

# Decision Pathway Report



**PURPOSE:** Key decision

**MEETING:** Cabinet

**DATE:** 02 April 2019

<b>TITLE</b>	<b>Business Planning Update: Bristol Holding Ltd 2019/20</b>		
<b>Ward(s)</b>	All.		
<b>Author:</b> David Lawrence	<b>Job title:</b> Interim Shareholder Liaison Director		
<b>Cabinet lead:</b> Cllr Cheney	<b>Executive Director lead:</b> Executive Director Resources		
<b>Proposal origin:</b> BCC Staff			
<b>Decision maker:</b> Cabinet Member			
<b>Decision forum:</b> Cabinet			
<b>Purpose of Report:</b>			
<p>To approve the 2019/20 business plan for Bristol Holding Ltd. (and the proposed governance structure and delegation of functions it includes) in order to support the Shareholder to manage its current and future interests in its companies more effectively.</p>			
<b>Evidence Base:</b>			
<p>The Constitution provides that where the Council owns shares in an external entity, a shareholder representative will ordinarily be appointed, and that the Mayor currently has the power to appoint such representative (Financial Regulations, para 7.5). The Mayor has appointed Cllr Cheney as shareholder representative, and a Shareholder Group was established to advise Cllr Cheney in the decisions he makes and to provide an oversight function for the Council's corporate portfolio.</p> <p>The approval of business plans (which may have periods from one to five years) at Cabinet is an annual process, which sets the direction for the future of the companies.</p> <p>The proposed governance structure and delegation of functions which is proposed in the Bristol Holding Ltd. business plan for 2019/2020, have been developed in discussion with members of the Shareholder Group over the latter part of 2018.</p> <p>In drawing up the proposals, research was conducted into 11 different examples of company governance being employed within the public and private sector – the conclusions being that there are no 'model solutions' to the arrangements between a council as a shareholder in companies and the operation of the companies themselves, but that councils who own multiple companies have in common a structure which includes: Tier 1- Shareholder Group, Tier 2 – Holding company and Tiers 3 and 4 - Trading companies and operational Joint Ventures.</p> <p>The proposals have been designed in parallel with the service plan for the Shareholder Liaison Function, with the deliberate aim of ensuring that resources can be used flexibly and efficiently, particularly during the transition to a 'fuller' structure to ensure that overheads are kept to minimum.</p>			
<b>Other options explored:</b>			

Other options have been reviewed including:

- Continuation of ‘thin’ company structure for Bristol Holding Limited (where the Shareholder representative and the Shareholder Group continue have oversight of performance management directly, rather than through Bristol Holding) - this option has been discounted as a number of resource assessments have indicated that the number of companies of which the Council is Shareholder is reaching a level whereby there is a need for dedicated resources in order to be able to carry out the detailed financial and performance management of the companies on the shareholders behalf.
- Wind up of the Bristol Holding company – this option has been discounted as there are yet unrealised benefits to having a holding company structure with respect to achieving financial efficiencies and economies of scale across the group of companies.

**Cabinet Member / Officer Recommendations:**

1. That the 2019/2020 business plan of Bristol Holding Limited (company number 09485669), attached as Appendix A1 - be considered and approved.

**Corporate Strategy alignment:**

Bristol Holding Ltd. business plan aligns with the Corporate Strategies organisational priorities of redesigning the council to work effectively as a smaller organisation, equip our colleagues to be as productive and efficient as possible, and to be responsible financial managers and explore new commercial ideas.

The business plan outlines a proposed governance structure and delegation of functions in order to support the Shareholder to manage its current and future interests in its companies more effectively in line with the governance review action plan which was agreed by Cabinet in September 2019.

**City Benefits:**

The Bristol Holding Ltd. will support the Council, through its companies achieve the following:

- Putting Citizens at the heart – providing great services that are right for all citizens and customers.
- A commercial approach, which secures value for money and optimizes all available resources.
- Partnerships and collaboration – to maximise opportunities for joint working, particularly in the context of Bristol City Council, its family of companies and the one City Plan.
- Governance, fairness and transparency – implementing robust procedures to ensure regulatory and legal compliance.
- Ethical standards – ensuring the well-being and protection of the work forces throughout the companies.
- Innovation and improvement – continuously developing and improving our processes and working innovatively to secure improved outcomes.

**Consultation Details:** Bristol Energy Company Board and Shareholder Group – October- March 2018/2019, City Leap joint working group – including representatives from Energy service - Jan – March 2019. OSMB – 27<sup>th</sup> November 2018. Cabinet members - 20<sup>th</sup> November 2018 and 12<sup>th</sup> March 2019.

<b>Revenue Cost</b>	<b>c£600k</b>	<b>Source of Revenue Funding</b>	<b>N/A</b>
<b>Capital Cost</b>	<b>N/A</b>	<b>Source of Capital Funding</b>	<b>N/A</b>
<b>One off cost</b> <input type="checkbox"/>	<b>Ongoing cost</b> <input checked="" type="checkbox"/>	<b>Saving Proposal</b> <input checked="" type="checkbox"/>	<b>Income generation proposal</b> <input checked="" type="checkbox"/>

**Required information to be completed by Financial/Legal/ICT/ HR partners:**

## 1. Finance Advice:

This proposal seeks approval to proceed with the Holding Company's revised business plan to equip the company with the view to take the overview in its subsidiaries' operations. Over the longer term, this is expected to create the conditions for reducing the management oversight required by the Council. However it is recognised that a period of transition may be required to stabilise the transformation.

The indicative full year running cost of the Holding company when it reaches its full operational strength is estimated to be approx. £600k per annum, it is proposed that this will be distributed as a management charge to the subsidiaries (distribution methodology to be agreed when fully implemented). This will only be incurred on a phased basis subject to the efficiency being delivered within the group of companies e.g. from vacancy savings etc.

