

AUDIT COMMITTEE – 22nd February 2019

Title of paper:	GOVERNANCE OF CITY COUNCIL COMPANIES UPDATE	
Director(s)/ Corporate Director(s):	Corporate Director of Strategy & Resources	Wards affected:
Report author(s) and contact details:	Strategic Director of Finance Laura.Pattman@nottinghamcity.gov.uk	
Other colleagues who have provided input:		
Recommendation(s):		
1	Consider and comment on the Council's proposed arrangements for Governance of Companies.	

1 REASONS FOR RECOMMENDATIONS

- 1.1 Good governance of those companies in which the Council has an interest is an integral part of the governance arrangements of the Council as these ventures involve the expenditure of public money and the stewardship of public resources.
- 1.2 The Audit Committee's terms of reference include a purpose to
7. Oversee proposed and actual changes to the council's policies and procedures pertaining to governance.
 and an associated function to
4. Consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.
- 1.3 This report provides the Committee with a further update on the Council's proposed arrangements for Governance of Companies in order to fulfil its role.

2 BACKGROUND

- 2.1 The City Council has 7 main subsidiaries – a trust and 6 companies, and a further 2 joint ventures included in its group accounts in 2017-18.
- Bridge Estate Trust
 - Nottingham City Transport
 - Nottingham City Homes (NCH) Ltd
 - Enviroenergy Ltd
 - Nottingham Revenues and Benefits Ltd
 - Robin Hood Energy Ltd
 - Futures Advice, Skills and Employment Ltd
 - Blueprint Limited Partnership
- 2.2 These 8 group subsidiary companies have been created over many years, but
- the pace of creation has increased recently as a result of imperatives for alternative delivery models and a commercial approach.
 - the potential size of these companies in relation to the Council as parent is increasing as the Council's funding is restricted by measures introduced by the UK government.
 - the Council's appetite for risk has increased and this should be reflected in the related control environment – mechanisms will be required to ensure commercial risk taking matches strategic requirements.

Developments

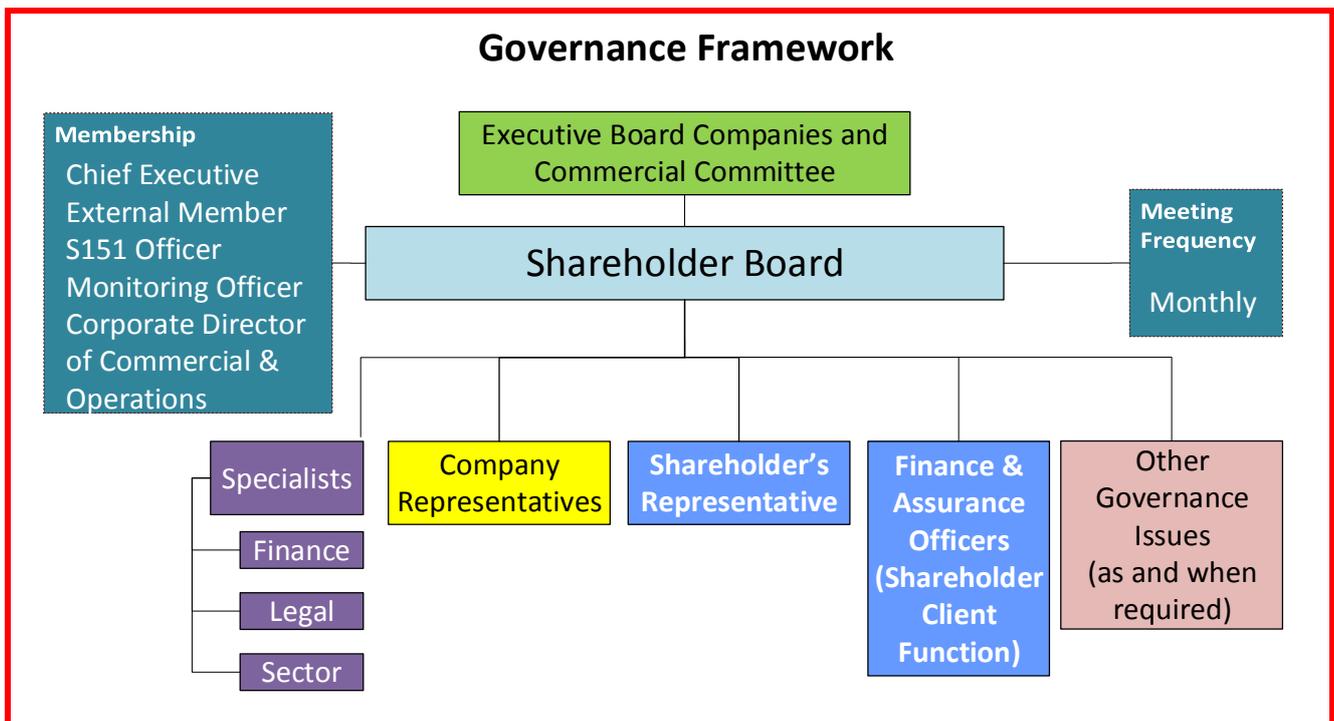
- 2.3 The governance principles, officer and councillor structures for companies' governance are summarised as follows and have been agreed and await formal approval and implementation.

