

Shareholder Governance Review

Commissioned by Bristol City Council

Conducted by Fiona Ross (Independent Shareholder Advisor)

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A. Definitions

BCC or council	Bristol City Council
BCC Internal Audit Report	The Bristol City Council Internal Audit report into 'Companies Governance Arrangements', issued in April 2020
BristollsOpen or BiO	BristollsOpen Limited
Bristol Energy or BE 2020	Bristol Energy Limited (now BE 2020 Limited)
Bristol Heat Networks or BHN	Bristol Heat Networks Limited
Bristol Waste or BWC	Bristol Waste Company Limited
Code of Practice	A BCC document developed in 2015 called 'Governance of Council Interests in Companies – A Code of Practice'
Companies or Group	The companies within the Holding Company group, including the Holding Company, BE 2020, Bristol Heat Networks, Bristol Waste and Goram Homes
Holding Company	Bristol Holding Limited
Holding Company Efficiency and Effectiveness paper	A paper drafted by the Holding Company for the council and submitted to the Shareholder in December 2020
Holding Company Internal Audit Report	A report setting out the findings of an internal audit commissioned by the Holding Company and conducted by BCC Internal Audit team, in 2021
Holding Company Transition Plan	A paper drafted by the Holding Company for the council, building on the Holding Company Efficiency and Effectiveness Paper, and submitted to the Shareholder in May 2021
Goram Homes	Goram Homes Limited
Grant Thornton or GT	Grant Thornton UK LLP
GT VfM Report	The report authored by Grant Thornton for the council in 2021, called: "Grant Thornton Review of Governance Arrangements for Bristol City Council's Subsidiaries"
ISA	Independent Shareholder Advisor
LATCs	Local Authority Trading Companies
LGA Report	The Local Government Association report called "Enterprising Councils – Getting the most from trading and charging", published in 2012

Localis Commercial Councils Report	The Localis Commercial Councils report called: “Commercial councils: the rise of entrepreneurialism in local government”, published in 2015
Manchester City Council or MCC Operational Client RMs	Manchester City Council as defined on page 6 Reserved Matters, being the decisions about the companies that are reserved to the council as shareholder
Shareholder Group or SHG Sponsor	Shareholder Group as defined on page 6
Unison Report	The Unison report called: “Branch guide to local authority trading companies”, published in 2013
2017 BCC Governance Review	The governance review carried out by Fiona Ross and Elaine Holt in respect of the council’s governance of its companies
2018 Grant Thornton Report	The Grant Thornton report called: “In good company - Latest trends in Local Authority Trading Companies”

B. Executive Summary

1. The council currently owns four active companies: Holding Company; Bristol Waste; Goram Homes; Bristol Heat Networks. Bristol Waste, Goram Homes, and Bristol Heat Networks are direct subsidiaries of the Holding Company, which in turn is a direct subsidiary of the council. Bristol Heat Networks was set up in 2020 and the intention is to move the company under City Leap once it is established.
2. Following an Internal Audit Report published in April 2020 which identified some weaknesses in the council's governance arrangements in respect of the companies, and following the Value for Money report into the council's governance of its subsidiaries (and, particularly, Bristol Energy) published in January 2021 by Grant Thornton the Shareholder Representative commissioned this review to ensure the adequacy of the current governance arrangements. This review was commissioned in 2021, rather than 2020, in order to allow the Shareholder Representative and the Holding Company to focus on the sale of the Bristol Energy business.
3. The terms of reference of this review, including a list of 23 stakeholders to be consulted in the process were developed by the Shareholder Liaison Service in association with a number of senior council officers. 22 of the 23 stakeholders were interviewed and, in each case, asked to address the four key questions relating to a) the Strategic Client b) the Shareholder Liaison Service c) the Holding Company and d) any other issues they wished to raise.

Overall Summary

4. In common with many other councils in the UK, the governance of the commercial companies at BCC has been somewhat of a challenge since they were first established. A number of factors contributed to this and they are explained in more detail in the report. They include; the complexity of some of the businesses established, the lack of the necessary skills and expertise within the council, council officer changes, funding shortfalls, clarity of roles and responsibilities and political context. In this context, the failure of Bristol Energy was deeply disappointing for the council but it is recognised that the challenges posed by operating in the retail energy market were uniquely testing and were of a scale unlikely to be experienced by the council again in respect of the Holding Company, Bristol Waste, Goram Homes and Bristol Heat Networks.
5. However, on a more positive note it does appear that lessons have been learnt and there are now a number of more positive factors in place to support the council's commercial ambitions now and in the future. These include a developing sense of the Strategic Client role, stability on the council officer team and a solid Holding Company.
6. While the role of the Strategic Client and Shareholder Liaison Service are very important, at the core of this review are the findings in relation to the Holding Company. All those interviewed agreed that the Holding Company deserves enormous credit for its role over the past 18 months, especially in relation to the sale of Bristol Energy. However, without additional subsidiaries being brought under the Holding

Company to provide additional funding and economies of scale and some changes to Reserved Matters it is hard to see a long-term future for the Holding Company in its current form.

7. The council needs to decide if the scale of its commercial activities warrants the cost of the Holding Company or if not the council needs to scale it back and re-allocate the important work it does today to council officers and the Shareholder Group.

Summary of Findings and Recommendations

8. My overarching finding is that given the council's stated fiscal position the Holding Company is not financially sustainable with just two primary companies: BWC and Goram Homes. However, stepping back the Holding Company is not a significant cost saving activity as the work still needs to be done. My view would change if, after the council defines its commercial strategy, it decides to establish more companies or if City Leap needed more formal governance then there is a role for the Holding Company and its costs will have to be accommodated.

Strategic Client

9. The strengthening role of the Strategic Client is welcome, however there needs to be a clearer understanding of the role within the council. There needs to be greater clarity for the companies regarding who is 'commissioning' services and who is providing strategic direction. The appointment of the Executive Director: Growth & Regeneration to this role has made a positive impact.
10. More work needs to be done to clearly define the role and its link to the council's commercial strategy, ensure there are clear lines of accountability and communication, and ensure that the role is adequately supported, particularly by finance and legal colleagues. This role also needs to be clearly distinguished from that of the Operational Client (who has responsibility for ensuring services are provided to the council in accordance with the relevant contract) and the Sponsor (who is responsible for ensuring that interdependencies between the council and the companies, where there is no service agreement, are managed effectively). A skills audit of the Operational Clients and the Sponsors should be carried out to ensure they can carry out their roles effectively in a commercial setting.

Shareholder Liaison Service

11. Many respondents noted that the Shareholder Liaison Service has taken different forms over the years and is currently operating at a very high level of technical expertise and professionalism. There are some concerns regarding duplication of some activities between the Holding Company and the Shareholder Liaison Service although this duplication may be necessary given the different roles and skills of each party. The role of the Shareholder Liaison Service needs to be more clearly defined, to accurately reflect the wide range of work that it does. How the Shareholder Liaison interacts with other aspects of the council's governance in respect of the companies, for example with the Strategic Client, the Operational Client and Holding Company,

should also be clarified. Consideration should be given to whether the Shareholder Liaison Service needs to be expanded if the Holding Company is disbanded.

