

CITY OF PLYMOUTH

Subject: Plymouth CityBus Limited Shareholding
Committee: Cabinet
Date: 2nd June 2009
Cabinet Member: Cllr Pengelly
CMT Member: Chief Executive
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Ref:

Part: I

Executive Summary:

The Council has, over the last four years, undertaken a systematic review of its assets via the Council's Asset Management Plan and Capital Strategy . In the first instance this has been focused on land and property. The Council now has in place a planned programme of investment in assets via its five year capital programme which is in part funded from a planned series of asset disposals.

Similarly the Council has kept under regular review its financial investments. Given the current economic uncertainties the Council's latest Treasury Management Strategy sought to significantly reduce both the Council's borrowing and its financial investments over the period to March 2009. This will reduce the level of risk in the Council's Treasury portfolio.

The Council also has a number of assets which are effectively investments but which are not simply either land, property or financial investments. Included in this category would be the Council's 100% shareholding in Plymouth City Bus Ltd ("Plymouth CityBus").

At the current time the Council has not established whether the significant capital invested in Plymouth CityBus is a worthwhile investment or whether that investment should be maintained at the current level. Plymouth City Council receives a financial dividend from its ownership of Plymouth CityBus and some non financial benefits but without a clear market value it is unclear whether the 100% ownership of the company represents best value to the Council. There is also a risk to the Council and the company in the Council maintaining ownership of the company. This needs to be considered.

The Council has received a valuation estimate for the company which indicates that a disposal of all of the shareholding would generate an estimated receipt well in excess of £10m. However although based on sound financial practice it remains only an estimate of the value. To establish the value of the asset and explore market interest in acquiring all or part of the shareholding it is proposed that the Council should request offers for the purchase of all or part of its shareholding in Plymouth CityBus.

Inviting offers for the shares in Plymouth CityBus does not commit the Council to dispose of the shares. The decision on whether to sell any shares will be taken by Council at the end of the process. The Council will then be able to weigh the benefits of owning part or all

of the company against the benefits available from selling some or all shares.

This report seeks approval to explore the market interest in acquiring all or part of the City Council's shareholding in Plymouth City Bus in order that the Council can make an informed decision as to whether to retain or sell all or part of its shareholding

Background:

The Council currently owns 100% of the shares in Plymouth CityBus. In light of the background of an increasingly competitive environment in which Plymouth CityBus operates, the Council has been investigating the viability of retaining its shareholding in the company or alternatively offering for sale all or part of its shareholding in the Company. Plymouth CityBus has been through a period of declining patronage which has now stabilised. The company has a high level of fixed costs associated with running a transport network and hence a small reduction in patronage has a detrimental impact on profitability.

In recent years the Council has received a dividend from Plymouth CityBus annually (this is not a contractual arrangement). The level of dividend possible is dependent on the financial performance of the company and in recent years the amount of the dividend has been variable. The level of dividend cannot be guaranteed as the company's financial performance is subject to market competition, turbulent fuel prices, patronage levels and the performance of the overall economy. Should the Council dispose of a portion or all of its shareholding it would be likely to reduce (in the case of a 100% sale, to zero) its income from dividends.

Delivery of the Council's public transport strategy is not dependent upon owning Plymouth CityBus. It is delivered through the Local Transport Plan (LTP2), which has elements that are concerned with public transport and which therefore have an impact on Plymouth CityBus. It is noticeable that the majority of councils which owned bus companies have sold them, with only thirteen remaining in public ownership.

The Council has three options regarding its shareholding. These are (a) to continue to own 100% (b) seek to sell all or (c) seek to sell part of its shares. This report addresses the likely impact of each of these three options on:

1. The future of Plymouth CityBus
2. The staff of Plymouth CityBus
3. The generation of income
4. The reduction of risk to the Council

Cabinet is asked to approve the recommendations set out below.

These recommendations are made because:

- The Council retains a high level of risk through maintaining the current ownership structure.
- It is considered likely that there would be a significant financial benefit to the Council in selling all or part of its shareholding in Plymouth CityBus.
- Ownership of a bus company is not part of the core business of the authority
- The provision of high quality transport services in the City can be secured through the Council's Local Transport Plan and is not dependent on owning all or part of Plymouth CityBus

Should it appear at a later stage that the benefits from a sale of shares would not be forthcoming, the project could be stopped at any time prior to a full Council decision on whether or not to sell all or part of the shareholding. This would curtail expenditure on the project at that point.

