

AGENDA ITEM

REPORT TO CABINET

DATE 17th July 2025

**REPORT OF CORPORATE
MANAGEMENT TEAM**

CABINET DECISION

Leader of the Council – Councillor Lisa Evans

UPDATE OF GOVERNANCE ARRANGEMENTS FOR THE COUNCIL'S HOTEL COMPANY

SUMMARY

This report seeks Cabinet approval to update the governance arrangements for the Council's wholly owned hotel company, Stockton Hotels Company Ltd, and its parent company, Stockton Borough Holding Company Ltd. The proposed changes are intended to update the Council's role as shareholder, further strengthen board composition through the introduction of independent expertise and establish a single, Shareholders' Agreement to codify key controls and expectations.

The measures will reinforce oversight and reflect good practice in the governance of local authority trading companies.

REASONS FOR RECOMMENDATION(S)/DECISION(S)

The proposals represent a strengthening of the Council's governance of its trading companies. By updating shareholder arrangements and enhancing board capability, the Council will ensure that its hotel company structure remains robust, accountable and aligned with its objectives.

RECOMMENDATIONS

Cabinet is recommended to:

1. Approve the development of a new Shareholders' Agreement covering both Stockton Borough Holding Company Ltd (HoldCo) and Stockton Hotels Company Ltd (HotelCo);
2. Confirm that the Council's shareholder representative shall continue to be the officer exercising the statutory Section 151 responsibilities, following the retirement of the previous postholder;
3. Approve the proposed enhancement of the HotelCo board through the appointment of independent non-executive directors with relevant commercial or hospitality experience;
4. Agree to appoint Tracey Carter, Director of Regeneration & Inclusive Growth as a council appointed director of each company;
5. Delegate authority to the Director of Corporate Services, the Section 151 Officer and the Chief Executive to finalise the Shareholders' Agreement in consultation with the Leader of the Council.

DETAIL

1. The Council is the sole shareholder in HoldCo, which in turn wholly owns HotelCo. HotelCo operates the Hampton by Hilton hotel at Northshore under a franchise agreement. The hotel is owned by the Council (subject to a 250 lease) and operated by Ambridge (formerly

Interstate) under a third-party management agreement. Since opening, the hotel has performed in line with expectations and remains self-financing. Its primary purpose described in the original repos establishing the Hotel has always been regeneration, anchoring the wider Northshore development, attracting inward investment, and creating local employment.

2. The current governance arrangements have enabled the companies to operate effectively since their establishment. However, as part of the Council's ongoing management of its company structures, the opportunity has been taken to strengthen aspects of the framework by introducing a formal Shareholders' Agreement and considering the addition of independent representation on the board. These changes are intended to improve the effectiveness of the overall governance arrangements, while remaining proportionate and fit for purpose.

Shareholder Role and Representation

3. In accordance with the Council's Constitutional arrangements and company law, the Council acts as the corporate shareholder for both HoldCo and HotelCo. The Section 151 Officer has undertaken the role of shareholder representative on behalf of the Cabinet. It is proposed that this arrangement continue, with the recent retirement of the Deputy Chief Executive and Director of Finance, Transformation & Performance, it is proposed that the responsibilities continue to be discharge by the Section 151 Officer, this ensures continuity and reflects established practice across the sector.
4. The shareholder representative is responsible for exercising the Council's voting rights, attending general meetings, and overseeing shareholder-reserved matters. This role is exercised under Cabinet delegation. This approach is consistent with governance models used by other local authorities.

Board Composition

5. Currently, Directors of both companies are appointed by the Council (by Cabinet as an executive function) in its capacity as shareholder or directly by the company boards. While the Articles of Association permit directors to make appointments, the Council retains the right to remove any director which it has appointed directly, or which has been appointed by the company board.
6. Currently, all directors are Council officers. To enhance board capability and introduce external challenge, it is proposed that HotelCo appoint at least one independent non-executive director with relevant sectoral experience.
7. This approach is widely adopted in other council-owned companies and will bring valuable commercial insight to the board. It is proposed that appointments will be made by the shareholder, with costs (if any) met from company resources.
8. Because the shareholder representative cannot also serve as a company director, and the Section 151 Officer role also presents a conflict of interest, the Acting Section 151 Officer has stepped down from the boards of both companies. To ensure continued Council representation, it is proposed that Tracey Carter, Director of Regeneration and Inclusive Growth, be appointed as a director of both companies.

Shareholders' Agreement

9. A new single Shareholders' Agreement is proposed to govern both HoldCo and HotelCo. This agreement will be entered into by the Council (as shareholder of HoldCo), HoldCo (as shareholder of HotelCo), and HotelCo.
10. The agreement will complement the companies' Articles of Association and will define:
 - Shareholder-reserved matters;
 - Business planning and reporting requirements;

- Board governance and director expectations;
- Dividend policy and financial oversight;
- Dispute resolution mechanisms;
- Exit and winding-up provisions;
- Confidentiality and intellectual property protections.

Key provisions will include:

Reserved Matters

- Approval of business plans and budgets;
- Entry into significant financial commitments;
- Director appointments and removals;
- Structural changes or asset disposals;
- Creation of subsidiaries or joint ventures.

Business Planning and Reporting

- Annual business plan submission and approval;
- Quarterly performance and financial reporting;
- Year-end financial statements.