Holding Company

12. There was universal praise from respondents for the work undertaken by the Holding Company. The praise was more tempered when talking to the companies directly who felt a level of interference from the Holding Company and they resented this 'control'. The Holding Company continues to do excellent work but all agreed that unless more companies are transferred under its remit, it is given additional Reserved Matter control, an independent Chair, a separate chief executive and more secure funding then its future is uncertain.
13. If the council does not intend to bring more companies under the Holding Company in the short to medium term, my recommendation is that the Holding Company be disbanded and that the functions that it carries out are absorbed by council officers and the Shareholder Group. This step should not be taken until a thorough analysis of how the functions of the Holding Company can be re-allocated and that adequate resource is allocated internally to ensure the relevant corporate governance requirements can be met. If the council does intend to bring more companies under the Holding Company in the short to medium term, then the Holding Company should be retained but a separate Chair and Chief Executive will need to be appointed, the subsidiary boards should be rationalised, and consideration should be given as to whether the Holding Company should be given additional authority over some Reserved Matters.

Conclusion

14. The council needs to decide, taking into account its commercial strategy, whether in the short to medium term it intends to establish more companies under the Holding Company. This will then determine whether the Holding Company should be disbanded or whether it should be retained but under a revised governance model (which will need further consideration).
15. The governance of City Leap was outside the scope of this review but any changes to the governance of the commercial activities of the council must address the very significant challenges associated with the governance of City Leap.

C. Introduction

1. The council currently owns four active companies: the Holding Company, Bristol Waste, Goram Homes, and Bristol Heat Networks, collectively, the Group. Bristol Waste, Goram Homes, and Bristol Heat Networks are direct subsidiaries of the Holding Company, which in turn is a direct subsidiary of the council. The council also has a minority interest in over 10 other companies, and a number of dormant entities.
2. Councillor Cheney currently performs the role of the Shareholder Representative in respect of the companies, and he is supported in exercising this role by the Shareholder Liaison Service, which ensures that the Shareholder Representative is provided with adequate information when making decisions, that such decisions are adequately documented and that there is effective stakeholder management across the council in respect of its companies.
3. In April 2019, Cabinet approved the re-launch of the Holding Company to support the Shareholder Representative more actively by managing its current and future interests in its companies. There was at this time a recognition that the governance (in the broadest terms) of the companies required a great deal of council officer resources and that the expanded Holding Company would relieve the workload from the council officers.
4. Following an Internal Audit Report issued in April 2020 which identified some weaknesses in the council's governance arrangements in respect of the companies, and following the GT VfM report into council governance of its companies (and particularly Bristol Energy) published in January 2021 the Shareholder Representative now wants to ensure and improve the adequacy of the current governance arrangements and assist the Shareholder Representative to address the issues identified. This review was commissioned in 2021, rather than 2020, in order to allow the Shareholder and the Holding Company to focus on the sale of the Bristol Energy business.
5. This review takes into account the local authority context in which the companies operate. This includes considering the importance of democratic involvement in, and accountability for, the oversight of the companies, clearly defined roles and responsibilities, and effective and well-documented decision-making processes. This review also takes into account the fact that there are now only three companies within the Holding Company: BWC, Goram Homes and BHN. It was decided in January 2021 that City Leap would not come under the ambit of the Holding Company. It is intended that BHN would move under City Leap once it is established, leaving Goram Homes and BWC under Holding Company.

A challenging financial environment

6. This review has been undertaken during a period of great uncertainty. COVID 19 has had a significant impact not only on the council's ability to deliver its services but also on its financial position.

7. At the time of this review, BCC, in common with most other UK councils, is facing financial headwinds and the existence of BCC companies and the plans for the establishment of others must be considered in this financial and political context.
8. The establishment of commercial companies in 2015 was done in the expectation that these companies would be able to deliver services to Bristol taxpayers more effectively and efficiently and that the companies would be expected to help the overall funding position of BCC. However, the failure of Bristol Energy and the very significant losses associated with this have not only impacted BCC's overall financial position but also impacted stakeholders' views of the value of BCC establishing its own commercial companies. The issues associated with the closure of BristolisOpen have similarly impacted attitudes towards commercial companies.
9. However, BCC does retain commercial ambitions and has also announced plans for decarbonising the city under the City Leap banner. It is intended that City Leap will be a joint venture with a large international bidder. City Leap is bigger in scale, scope, complexity and cost than anything BCC has undertaken to date. This will be an extensive commercial undertaking in 2021 and beyond.
10. Finally, this review is taking place at a time of political change as the council elections took place on 6 May 2021. It remains to be seen if the new administration and Cabinet remain committed to commercial companies as a possible delivery model.

LATCs and the experience from other councils

11. An important part of this review is to give due consideration to the wider context. council-owned companies, otherwise known as LATCs, have been around for many years and are governed by a range of legislation. In almost all cases LATCs were established as an alternative delivery model for cash-strapped councils looking for a better, faster, and an ideally more cost-effective way of delivering services to their citizens. It is clear from some brief research that LATCs have had mixed success to date and in some cases (as with BE 2020) there have been high-profile and expensive failures. This is an important context as the thought process or ideology associated with the establishment of commercial companies at this time by any council will require significant additional scrutiny and challenge.
12. The 2017 BCC Governance Review provided more information on LATCs and identified several success factors. This review will return to these principles later in the report.
13. While there is no central repository of statistics relating to LATCs revenue, capitalisation, or functions, the Localis Commercial Councils Report states:
 - 94% of authorities share some services with another council.
 - More than half of councils (58%) own a trading company.
 - The majority of councils (57%) operate a joint venture with the private sector.
 - Over a third of councils are using entrepreneurial methods in areas such as waste (46%), leisure and tourism (38%), IT/back office (38%), and housing (36%).

- At best LATCs will only ever contribute approximately 8-10% of additional revenue.
- Without entrepreneurial activities, eight out of ten councils say they would have to cut services and raise taxes.

14. In the 2018 Grant Thornton Report, the following additional information was provided:

- There were 743 trading companies in England, Scotland and Wales.
- The local authorities with the highest numbers of trading companies were Birmingham and the London Borough of Newham.
- Of the 380 local authorities in England, Scotland and Wales 60% had at least one trading company.
- The most prevalent types of trading company in 2018 were property and investment with 23% of trading companies in this category.
- 63 LATCs (8.5%) provided waste services.
- 46 companies provided social care services.

D. Methodology

1. The scope of this review, which included a list of 23 stakeholders to interview, (attached as Appendix D) was prepared by the Shareholder Liaison Service in association with a number of senior council officers and issued to me in February 2021. I interviewed 22 of the 23 stakeholders throughout February and early March 2021 (in some cases I had more than one call) and in each case respondents were asked to address the four key questions as set out below:
 1. *Is the role of the 'Strategic Client' adequate and what changes could be made to improve how it functions?*
 2. *Is the Shareholder Liaison function adequate and what changes could be made to improve how it functions?*
 3. *Is the Holding Company's role adequate and what changes could be made to improve how it functions?*
 4. *Has the review highlighted material barriers to the effectiveness of the existing governance arrangements?*
2. I have also taken into account desk research into the experience of other local authorities that own LATCs (Appendix A), findings of recent reports into LATCs (Appendix B) and the findings of governance reviews and reports commissioned or authored by the council or the Holding Company (Appendix C).
3. In response to each question, I have summarised my views below. A summary of respondents' views is included at Appendix in respect of each question.