Corporate Plan 2009-2012:

The Council has identified 'improving access across the city' and 'providing better value for money' as two of its fourteen corporate improvement priorities within the corporate plan. This paper impacts on those.

Implications for Medium Term Financial Plan and Resource Implications: Including finance, human, IT and land

In recent years the Council has received a dividend from Plymouth CityBus. The level of dividend has been dependent on the financial performance of the company and therefore the amount the Council has received has been variable. Assuming the dividend relating to 2008/09 will be £0.375m, the Council will have received a total of £1.585m in dividends since 2005/06. However, the level of dividend cannot be guaranteed, as it is dependent on the financial performance of the company.

If the Council were to sell all or part of its shareholding then part or all of the dividend would be foregone. This needs to be considered against the potential receipt from disposal of the shareholding, which could then be used to reduce costs or generate income from investments. The Council has received a valuation for the company which indicates that a disposal of all the shareholding would generate an estimated receipt well in excess of £10m. This has yet to be tested. Once the value is known then the Council will have the opportunity to weigh the benefits of owning part or all of the company against the benefits available from selling some or all of the shares.

The estimated cost of the project is £0.946m which can be broken down over three distinct stages, Stage 1 at £0.499m, Stage 2 at £0.144m and Stage 3 at £0.303m. The Council could choose to cease the project at any stage and the costs would be curtailed at that point. It is proposed that the costs will be met from the Transformational Change Reserve.

The Council has not budgeted in either revenue or capital budgets for any proceeds of the sale of any of its shareholding in Plymouth CityBus.

Other Implications: e.g. Section 17 Community Safety, Health and Safety, Risk Management, Equalities Impact Assessment, etc.

Community Safety has been considered and this project has no impact. An Equalities Impact Assessment has been carried out.

Recommendations & Reasons for recommended action:

- 1 Seek, and negotiate proposed terms with, potential purchasers of shares in Plymouth CityBus subject to full Council approval of any final recommendation for

sale.

Reasons: To explore the market interest in acquiring shares in Plymouth CityBus and to obtain information to enable full Council to decide whether to sell none, all or any of its shareholding.

- 2 Notwithstanding any powers delegated to the Director for Corporate Support in this respect, approve the use of up to £946,000 for the project from the TCP Budget, provided that expenditure shall be in accordance with the financial regulations and contract standing orders and noting the review requirement set out in Recommendation 6.

Reasons: These funds are necessary to appoint professional advisers to assist with the project and to fund the Council's project team.

- 3 Authorise the project manager (John Cremins or any successor) and his project team to discuss any potential transfer of Plymouth CityBus assets as part of the dialogue with any parties interested in acquiring all or part of the shareholding.

Reasons: The Council may wish to consider opportunities in relation to any property or assets currently owned by Plymouth CityBus.

- 4 Establish a Project Board to oversee the delivery of this project, comprised of:
Leader
Deputy Leader
Director for Corporate Support (Project Sponsor)
Assistant Director Transport & Highways
Project Manager
- 5 Delegate to the Director for Corporate Support, in consultation with the Project Board members, authority for the following matters through the bid stages of the project:
 - Agreeing the basis for the short-listing of bidders interested in purchasing shares
 - Short-listing bidders
 - Approving the issuing of bid documents
 - Making recommendations for any transfer of Plymouth CityBus assets as part of the sale process
 - Conducting negotiations with bidders
 - Taking any other action necessary in connection with the project to enable the Council to be in a position to make an informed decision in due course on in relation to the disposal or otherwise of Plymouth Citybus shares
 - Making a recommendation to Cabinet in due course as to what recommendation Cabinet should make to Council on the disposal of any or all of the Council's shareholding in Plymouth CityBus, and on the terms of any such disposal.(noting the review requirements in section 6)

Reasons: The governance arrangements in recommendations 4 and 5 are proposed to

ensure efficient management and delivery of the project through the bid stages of the project which is fully informed by the involvement of relevant Portfolio members and officers with corporate, transport and financial expertise.