Company Governance Principles

- 2.4 The following principles have been agreed:
- The company will be provided with the freedoms to achieve its commercial and operational objectives within this framework.
 - NCC will retain controls which enable it to protect its investment and assure itself that objectives are met.
 - Information will flow between NCC and the company to ensure that mutual understanding and shareholder / company objectives are maintained.
 - Appropriate business protocols will be enforced so that decisions are taken for the benefit of the company and the Nottingham City Council Group.

Structures

- 2.5 The councillor and officer structures proposed are:
- Executive Board Companies and Commercial Committee:
- Member oversight and policy setting
 - The Shareholder Board reports into the Companies and Commercial Committee of the Executive Board which would be chaired by the Leader of the Council or their nominee.
- Shareholder Board:
- Consists of Chief Executive (Chair of the Shareholder Board), External Member, Strategic Director of Finance, and Monitoring Officer and Corporate Director of Commercial & Operations.
 - Serviced by specialist advice from Strategy & Resources and the Shareholder Client Function. Representatives of companies and shareholder to attend as necessary.



Executive Board Companies and Commercial Committee

2.6 It is proposed that an Executive Board Companies and Commercial Committee is set up. This would have the following functions.

- To give direction to the Shareholder Board on the vision and ambition of the Council with reference to its commercial activities
- To review the implementation of the Council's commercial approach including its group companies in relation to the development of the companies and the group;
- To evaluate the impact of group companies and commercial activities on the achievement of the Council's strategic objectives;
- To approve the Shareholder Board work programme;
- To approve group company structure proposals and other formal structures to protect the legal and commercial interests of the Council as shareholder, including at key decision level, as identified for review in the annual work programme, and occasional urgent decisions not included in the work programme;
- To review, by exception, outcomes achieved and delivery against the Nottingham City Council Company Governance Principles and approve measures taken by Shareholder Board to enable any deficiencies identified to be remedied;

Shareholder Board

2.7 The Shareholder Board Chair will

- Give guidance and direction to the companies
- Ensure the delivery of agreed benefits both to NCC and the companies
- Hold companies to account for the delivery of their agreed objectives as per their business plan

2.8 The Shareholder Board will have the following role and functions

Role : To ensure that the Council's strategic objectives are met across the group and to support the development of the group in line with the Council's regulations and ambitions:

- Receiving and approving the medium term company strategies on an annual basis;
- Supporting the development of entities and the group;
- Ensuring that the legal and commercial interests of the Council as shareholder are considered and protected through formal structures such as shareholder agreements and loan agreements;
- Making proposals to the Executive on the formation / disposal / dissolution of companies and matters, such as varying Articles of Association, varying ownership and structure and varying share rights;
- Holding entity boards and Senior Managers to account for their performance with the necessary powers to make and drive immediate change through the boards.

2.9 The Shareholder Board will normally meet monthly.

2.10 In order to meet these requirements the Shareholder Board Chair will explore the support required and call in experts as and when required.

Other parties

2.11 Other parties involved in supporting the governance of the Council's companies are:

a) Shareholder representatives

- The Chief Executive as Chair of the Shareholder Board is the shareholder representative and it is for him to delegate responsibility as he sees fit.
- If the Chief Executive chooses to delegate this responsibility then the role will be carried out by a City Council colleague acting on behalf of the City Council in respect of a company in which the Council has a shareholding or other beneficial ownership interest.
- Their role will be to engage monthly (or more frequently as required) with the Company to ensure that it meets the Council's strategic objectives and
 - receives from the group and
 - provides to the groupsupport towards development in line with the Council's policies and ambitions.

b) Advisors to the Board – Companies (Representatives of Companies)

- Representatives of the company that account to the Board for company performance and assurance;
- Update the Board in respect of
 - General performance in the market
 - Strategic plans,
 - Funding and other requirements with timescales;
 - Supply information for the Board to evaluate any new business proposals.

c) Advisors to the Board – Shareholder Client Function

- Companies will supply NCC with monthly reporting packs covering information as set out by the Section 151 Officer.

- Council officers will review monthly reporting packs from the companies, maintain joint risk registers and provide the Board with analysis enabling the Board to fulfil its role.
- Support and service the Shareholder Board and Executive Board Companies and Commercial Committee.

Existing Companies Governance Guidance

2.12 The following documents have been developed

- Review of Local Authority Companies & Other Governance Best Practice
- Draft Code of Best Practice for Governance of Companies including:
 - Companies concepts
 - Company Governance Principles
 - Summary of NCC Shareholder Requirements and Company
 - Proposed NCC Shareholder Board Terms of Reference
 - Proposed Form of a Model Shareholder’s Agreement
 - Proposed Guidance note for Councillor Directors
 - Directors’ General Duties under the Companies Act 2006 (guidance note)
 - Connected persons and interests (guidance note)
 - Proforma Declaration of Interest
 - Proposed Template Letter from Chief Finance Officer to NCC Company
- Meetings with Companies Draft Agenda
- Role of Shareholder Client Function
- Role of Company Representatives
- Role of Specialists

Summary

2.13 An approach to address the demands posed by the increased significance of governance of Council companies to the Council’s overall position has been outlined above. This involves the following resources:

Executive Board Companies and Commercial Committee
 Shareholder Board
 Support from other parties
 Shareholder representatives
 Advisors to the Board from
 the companies
 the shareholder client function

2.14 The above structures will be established in time for the next Council Cycle. Proposed timescales are as follows:

March	External Member recruitment to Shareholder Board
March-May	Establishing Shareholder Client function
April-June	Set-up, communications, consultation & training
May	Shareholder Board meetings commence in diary
May	Committee structure established

3 BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION

None.

4 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

None.