E. Findings

1. The findings outlined below directly link to the four questions and should be read in conjunction with the findings of previous reviews and audits (see Appendix C).
2. Although work remains to be done to implement the recommendations of previous reviews, the context has now improved significantly. There is now an opportunity, with the sale of the BE 2020 business, a stable senior management team at the council, a nominated Strategic Client (Executive Director: Growth and Regeneration) and a refreshed administration in May 2021, for the council to finally agree on the best governance structure for its companies and the future of its commercial ambitions.
3. While City Leap is outside the scope of this review it may need to be considered in the context of these findings and recommendations. There is a risk that City Leap will impact the council's capacity for the governance of its other commercial companies. I have included some recommendations in respect of City Leap in Section RecommendationsF . It might be a useful exercise to apply some of the basic concepts in the Code of Practice to the current City Leap set up and see how it currently rates from a governance point of view.
4. It is clear that the stakeholders' views were significantly affected by their sense of the scale of both BCC's existing and planned commercial activities. The two most established companies (BWC and Goram Homes) are seen as relatively straight forward, well understood and less 'risky' and as a result there was less concern about additional governance or oversight beyond their own boards and the Shareholder Group. It is clear in this context that BHN needs to be better understood but as it is due to migrate to City Leap it was not seen as an immediate governance issue. However, as noted above, the governance of City Leap does need extra scrutiny from the council's perspective.
5. Finally, the council needs to revise its commercial strategy in line with the refresh of its corporate strategy and I understand this work is already envisaged.

Question 1: Is the role of the Strategic Client adequate and what changes could be made to improve how it functions?

Defining the role

6. The strengthening role of the Strategic Client, through the appointment of the Executive Director: Growth & Regeneration to the role, is welcome, however there needs to be a clearer understanding of the role within the council. There needs to be greater clarity for the companies regarding who is 'commissioning' services and who is providing strategic direction. Related to this is a mixed view of the reasons and rationale behind the use of alternative delivery models or LATCs.
7. I see the most effective model as, in essence, the council's commercial director by which I mean the person within the council responsible for all commercial activities and directly in charge of any alternative delivery models such as outsourcing, wholly owned companies, joint ventures and insourcing. The council does not currently have a

nominated commercial director but it does appear that many of the companies are within the Strategic Client's directorate and I welcome this focus. The Strategic Client role should, however, be a corporate, not directorate specific, role. It should be made clear there is only one Strategic Client across all of the companies.

8. It might be useful to think of the Strategic Client less as a person/role but rather as a function that must include commercial, legal and finance support at the very start. The s 151 Officer is just as critical at the outset as later in the company life cycle. The governance of the companies should be seen holistically, requiring a team of people to work together. If companies are established with all relevant stakeholders fully sighted on plans and funding from the outset then the governance should be more straightforward.
9. The role of the Strategic Client may need to be further enhanced if the Holding Company does not remain part of the governance structure, as it may need to absorb aspects of the Holding Company's corporate finance work (depending on where the council feels it most appropriate to place this resource following its decision in respect of the Holding Company).
10. The Strategic Client should be fully responsible for the development of the initial business case for the setup of a company and then in partnership with the s 151 Officer and the BCC Legal team, including the Shareholder Liaison Service, be responsible for the development of this initial business case which, once approved by the Cabinet and/or Shareholder Representative, can proceed to establishment. In order for this model to work, the Strategic Client needs to have access to sufficient, and dedicated, commercial and financial skills and expertise. There is simply no way of avoiding this cost.
11. The Holding Company, to the extent it remains part of the governance structure (see recommendations below, in Section F), would be involved with the development of a new company but only after the council and specifically the Cabinet and/or Shareholder Representative, the council's Chief Executive, Strategic Client, s151 Officer, BCC Legal team and future Operational Client have agreed that establishing a commercial company is in the best interest of citizens, within the council's risk appetite and appears affordable. External support, from consultants or from Holding Company, may be necessary to support the development of a robust business case. The Holding Company could then play an important corporate finance or corporate advisory role in the establishment and oversight of the new entity.

Distinguishing between the Strategic Client and the Operational Client

12. Throughout this process, the Strategic Client will have identified and worked with, as relevant, either the 'Operational Client' (who has responsibility for ensuring services are provided to the council in accordance with the relevant contract) or 'Sponsor' (who is responsible for ensuring that interdependencies between the council and the companies, where there is no service agreement, are managed effectively). (often previously referred to as the 'council client' or simply the 'client'). In both cases, this would be the person who knows precisely what the citizens require the council to

deliver in this service area and can best address this need within budget and other resource constraints.

13. It is important that the council clearly defines and distinguishes between the roles of the Strategic Client and the Operational Clients/Sponsors and names individuals who hold each post. With regards to all companies, the Strategic Client is currently the Executive Director: Growth & Regeneration. Using BWC as an example, the Operational Client also sits within the Strategic Client's directorate. Whilst the Strategic Client will know the council's waste needs and the basics of the contract, they should have a view as to the other parts of the BWC business plan. The Operational Client on the other hand will simply be focussed on BCC's waste needs under the waste service agreement and how BWC is set up to provide for them.
14. Given the scale of existing commercial activity at BCC, achieving this differentiation between Strategic Client and Operational Client should be possible. I am concerned about the scale of City Leap but am comforted by the fact that it is under the leadership of the Executive Director: Growth and Regeneration as the Strategic Client.
15. Once the company has been established, the Operational Client will be the day-to-day contact for the delivery of service KPIs, complaints or citizen or council concerns. The Strategic Client will have a regular meeting with each Operational Client to cover not just the day-to-day operational issues but to also consider if the company structure is delivering as expected per the original business case. These two parts are of course linked but it is the Operational Client who leads the day-to-day operational aspects and the Strategic Client who leads the commercial and strategic aspects, from the council's perspective. The Strategic Client should be the strategic 'parent' of all companies and provide assurance to the Shareholder Representative that the company is delivering the council's strategic ambitions.

Distinguishing between the Strategic Client and the Holding Company

16. If the Holding Company is retained, it will continue as the corporate or business 'parent' and will be focussed not on how the company is delivering services but how it is delivering shareholder value (whether this be defined as financial and/or social) and on ensuring that good corporate and financial governance practices are maintained within the Group.
17. The roles of the Strategic Client and the Holding Company are of course very interconnected. One is unlikely to be successful if the other is not. Both points of view need to be heard by the Shareholder Representative. As an example, the decision to allow BWC to compete for non-council business has an impact on its finances but also on its ability to deliver its core contractual obligations. The Shareholder Representative would need to understand clearly the risks and opportunities of this strategy and provide guidance.
18. If the Holding Company is not retained, its corporate finance skills will need to be fulfilled by council officers (which may require recruitment) and will require an enhanced role for the Shareholder Group.

Decision making authority

19. The Strategic Client ought to have a degree of decision-making power as it will have been the proposer/developer of a commercial opportunity with the business case, setting out the council's need for the service and the preferred delivery model. Following establishment, the Strategic Client will retain an oversight role for both the operational activities of the company and potentially the corporate activities as well if the Holding Company does not remain part of the governance structure.
20. This oversight role must encompass operational decision-making powers.

Reporting lines

21. As much as possible the Strategic Client should have overall responsibility for the commercial companies at BCC, from a strategic and operational perspective.
22. There is some evidence of the Operational Client relationship falling across more than one Directorate and I think this needs some additional thought. For example, the cleaning and security contract falls under the Resources Directorate and not Growth and Regeneration and this has the potential to give rise to a number of new challenges in the governance of BWC as there are now two Operational Clients at the table. This may be additionally complicated when City Leap is added as it may well cross over Directorates. At the very least, there would need to be very clear lines of communication between the Operational Clients and the Strategic Client and a requirement for the Operational Clients to provide regular updates to the Strategic Client and escalate material issues to them.
23. The escalation of any operational issues made by the Mayor, members, the Chief Executive or company representatives, needs to be taken first to the Operational Client, then the Strategic Client and only then the Shareholder Representative. If the issue relates to the company from a corporate point of view and the Holding Company is retained as part of the structure, then this needs to be raised either with Holding Company or with the Strategic Client and/or the Shareholder Representative depending on the issue.