Board Governance

- Appointment and removal procedures;
- Inclusion of independent non-executive directors;
- Standards of conduct and conflict of interest protocols.

Dividend Policy

- Annual review of dividends, subject to financial sustainability;
- Reinvestment priorities to be considered before distributions.

Dispute Resolution

- Structured mechanisms for resolving shareholder-company disagreements.

Exit and Winding-Up

- Asset reversion to the Council;
- Dormancy provisions.

Confidentiality and IP

- Protection of commercially sensitive information;
- Retention of Council-owned intellectual property.

11. These provisions reflect sector good practice and are designed to balance effective shareholder control with appropriate arm's length operational autonomy for the companies.

COMMUNITY IMPACT IMPLICATIONS

12. The proposals set out in this report relate to internal governance arrangements for the Council's wholly owned hotel company and its holding company. The report does not introduce any new service, policy, or change to the delivery of services that would have a direct or differential impact on members of the public or specific communities.

13. A Community Impact Assessment (CIA) has not been undertaken, as the proposals do not affect service delivery or involve decisions that would engage the Public Sector Equality Duty in a material way.
14. The hotel continues to operate on a self-financing basis under a management agreement and is open to all residents and visitors. There are no changes proposed to the hotel's operations, accessibility, or customer-facing policies as part of these governance updates.

CORPORATE PARENTING IMPLICATIONS

15. The proposals in this report relate to governance arrangements for the Council's wholly owned hotel company and its holding company. There are no direct implications for the Council's role as a corporate parent, and the report does not affect services or policies relating to children in our care.

FINANCIAL IMPLICATIONS

16. The proposals in this report do not entail any new or additional expenditure. Stockton Hotels Company Ltd is already operational and financially self-financing, with no further capital or revenue funding required from the Council as part of the governance refresh.
17. Any minor costs arising from the implementation of the revised governance arrangements – such as legal advice on the Shareholders' Agreement or the appointment of a non-executive director – will be met from within existing resources. Where costs are related to the company's operations, they will be absorbed by HotelCo within its existing revenue budget.
18. There are no implications for the Medium Term Financial Plan (MTFP) as a result of this report. No new budget provision is required, and the Council is not exposed to new financial commitments.
19. The governance framework, including the Shareholders' Agreement and the enhanced reporting mechanisms, is intended to support financial oversight and safeguard the Council's investment in the hotel company over the longer term. It provides a platform to ensure any future returns – including dividends or repayment of shareholder loans – are monitored and managed appropriately.

LEGAL IMPLICATIONS

20. The Council has the legal power to own and operate trading companies under the Local Government Act 2003 (Section 95), supported by the general power of competence under the Localism Act 2011. Stockton Hotels Company Ltd and its holding company, Stockton Borough Holding Company Ltd, are both wholly owned by the Council and were established in compliance with these statutory powers.
21. The proposed Shareholders' Agreement is consistent with these powers and will operate alongside the Articles of Association of both companies. It does not alter the companies' legal status but formalises the relationship between the Council (as shareholder) and its companies by clarifying governance arrangements, reserved matters, and decision-making processes.
22. Under the Local Authorities (Functions and Responsibilities) (England) Regulations 2000, the exercise of the Council's shareholder rights in a wholly owned company is an executive function, and therefore a matter for Cabinet. The proposals in this report are therefore properly within Cabinet's remit.
23. Legal Services will be involved in drafting and finalising the Shareholders' Agreement to ensure it aligns with company law, the Council's constitution, and public law principles.

RISK ASSESSMENT

24. Stockton Hotels Company Ltd operates as a wholly owned company within the Council's ownership, but at arm's length from day-to-day Council operations. This structure enables the company to function with commercial autonomy while ensuring that the Council retains strategic control through its role as shareholder.
25. The Council's role is not to directly manage the company but to oversee its performance and protect the public interest through defined governance arrangements. The use of a holding company, shareholder reserved matters, and periodic reporting all contribute to an appropriate balance of operational independence and strategic accountability.
26. The periodic review and updating of governance documentation – including the Shareholders' Agreement and shareholder representation – forms part of the Council's broader risk management framework. These arrangements are specifically designed to ensure the Council is appropriately protected from financial, legal and reputational risks arising from the trading activity of its subsidiary.
27. The proposals set out in this report are categorised as **low to medium risk**. The refresh of governance arrangements further reduces risk by providing greater clarity over roles, decision-making thresholds, and escalation procedures. Existing oversight mechanisms and routine management systems remain sufficient to control and mitigate residual risk.

WARDS AFFECTED AND CONSULTATION WITH WARD/COUNCILLORS

28. This report does not relate to a specific geographic ward and therefore does not directly affect any individual ward or its elected members.
29. As the subject matter concerns corporate governance arrangements for Council-owned companies, consultation has taken place with relevant Cabinet Members and senior officers. No direct ward councillor consultation has been required under the terms of the Council's Concordat for Communication and Consultation with Members.

BACKGROUND PAPERS

The following documents have been relied on, in preparing this report:

North Shore Hotel – Report to Cabinet, 16 February 2016

North Shore Hotel – Report to Cabinet, 19 May 2016

These documents are available for inspection on the Council's website and at the Council's offices in accordance with access to information requirements.

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