the matter will be passed to the Chairman of PUK.
- The Chairman and Board of PUK will address the matter and respond to the party that has raised the issue. If the response again fails to satisfy the matter will be passed to the Chairman of the Advisory Council.
- The Chairman of the Advisory Council will instigate an investigation. This may include the appointment of an independent party to conduct the investigation who shall have unrestricted access to the people and papers of PUK.
- The Chairman of the Advisory Council shall report to the Advisory Council. The Advisory Council will determine the validity of the matter and respond to the party raising the issue.
- The Advisory Council may choose to notify the PUK Board of conclusions and recommendations. This may include a requirement to inform PUK's shareholders of the Council's determination.
- If appropriate the PUK Board shall report back to the Advisory Council regarding what action has been taken to implement the recommendations made.