Skills and capacity

24. Given the nature of the Operational Clients' and Sponsors' work, it would be useful to conduct a skills audit to ensure core operational skills and, more relevant if the Holding Company does not remain part of the governance structure, finance and commercial skills.

Question 2: Is the Shareholder Liaison Function adequate and what changes could be made to improve how it functions?

Defining the role

25. The Shareholder Liaison Service does an excellent job and is well suited to being within Legal & Democratic Services. The Shareholder Liaison Service should continue its excellent work in implementing the recommendations from the two existing governance reports.

26. A clear definition of the Shareholder Liaison Service, and its reporting lines, should be developed for clarity. The Shareholder Liaison Service could conceive of its work as bi-directional, working internally towards the council and then externally towards the companies. There is a significant amount of work involved in servicing the needs of both of these constituents.
27. This definition should reflect the current tasks of the service, which include:
- a. a secretariat function to the Shareholder Representative to include the agendas, papers, meeting packs and minutes;
 - b. performing a support and advisory function to the Shareholder Representative in respect of its governance and decision-making processes;
 - c. maintaining governance documents (e.g. Shareholders' Agreement, articles of association, Code of Practice and the emerging Company Handbook), including overseeing the revision of these documents as a result of this Governance Review;
 - d. being the council's internal point of contact in respect of the companies (e.g. responding to FOIs and member queries, overseeing the flow of resources between the council and its companies etc);
 - e. supporting ad-hoc governance projects as, for example, the current implementation of the GT VfM Report, Internal Audit Report recommendations and this review; and
 - f. support for the Strategic Client, although this area needs to be considered in more detail as it is not yet fully established. This may take a number of forms including providing some support to the Strategic Client at the very outset of company formation, in helping the Strategic Client understand its 'corporate parent' role and what that entails in terms of oversight, board papers, activity and communications.
28. The Shareholder Liaison Service has, as the name suggests, a liaison role rather than an oversight role. It will be responsible for knowing what needs to be done at all times to support the efficient governance of the Shareholder representative in respect of the companies. If the Shareholder Liaison Service is not getting the information, papers or support it needs to fulfil its role then this must be raised as an issue directly with the Shareholder Representative and remedied immediately.
29. As with other recommendations, the eco-system or process map around the Shareholder Liaison Service needs to be documented. This would include the Shareholder Liaison Service definition but also map the links to other stakeholders with some sense of the type and scale of oversight and accountability.

Distinguishing between the Shareholder Liaison Service and the Holding Company

30. If the Holding Company is retained, then the Shareholder Liaison Service should continue much as it does today but a review of possible areas of duplication should first be completed.
31. Concerns around duplication arises where the Shareholder Liaison Service is required to get council officers involved in a reserved matter relating, for example, to finance or

HR. However, it may be that this duplication is a necessary part of the governance framework and if so this needs to be explicit. A review of these potential areas of duplication should be carried out, considering issues such as budget sign off, business case development and sign off, legal reviews, contract issues and HR issues to ascertain whether this duplication is productive or not.

32. If the Holding Company is not retained within the governance structure, it is anticipated that the Shareholder Liaison Service would need to encompass the following:
 - a. company secretary responsibilities for the companies (which will require additional resource within the team);
 - b. direct and strong relationships with the companies and boards, which is currently done via the Holding Company; and
 - c. increased support to the Shareholder Group which may absorb the corporate governance functions currently held by the Holding Company.

Skills and capacity

33. The Shareholder Liaison Service should conduct a scoping exercise of the resources it will need to support City Leap. This could include additional finance skills, useful legal skills, and strong communication skills.

Question 3: Is the Holding Company's role adequate and what changes could be made to improve how it functions?

34. The Holding Company has done an excellent job in difficult circumstances. It expanded its role in 2019 and more recently has played a very significant role in the sale of the BE 2020 business. I have been very impressed with the quality of work as evidenced in Board papers and reports to Shareholder Group and I had gained a sense of trust in the governance role of the Holding Company.
35. As an ISA, I was less aware of the two future challenges faced by Holding Company in recent times, namely affordability and authority. I can see from my interviews that these are issues for all of the stakeholders.
36. Taking into account the views of the respondents and my own findings, I have considered three scenarios as it is clear that the adequacy of the Holding Company depends on the scale of the council's ambition in relation to commercial companies.
 - a. Maintaining the status quo
 - i. The costs of the current Holding Company have been found to be unsustainable without additional subsidiaries to spread the cost base over. Action needs to be taken to avoid additional cost pressure on the council.
 - ii. There are minimal synergies to be achieved within a small group with companies operating in very different sectors.
 - iii. On governance, Holding Company has said that in order to drive change and improve effectiveness there needs to be changes to lines of accountability and

some Shareholder Representative delegation of Reserved Matters, although I do not see this as sensible in the context of the Holding Company having only two companies.

- iv. For these reasons, I do not think that maintaining the status quo is a viable option.
- b. Enhancing the role of the Holding Company, following the transfer of additional companies under it in the short to medium term
- i. If the council intends to expand the number of companies held under the Holding Company (although note my recommendation to pause the establishment of further council-owned companies in Section F), it may become financially sustainable and the benefits of taking a 'Group' approach would have the opportunity to materialise.
 - ii. In this scenario, I support the implementation of 'Option 3' as outlined in the Holding Company Efficiency and Effectiveness Paper. In particular, this would include:
 - a more streamlined corporate governance structure, with the Group Chair being the Chair of each of the subsidiaries, and the Group CEO also sitting on each Board, alongside one, sector specialist non-Executive Director, and one councillor NED;
 - ensuring that subsidiary managing directors report to the Group CEO, who would be accountable for the wider Group and individual subsidiary company performance;
 - delegating some Reserved Matter control to the Holding Company, for example in relation to human resources or some financial matters.
 - separation of the Executive Chair role into a full-time Group CEO and a separate independent non-executive Group Board Chair; and
 - commissioning the Holding Company, on a chargeable basis, to support the council's work on its commercial strategy.
 - iii. I believe this structure will reduce the cost of the Holding Company, which will improve the quality of scrutiny, assurance, risks management and control within the Group.
- c. Disbanding the role of the Holding Company, if no more companies will be transferred to it in the short to medium term
- i. If the council decides not to establish any more companies in the short to medium term, then it is my view that the Holding Company should be scaled back and essentially be disbanded because (a) there is limited opportunity for group synergies, led by the Holding Company, between the current entities as they are all very different so maintaining a group approach may not be useful, (b) there is additional resource required to support a separate legal entity (e.g.

directors' duties, separate legal advice) that would not be duplicated if the staff were within BCC, (c) there is not merit in devolving (m)any RMs to the Holding Company, and (d) there is limited opportunity for shared services between the companies because of their different operating environments.