The combined financial strength of the group could be used to obtain more favourable financing arrangements for the individual companies in the portfolio. It would also provide the group with the opportunity to exercise combined purchasing power where appropriate and to negotiate better credit terms e.g. with banks. Pooling together the fiscal resources of all subsidiaries under Holding would enable the company to take future overview and leverage financial strength for projects that have synergies and are relevant and interconnected within each of the subsidiaries, e.g. further waste to energy projects on new build housing sites, smart city and technology projects that span across all subsidiaries and other major development projects interconnect at the subsidiary JV levels, with the ultimate aim of maximising the shareholder's return and achieving the strategic objectives of the Council and ensuring these objectives are consistent throughout the group.

This fully functional holding company should also provide the opportunity to allow for the effective financial overview, control and more efficient financial management of its subsidiaries with smaller amounts of capital. This can be achieved by centralising the financial and treasury management functions, standardising processes where appropriate, and pooling cash and working capital resources to increase resilience for the group of companies, reduce shareholder management efforts and ultimately reduce the reliance on the shareholder's financial resources.

Please note the Council will retain its own budget of £350k (approved based budget under Resources directorate) which is used provide a 'thin' shareholder/client function to enable the council to manage contracts with the companies and appropriately discharge shareholder responsibilities. This was established under the MTFP and will also be utilised to mitigate the residual strategic overview required from the shareholder function.

**Finance Business Partner:** Tian Ze Hao, Finance Business Partner

Date: 18/03/2019

## 2. Legal Advice:

The proposed model is intended to enable Bristol Holding Limited to take on a more active role in managing its trading subsidiaries (currently Bristol Energy Limited and Bristol Waste Company Limited). However, in order to ensure Bristol Holding Limited performs in accordance with the Council's objectives and expectations, a high level of control over Bristol Holding Limited is proposed, particularly by the Council directly employing an Executive Chair.

In a commercial context, the appointment of an Executive Chair (i.e. a single person who performs the duties of both managing director (an executive position) and Chair (a non-executive position)) is not deemed to be best practice, because it erodes the clear division of responsibilities between the leadership of the board and the executive leadership, and vests a significant amount of control in one person. However, we understand the use of Executive Chairs is more common in government entities, and that it may be more appropriate in an environment where the shareholder has direct control of the Executive Chair, and is comfortable with the governance implications.

The Council needs to monitor the extent of its control over Bristol Holding and the implications of that on an ongoing basis and ensure that this is managed through effective governance. The Council must also take steps to manage conflicts of interest where staff are acting both for the Council and Bristol Holding, and the Council should be aware that it will be responsible for any employer liabilities.

In addition, the articles of association of Bristol Holding will need to be revised to reflect the Executive Chair

proposal, and the reserved matters may need to be revised in order to reflect the enhanced role that Bristol Holding will take on. The shareholder (Cllr Cheney acting on behalf of the Mayor) has authority to approve these changes.

**Legal Team Leader:** Eric Andrews, Legal Team Leader

Date:14.03.2019

### 3. Implications on ICT:

There are no direct or immediate IT implications arising from this report. The Holding Company does, however, offer an important role in creating a framework that ensures that the companies both support and contribute to the strategic direction of BCC IT. This will maximise the synergies available from a combined approach that delivers end-to-end services rather than isolated single elements.

**ICT Team Leader:** Ian Gale, ICT Service Delivery and Integration

Date: 19/03/2019

**4. HR Advice:** There are a number of HR Implications arising from the business plan. These are:-

- An Executive Chair of the Holding Company will be created. This will be a Director Level post.
- A number of other roles will be created in the Holding Company and this will equate to 5 FTEs. These jobs will support the implementation of the new governance and performance management arrangements set out in the business plan.
- Staff of the Holding Company will be employees of Bristol Holding Limited.
- The Holding Company will receive its HR Advice from the City Council HR Team and the arrangements for other back office services are still being finalised.

Advice from Mark Williams, Head of Human Resources Date: 7 March 2019

**HR Partner:** Head of Human Resources Date: 7 March 2019

<b>EDM Sign-off</b>	Mike Jackson	27/02/2019
<b>Cabinet Member sign-off</b>	Cllr Cheney	07/03/2019
<b>CLB Sign-off</b>	Mike Jackson	05/03/2019
<b>For Key Decisions - Mayor's Office sign-off</b>	Mayors Office	04/03/2019

<b>Appendix A – Further essential background / detail on the proposal</b> - A1. Bristol Holding Business Plan	<b>YES</b>
<b>Appendix B – Details of consultation carried out - internal and external</b>	<b>NO</b>
<b>Appendix C – Summary of any engagement with scrutiny</b>	<b>NO</b>
<b>Appendix D – Risk assessment</b>	<b>NO</b>
<b>Appendix E – Equalities screening / impact assessment of proposal</b>	<b>YES</b>
<b>Appendix F – Eco-impact screening/ impact assessment of proposal</b> There are no significant environmental impacts relating to this report and as such a full Eco IA is not required. However the staff at Bristol Holding Company should be made aware of the Bristol City Council Environmental Policy and operate accordingly to the key aims of this policy	<b>NO</b>
<b>Appendix G – Financial Advice</b>	<b>NO</b>
<b>Appendix H – Legal Advice</b>	<b>NO</b>
<b>Appendix I – Combined Background papers</b>	
<b>Appendix J – Exempt Information</b>	<b>NO</b>
<b>Appendix K – HR advice</b>	<b>NO</b>

<b>Appendix L – ICT</b>	<b>NO</b>
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