- ii. It may be that, under this scenario, the legal entity needs to be retained for tax purposes. This would happen over a phased period of time as the corporate finance role is shifted back to council officers and the Shareholder Group. During this interim stage, it may be appropriate to recruit a separate chief executive who then moves over to become a full-time employee of the council within a 12 month timeline.
- iii. If the Holding Company is retained as a corporate entity for tax purposes, it will still need a Chair and I suggest one of the existing Holding Company non-executive directors or the current Executive Chair is asked to take on this role for continuity and knowledge retention.
- iv. The closure of the Holding Company will not remove the work that the Holding Company does, it would mean that this work would transfer to other parts of the governance framework, be it council officers, the Shareholder Liaison Service, the companies themselves or external consultants. This may require recruitment, or transfers of existing Holding Company staff into the council, to ensure resource with appropriate skills to carry out this work. Alternatively, the council would need to go to tender for a range of external advisors to do the type of work currently undertaken by Holding Company.
- v. I expect that under this scenario, given that the independent challenge brought by the Holding Company will no longer be present, the Shareholder Group would need to meet more regularly (at a minimum, every month or six weeks) and would need to have 2-3 independent Shareholder advisors to replace the scrutiny lost.

Question 4: Has the review highlighted material barriers to the effectiveness of the existing governance arrangements?

37. I have set out below some additional findings that have arisen from discussions with respondents, and reflections on other local authority experiences.

Formation of new entities

38. Until (a) the commercial strategy has been developed, (b) the future of the council's commercial ambitions, and the role of companies within it, has been clarified, and (c) City Leap has been established, I am of the view that no further companies should be formed. It may be that establishing companies can be restarted in a year or two once the council's commercial environment is more established.

Need for a commercial strategy

39. Experience from other councils and recent relevant reports (GT and others) all point to the importance of the council being very clear to all stakeholders in advance about how they plan to approach setting up commercial companies.
40. An overall vision/strategy for commercial activity across the council needs to be articulated, and I understand this is in progress. Robust business cases developed should be developed in respect of any new commercial entities, within agreed sensible parameters, for example, budget, impact on reserves, deliverability, return on investment and other relevant issues. There are a number of frameworks that can be used to support this activity and it will allow BCC to question what its citizens need and how best to provide these services. This work will take place with council and political leaders and will be led by the Strategic Client. The goal will be to re-affirm the role of the existing companies, including City Leap, agree whether it is likely that the council will introduce more companies under Holding Company in the short to medium term, and then agree precisely how the council client side will work. This strategy should be explicitly communicated to all relevant stakeholders and amended as necessary on an ongoing basis. It will be important to track manifesto promises during the election. A format for regular (monthly or at a minimum quarterly) company/commercial updates should be developed for all key stakeholders.
41. Establishing and governing companies is an expensive option and there is no way to significantly reduce this. Short term savings should not be prioritized over long term risk. This is especially true as BCC looks to ramp up City Leap. This needs to be taken into account as the commercial strategy is devised.

Commercial expertise

42. Many respondents perceive that the council's commercial skills need to be enhanced to support effective governance. This is common across most councils but does provide an opportunity for BCC to either specifically seek out commercial skills in future recruitments or to consider upskilling and training opportunities for existing staff.

Role of the Shareholder Representative

43. The current Shareholder Representative has done an exceptional job but the resilience of this role in the longer term needs to be ensured. If a different individual takes the role of Shareholder Representative in the future, they must have appropriate skills and undertake any additional training as may be required. Appropriate succession planning for the Shareholder Representative should therefore be carried out.

Documentation of roles and responsibilities

44. As is clear from this report, even where a particular role is carrying out important and extensive work, it needs to be clearer to other stakeholders what that work is and how it relates to their own work. A series of graphics needs to be developed to set out the inter-relationships within the governance framework, and to set out the relevant forums at which the companies are discussed with the level of decision making made explicit. There is no suggestion that decisions are taken inappropriately it is simply that respondents are not always clear where decision are taken.

45. Similarly, the existing suite of governance documents have served the council well to date and it would be wrong to consider the documents at fault and that new drafts will solve the governance challenges. However, some stakeholders do not appear to be clear what the key governance documents are or how they are relevant. The key is for all stakeholders to know what the suite of documents are and to have studied them carefully. This will include the Code of Practice, the Company Handbook, the articles of association, the Shareholders' Agreement and other relevant documents.

Role of BCC finance

46. The role played by the s151 Officer is critical and a new model of engagement should be developed by key stakeholders to ensure the s 151 Officer is able to engage early and often in material decisions.

47. As finance is such a critical part of the company governance it should be agreed precisely what level of resources (staff skill sets, expertise etc.) are needed to support both the client side and the companies themselves and the council overall in terms of fiscal oversight.

Governance based on roles not individuals

48. The 'who' as much as the 'what' is a challenge to the better governance of the companies in the council. There are a lot of legacy issues getting in the way of solutions at the council. That is to be expected but it must also be called out and addressed. These legacy issues refer to the views of specific people in specific roles, the recent history of commercial activity at BCC and a sense of reluctance to take very hard decisions. The key is to design a governance model that is person neutral and effective.

Board Effectiveness

49. BCC needs to ensure that the Boards are 'fit for purpose' and have sufficient skills and resources to provide the basic governance required including company level audit committees. If one looks to the expectations in the Code of Practice it is clear the Boards need to shoulder more governance responsibility.

F. Recommendations

1. The recommendations in this report will be divided into two sections:
 - a. recommendations in respect of each question; and
 - b. recommendations in respect of City Leap.
2. There are other actions underway in response to the GT VfM Report and Internal Audit Report. These actions should continue to be implemented in addition to the recommendations in this review.

Recommendations in respect of each question

Question 1 (relating to the role of the Strategic Client)

- A. Develop a clear definition for the Strategic Client role, in line with the findings of this report,
- B. Develop a clear definition for the Operational Client and Sponsor roles, in line with the findings of this report,
- C. Establish a clear model of accountability for the Strategic Client where the Operational Clients and Sponsors are across multiple directorates, in line with the findings of this report, and
- D. Ensure there is adequate resource and skill dedicated to the Strategic Client.

Question 2 (relating to the role of the Shareholder Liaison Service)

- E. Develop a clear definition for the Shareholder Liaison Team, in line with the findings of this report,
- F. Revise relevant governance documents to reflect the outcomes of this Shareholder Governance Review, and
- G. If the Holding Company is not retained, consider expanding the Shareholder Liaison Service, in line with the findings of this report.

Question 3 (relating to the role of the Holding Company)

- H. Pause establishing any additional companies and disband the Holding Company. This should involve:
 - i. identifying a timeline for the disbanding of the Holding Company;
 - ii. developing an appropriate transition plan to achieve the disbanding of the Holding Company, including:
 - appointing a separate chief executive to oversee the wind down of the Holding Company and the transfer of activities back to the council;
 - mapping the work currently done by the Holding Company and which teams or roles within the council will absorb this (for example, Strategic Client, the Shareholder Liaison Service, BCC Finance, the Shareholder Group);
 - consider transferring the current Executive Chair and Group Finance Director into council employment to support the council's commercialisation work;

- increasing the remit of Shareholder Group to carry out the accountability mechanism currently performed by the Holding Company and consider establishing sub-committees (for example, in respect of performance monitoring and risk) to support this work.
 - iii. considering whether the Holding Company entity should be retained for tax purposes, and ensure appropriate support in place to manage this entity (e.g. a Chair, company secretarial support etc.)
- I. If, despite Recommendation H, the council intends to transfer additional companies to the Holding Company in the short to medium term, then I recommend that the council implements 'Option 3' as outlined in the Holding Company paper: "Managing HoldCo Costs & Improving Group Effectiveness" (December 2020).

Question 4 (in relation to material barriers to effectiveness)

- J. Consider pausing any new company formation in the short to medium term,
- K. Complete the council's commercial strategy as soon as possible,
- L. Establish a template business case for the establishment of companies and commit to its use in advance of any decision-making surrounding new company formation,
- M. Conduct a skills audit of its Operational Clients and Sponsors and consider how the council can begin to 'home grow' the type of commercial expertise it needs,
- N. Ensure adequate succession planning in place for the Shareholder Representative,
- O. Develop a graphic to explain all of the relevant forums at which the companies are discussed with the level of decision making made explicit,
- P. Devise a new model of engagement between the s 151 Officer and the companies,
- Q. Include company risks are escalated to the BCC risk register as appropriate,
- R. Develop a process chart to assess if and where duplication of roles is taking place,
- S. Complete the Company Handbook and share with all parties, and
- T. Undertake a review of Holding Company and subsidiary Board composition and effectiveness.

Recommendations in respect of City Leap

- U. Provide a workshop for relevant stakeholders as a matter of some urgency, in order to communicate the vision and secure explicit support,
- V. Define the key governance roles relating to City Leap (for example, the Holding Company (if retained), Shareholder Liaison Service, Strategic Client, Shareholder Group, joint venture board, joint venture partner), and
- W. Ensure adequate external specialist support provided to the council to ensure a robust and balanced relationship between Strategic Client and Strategic Partner.

Appendix A

Experiences of other councils

1. As part of this review, the Shareholder Liaison Service conducted some desk research into current governance arrangements at other councils. What is noteworthy is the fact that in all cases the councils consulted recognised the very same challenges as outlined in the 2017 BCC Governance Review and that face BCC today. Several of the councils are also conducting a review of their governance arrangements.
2. The councils included in this review include; Corserv, Manchester City Council, Barking and Dagenham, Surrey County Council and Nottingham City Council. The LATCO Network was also consulted.
3. This research shows that each council approaches the establishment and running/governance of their companies in a unique way. It was not possible to see any direct comparability amongst the councils or indeed with BCC.
4. However, all reviewed, including BCC, are struggling to come up with the optimum set of relationships to allow for the most effective establishment, management, and governance of their commercial companies. At the core are issues associated with the role of the Shareholder representative/key decision-maker, the role of the 'client' and the links to councillors, employees, and citizens.

Shareholder/Decision Maker

5. There is some diversity amongst those councils reviewed in terms of who the key decision-maker is. In most cases, the decision-making is either in the hands of the senior politician/leader of the council or, as in BCC, exercised by the Mayor via delegation to the Deputy Mayor. In some cases, the council Chief Executive is the decision-maker. At Corserv the Chair and managing director of the holding company have regular meetings with the council Chief Executive. At MCC, the shareholder role is discharged by both the chief executive and the Leader.

Holding Company

6. It is interesting to note that not all councils have put in place a holding company structure.
7. This is especially of note in the case of Manchester City Council which has nearly 50 commercial companies all of whom are 'run' by what looks more like the Shareholder Liaison Service at BCC.
8. Corserv has a holding company and Elaine Holt, currently a BCC holding company non-executive director, was the previous Chair of this company. There are two Councillor non-executive directors on the Corserv holding company Board but none on subsidiary boards.
9. At Barking and Dagenham, the Commercial Director is the main point of contact between the companies and the council and there is no holding company. The Commercial Director has responsibility for reviewing company performance.

Client

10. In most cases, there is a very clear commercial director or Strategic Client and it is evident that there is significant council officer involvement in the commercial companies. At Corserv there are 'designated' clients with clear responsibilities. The Partnership Board at Corserv is where much of the traditional 'client' activity takes place. It is hosted by the council and has the responsible 'client' in attendance. This board reviews the council's budgets and the companies' budgets to ensure alignment. The alignment continues into jointly agreed business plans. As there are several companies and council officers attending this partnership board there are opportunities for synergies to be identified and best practice shared.
11. Farooq Mohammed, who works with the LATC Network, noted that in many cases the client side of the council does not have any formal interaction with the Shareholder representative or its decision-making processes. He felt this was appropriate as these commercial companies had to be allowed to operate independently and not be overly controlled by the council client.
12. One of the councils acknowledged that they are facing challenges due to a lack of clarity as to client roles and a blurring of operations and governance.

Shareholder Liaison Service

13. At Corserv, the shareholder team has a wide remit including monitoring the Reserved Matters, managing the shareholder meetings, reviewing company reporting, and recruiting company Boards. They are also actively involved in the company formation stage.
14. Manchester City Council has approximately 50 companies and does not have a holding company. The companies are overseen by the Head of Programme Management, who is a council officer based in MCC's Commercial Governance and Directorate Support. This office has 6 staff members, including four company secretaries, who essentially oversee the companies and escalate issues to a Commercial Board and the Shareholder for decisions.

Shareholder meetings and links into council governance

15. Every council has a somewhat different approach to how they provide oversight and scrutiny of their companies. Quarterly meetings of a shareholder group are common.
16. At Corserv, these are attended by the chief executive officer, Section 151 officer, and the Chair, managing director, and finance director of the holding company and it is where Reserved Matters are discussed and decisions are taken. The companies do not attend the Shareholder meeting but they gain representation via the Partnership Board which is more 'client' and council focused. The Chair and managing director of the holding company report to OSMB and Cabinet and have one-to-one meetings with the council's chief executive.
17. At Epping Forest, its 'Shareholder Liaison Group' is cross-party to ensure political support.

18. The Commercial Board at MCC appears to be quite similar to the BCC Shareholder Group and has client officers in attendance. However, in contrast to BCC, it has a role with all of the council's commercial activities not just its companies. The MCC Commercial Board meets every six weeks and receives company updates quarterly. The Commercial Board is supported by the team led by the Programme Management Officer and its role is a hybrid of BCC's Holding Company and Shareholder Liaison team. This team will bring forward issues for discussion that have been identified by the company secretaries or other high-risk matters identified on a 'register of significant partnerships'. As with the BCC's Holding Company, the team at MCC receives and comments on company business plans which are then approved by the shareholder. If it is a significant new activity and a new business plan, MCC will engage an external consultant to provide advice.
19. Barking and Dagenham's Shareholder Panel meets quarterly and includes the Deputy Leader, another Cabinet member, the Monitoring Officer, and the s 151 Officer. This is not a decision-making body as, at present, Cabinet makes relevant decisions relating to the companies on an annual basis.
20. Farooq Mohammed notes that there are three tiers of relationships common to most LATCs;
 - a) 1:1s between a council chief executive and/or Leader and managing directors of LATCs;
 - b) monthly meetings between council representatives and LATC representatives;
and
 - c) operational meetings between council 'clients' and company representatives on a reactive basis.

Appendix B

Findings from reports into LATCs

1. The LGA Report, the Unison Report and the 2018 Grant Thornton Report were all considered as part of this review. I have summarized below some relevant aspects of each report.

The LGA Report

2. The LGA Report advises that a council must consider what it is trying to achieve with a commercial company.
3. The council has to question their level of confidence regarding providing value for money to their citizens. In most cases, they have to challenge the expectation of profits in the short term and the risk appetite of both officers, councillors, and taxpayers. Sometimes a company is set up where there is a market failure, but this may be a red flag for the council as it should be questioned how a council can make a contract work if the private sector could not.
4. The LGA Report also includes a case study of the Norse Group in Norfolk. It is composed of three companies: a facilities management company; a design and management consultancy firm; and a provider of social care. In this case, success was dependent on having full political backing to provide strategic and financial support, sufficient cash flow to put into the companies, and awareness of employee rights, particularly pension issues.
5. Some other examples in the LGA Report (now over 10 years old) include Essex Care, where 850 staff transferred in 2011/12 and it made a profit of £3.5 million. Solutions SK, which is wholly owned by Stockport Council, received over 1,000 transferred staff and had a turnover of £40 million. Swindon Commercial services has 850 staff and a turnover of over £65million.

The Unison Report

6. Like the LGA Report, the Unison Report emphasizes that a council must be clear about its aims when setting up a commercial company. It suggests that before deciding on establishing a company the council should do a very comprehensive review of the services it already offers. Unison advise of the need to consult in advance with citizens/customers, for the council to have a clear policy on charging versus trading, and for due early consideration to be given to the impact on staff and TUPE. BCC saw this recently in the case of the cleaning and security contract that it has awarded to Bristol Waste.

2018 Grant Thornton Report

7. The 2018 Grant Thornton Report also has some useful information that the council should bear in mind in respect of its commercial activities. In particular, the report suggests that:
 - a. rates and taxes will, they say, almost always generate more income than commercialisation.

- b. companies have been popular both as alternative delivery models, to drive additional revenue and for investment purposes. Often trading companies are established as an alternative delivery model giving the opportunity for more control, to respond in a more agile way to funding issues, to cut costs as required and to improve the quality of a service. However, this is a relatively 'high bar' of performance and not all trading companies will actually be capable of such flexibility and also be profitable.
 - c. LATCs are here to stay but that there needs to be a much greater focus on understanding what the critical success factors are. The report foretold in 2018 that there would be a number of mergers and consolidations amongst LATCs. This has not been a feature of the company landscape at BCC.
 - d. part of the reason for the rise in the number of trading companies has been the decline in popularity for outsourcing. However, the 2018 Grant Thornton Report notes that 'local authorities have not always had the contract management capability to deal with these large outsourcing providers and service quality has suffered as a result.
8. The 2018 Grant Thornton Report also sets out the following 'Steps for Success':
- a. adopt the right process: carry out an options appraisal to select the most appropriate model and develop a robust business case that has taken challenge from all stakeholders at an early stage.
 - b. be clear on the offer and the desired outcome in order to assess impact and manage shareholder expectations: the council needs to be completely clear what the desired outcome is - for example, is it to make a profit, take a service back into public management, or to make a service more efficient? The report notes 'commercialism should be about making a step change rather than an incremental change'.
 - c. allow plenty of time for benefits to be realised: 'profits are unlikely in the first three years'.
 - d. don't expect an inefficient service to turn around automatically: making a service commercial will not solve the problem.
 - e. start small and build the business: use proof of concept and grow slowly.
 - f. keep politics away: 'the governance structure should enable the company to trade freely and compete with the private sector'. Grant Thornton recommend the importance of balancing Councillors and council officers with non-executive directors and what they describe as 'shareholder committees'. They say this will help Councils keep the input at a strategic level not an operational level: 'effective governance is essential to ensure that the right balance exists between commercial freedoms and the need for transparency with a willingness to in the company to challenge of the Council is being too risk averse'
 - g. be aware of the particular challenges of commercialising statutory services
 - h. develop a commercial culture.
9. The report notes the below key success factors for wholly owned companies, based on the Norse model:

- a. flexibility
 - b. recruitment from commercial world
 - c. re-branding
 - d. positioning as a commercial company not as a LATC
 - e. running their own HR,IT, marketing, etc, Not relying on the council
 - f. being ambitious
 - g. challenge the council if they are too conservative
 - h. ensure the members are fully aware
 - i. leaving pensions with the Council so you maintain a strong balance sheet.
10. The report also reminds us of some important basic principles for LATCs

7 principles of successful LA companies



11. In summary, it is clear that most councils that establish commercial companies struggle to manage them due to several common factors principally a lack of commercial and financial expertise, slow decision making, a lack of investment capital, and insufficient buy-in and understanding from employees, Councillors, and citizens.

Appendix C

Overview of BCC and Holding Company governance reviews and reports

1. The difficulties associated with the governance of council-owned companies remain a challenge for many councils and their LATCs.
2. The council has received several reviews and audits in respect of its companies. These include the following;
 - a. 2017 BCC Governance Review;
 - b. 2020 BCC Internal Audit Report; and
 - c. 2021 GT VfM Report.
3. In addition, there are several relevant reports to take into account that have been commissioned or authored by the Holding Company:
 - a. 2020 Holding Company Efficiency and Effectiveness Paper;
 - b. 2021 Holding Company Internal Audit Report; and
 - c. 2021 Holding Company Transition Plan.
4. In summary, all of these reports identify areas for improvement in BCC governance of its companies. In many cases, the more straightforward 'housekeeping' recommendations have moved to immediate implementation under the stewardship of the Shareholder Liaison Service. There is a very comprehensive action tracker. While these management actions are being addressed there remain several fundamental issues regarding the overall governance framework at BCC. These issues are at the heart of this review and will be addressed through the implementation of its recommendations.

Appendix D
Scope for Governance Review

**[Included as separate Appendix in Shareholder Governance Review 2021: Management
Actions]**

Appendix E

Summary of respondents' views

A. Is the role of the Strategic Client adequate and what changes could be made to improve how it functions?

Strategic Client

1. There was consensus that the role of the Strategic Client needed further development. This may be due in part to the newness of the role and participants were generally encouraged by the appointment of Executive Director: Growth and Regeneration to the role. Council officers and company representatives generally understood the concept of the 'council client' as the person within the council who was responsible for the contracting or running of a service, or for overseeing interdependencies between the council and its companies. However, the idea of a 'Strategic Client' as different and separate to the council client (or Operational Client, or Sponsor, using the terminology proposed in this report) needs to be better understood, to avoid blurred lines both of communication but also of responsibility. For example, it needs to be clear within the council and the companies that the Operational Client for BWC in respect of waste services is Director: Management of Place (and an officer reporting into them) whilst the Strategic Client is, as for all of the companies, the Executive Director: Growth & Regeneration.
2. This is particularly true in the case of BWC where there is frequent contact between the company and the Shareholder representative and councillors on performance-related issues, rather than directing this contact to the Operational Client and, only as a last resort, to the Strategic Client and Shareholder Representative. Similarly, several participants asked who would be responsible for managing the cleaning and security contract within the council. The fact that cleaning and security is part of BCC Facilities Management is the responsibility of the Resources Directorate and is not part of the Growth and Regeneration Directorate where BWC is currently 'housed' raised questions.
3. Several respondents did not fully understand the reporting lines of the Strategic Client and were unsure if the Strategic Client was a stand-alone role organised by sectors such as waste or energy or if there is a single person within BCC who has responsibility for all commercial activities within BCC.
4. However, respondents noted the positive appointment of the Executive Director: Growth and Regeneration as there is now one person with an overall vision of and responsibility for commercial activities. The importance of ensuring that the Strategic Client had sufficient capacity and skills to discharge this role was emphasised, as was the importance of the Strategic Client to have team members with adequate operational and delivery expertise.
5. One respondent suggested the need for greater alignment between the Shareholder Representative and Strategic Client. Respondents also commented on the lack of clarity regarding where decisions are taken, for example: does the Strategic Client have the decision-making power or is it the Shareholder Representative or the Cabinet or another body such as the weekly Cabinet Member Briefings with the Shareholder Representative?

6. Several respondents said they did not know how the companies came to be and how a council owned company is set up. There is a sense there should be a clear plan and a guiding ideology.

Operational Client

7. Some participants noted the importance of Operational Clients having adequate sector specific knowledge and expertise as well as the financial and commercial expertise needed to be able to manage a commercial contract with a commercial company. It was also noted that the Operational Client ought to be a relatively senior officer in the council. The importance of having a strong Operational Client was emphasised, particularly in the context of BE 2020, in the past, and City Leap, in the future.
8. One respondent noted that better and closer working relationships should be developed between BCC officers and company representatives.
9. Participants suggested that the Sponsor's relationship with Goram Homes was effective and well understood. There is a straight line from BCC's commitment to building new homes, the selection of several delivery methods including the Goram Homes model, and the professional team within BCC that is in a position to work directly with Goram Homes.

B. Is the Shareholder Liaison function adequate and what changes could be made to improve how it functions?

10. Whilst the precise role of the Shareholder Liaison Service was not always understood by participants, most had a good sense of the role and were, on balance, very content with how the Shareholder Liaison Service discharges its duties.
11. There was a clear sense of the role of Shareholder Liaison Service before the Holding Company was expanded. However, there were some respondents who felt that, following the expansion of the Holding Company, there were blurred lines and an element of duplication of activity. This seemed to relate to the development of business plans, the development and submission of papers for the SHG, work on budgets and other financial issues. Some respondents have noted that since the 'expansion' of Holding Company they have less visibility of the Shareholder Liaison Service so did not have an up-to-date view.
12. In its previous set up the Shareholder Liaison Service had 'its fingers in a lot of pies', including their operational and financial performance. However, this seemed to have worked well as many complimented the 'old' Shareholder Liaison Service on its ability to manage many complex relationships, especially those between the companies, and the Shareholder Representative.
13. Under the previous Shareholder Liaison Director the Shareholder Liaison Service did more of the work that the Holding Company does now but it was done in what respondents described as a light touch manner.
14. As with the Strategic Client, the sense of the Shareholder Liaison Service depends on who you are. The Shareholder representative and Shareholder Group are very aware of the Shareholder Liaison Service and indeed very dependent on it. The Cabinet and Councillors also know and respect the Shareholder Liaison Service but have a less well-developed sense of the precise role. It is at the company level that knowledge and

understanding of the role of the Shareholder Liaison Service weakens with some seeing it as the secretariat for the SHG rather than having a direct role in their governance.

15. Respondents were very complimentary as to the scale of the work undertaken by the Shareholder Liaison Service and their ability to manage multiple stakeholders in very tight timeframes. Several noted that they were also impressed with the increased 'technical' output from the Shareholder Liaison Service.
16. It was suggested that the Shareholder Liaison Service has two orientations; one to the companies and one to the Shareholder Representative and council. It was felt the internal focus was underdeveloped compared to the relationship with the companies. This may be due to the respondents not being aware of the full extent of the Shareholder Liaison Service role and having limited visibility to the work Shareholder Liaison Service do to support the Shareholder Representative and more specifically Cabinet. As with other findings, better articulation of roles and communication of specific activities should resolve this issue.
17. One respondent asked if Shareholder Liaison Service reports into the right place, for example whether it should be reporting to Executive Director: Growth and Regeneration or to BCC Finance.
18. It is seen by the respondents that the Shareholder Liaison Service lead on 'explaining' and 'policing' the Reserved Matters but it is understood that they do so on behalf of the Shareholder Representative.

C. Is the Holding Company's role adequate and what changes could be made to improve how it functions?

19. There has been universal support and praise from the respondents for the role of Holding Company since it was set up. This is especially true in the context of BE 2020 where Holding Company is credited with making a very significant contribution to the successful sale of the company.
20. Respondents noted that the Holding Company has made a significant change to how the council exercises its governance and oversight of the companies despite not having the powers normally associated with a Holding Company. There is a view that Holding Company and its Board have brought independence, expertise, and professionalism.
21. However, with just three companies under Holding Company (BWC, Goram Homes and BHN) many respondents (not just the companies themselves) questioned the financial viability of a Holding Company at this time. This has been reflected in concerns raised by council officers as to the cost of the Holding Company and options have already been presented to address its cost base in the immediate timeframe (for example, the Holding Company Efficiency & Effectiveness Paper).
22. Respondents recognised that if the Holding Company is disbanded then a 'governance gap' would arise and it is not obvious if there is a cost-effective way to bridge this gap. This gap includes both the commercial and financial expertise but also the sense of some 'independent' challenge on behalf of the Shareholder representative.

23. Respondents noted the fact that the three companies left within the Holding Company Group are very different so it may be hard for the Holding Company to generate many synergies between them. All of these companies now have an established Strategic Client and Operational Clients and/or Sponsors, and it is this client function that should run and monitor the operational and service delivery aspects of these three companies.
24. Respondents had a mixed view concerning the Holding Company expanding its role with a shared services platform. It was felt this was not an option given the unique nature of the three companies that exist today.
25. Respondents commented on the inherent tension between the Holding Company and the Companies with an inevitable sense that the Holding Company is getting involved in company business and delaying things. They also note that the Holding Company has general skills, not sector-specific skills and so, therefore, are not as well placed to comment on operational issues.
26. Most respondents felt quite strongly that BCC needs to decide what it wants. There is universal support for the type of work the Holding Company does but less support for the cost of the work.
27. One respondent expressed concerns about the ability of the Holding Company to be independent as it reports to the council's chief executive. There has been a concern that the Holding Company officers are acting as shadow directors (this has been subject to legal advice). This is in contrast with the view as expressed already that the Holding Company does bring a very significant and valuable layer of scrutiny and oversight to the companies.
28. Several respondents noted that the Holding Company risk register has been a very good addition to the governance framework. However, it is not clear where this fits with the company-specific risk register or shareholder representative/council risk registers.
29. It is clear from interviews that there are mixed views in relation to the role and 'authority' of the Holding Company and with most Reserved Matters resting with the Shareholder representative and other powers resting with the Strategic Client and the companies themselves it is hard to see the precise authority of the Holding Company under the current model.

D. Has the review highlighted material barriers to the effectiveness of the existing governance arrangements?

30. Most of the issues were addressed in the three previous questions. Some additional findings are included below.
31. Many respondents felt that the experience with BE 2020 has been exceptionally negative for all involved and it will be hard to get traction around the commercial companies in the future.
32. Several respondents commented that there is a lack of trust amongst key stakeholders.
33. It was noted that BCC Finance could be involved earlier and more frequently as it has a very critical contribution to make. It was felt that there may be scope for more of the finance team to lead out with the companies to relieve the burden on the s 151 Officer.

34. Various respondents asked questions about the governance arrangements for City Leap. For example, participants noted the importance of the council having the knowledge and experience to participate in a very complex joint venture, and how the entity would be governed, from the council's perspective, if it is not a subsidiary of the Holding Company. Detailed questions about Board compositions were also raised.
35. Respondents noted the importance of effective stakeholder engagement across the Group and emphasised the importance of discussions with the Shareholder representative, the Strategic Client and the council's chief executive.
36. Some respondents noted they would welcome increased visibility of what the Holding Company presents on their behalf to the Shareholder Representative and/or the Strategic Client.
37. The respondents welcomed this review as an opportunity to establish clear roles and responsibilities across the Group to promote good governance.

Appendix F References

Branch Guide to Local Authority Trading Companies, Unison (2013), available here: <https://www.unison.org.uk/content/uploads/2013/06/On-line-Catalogue212753.pdf>

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