6 Request that the Director for Corporate Support undertakes a review, in consultation with the Project Board, as to whether he considers that the project should be continued or not - at each of the following points in the project:

- End of Stage 1 ('Advertise for interest in acquiring shares and invite bids' - currently estimated to be around 1 September 2009); and
- End of Stage 2 ('Assess bids., negotiate and invite final bids' – currently expected to be around 27 October 2009);

and reports to Cabinet in the event that, having undertaken either review, he considers that the project should not be continued.

Reason: To provide for formal reviews and for Cabinet consideration if the Director for Corporate Support reports that he considers the project should not be continued.

Alternative options considered and reasons for recommended action:

Not to undertake the project and retain the current shareholding in Plymouth CityBus without considering further any sale of shares. This would prevent the Council from ascertaining the market value of its shareholding for consideration as part of its review of the Council's assets. Also it would result in the Council retaining the risks relating to the current ownership structure.

Background papers:

Sign off:

Head of Fin	HH 091 0.00 7	Head of Leg	HB0 099	Head of HR	X	Head of AM	X	Head of IT	X	Head of Strat Proc	X
Originating SMT Member John Cremins, Head of Strategic Procurement											

APPENDIX 1

1. Executive Summary

The purpose of this appendix is to provide an overview of the performance and issues facing Plymouth CityBus and the benefits and risks to the Council and the company of retaining 100% ownership. The proposed project is to obtain information which could be used by full Council to make an informed decision as to whether to retain or sell all or part of the shareholding.

The report is not intended to form the basis of any final decision as to whether or not to sell all or any of the Council's shares in Plymouth CityBus, which would be the subject of consideration and decision at full Council.

The report considers the likely impact of three options: sale of part, all or none of the shareholding, on each of the following areas:

- The future of Plymouth CityBus
- Plymouth CityBus staff
- Generation of income
- The reduction of risk to the Council

together with any effect on customers.

2. Introduction

Plymouth CityBus was formed in 1986 following the 1985 Transport Act and is wholly-owned by the Council. It employs 485 staff and is based in Milehouse on a 10 ³/₄ acre site consisting of a mixture of modern and old buildings.

Plymouth CityBus estimates that it currently has c.62% of the local market measured in patronage terms. However, the company has experienced increasing competition recently which has resulted in the introduction of new ticket types which has caused a decline in reported passenger numbers. This decline is also attributable to economic circumstances and has been further exacerbated by changes to the basis of the calculation of passenger numbers.

The company has a fleet of approximately 180 vehicles. Many of the vehicles will need to be replaced in order for the company to comply with legislation and to improve the quality of the service it offers passengers. For the four years to 2013 the company plans to acquire 60 vehicles at a cost of at least £6.8m. The company's capital investment programme will also include the acquisition of other plant and machinery at a cost of £600,000 over the next four years.

The Council jointly commissioned a report with Plymouth CityBus to review the relationship between them. The review recommended the disposal of a minority shareholding in Plymouth CityBus. This was favoured because it was perceived it would secure private sector investment and introduce new expertise while maintaining a Council shareholding.

Subsequently the Council has obtained an estimate of the value of its shareholding in Plymouth CityBus, which is referred to in Part II of this report. The estimate depends upon the proportion of shares (40-100%) which are assumed to be sold. It is expected that a disposal of all of the shareholding would generate a receipt well in excess of £10m.

In light of this estimate and the background of an increasingly competitive environment in which Plymouth CityBus operates, officers believe that full Council should be provided with the information needed for it to consider whether or not all or part of the Council's shareholding in the company should be sold.

3. Background and Context

Why consider share disposal? Private ownership can improve bus services and a capital receipt on sale can be used elsewhere to improve services for citizens. Most councils have sold their local bus shareholdings, recognising that tying up potentially re-deployable capital in one corporate asset carries a risk incommensurate with the modest dividend income received.

Why now? The increasingly competitive bus market in Plymouth and the need to invest in new vehicles may put pressure on Plymouth CityBus's cash facilities and its ability to pay future dividends. There is also the potential for a reduction in value of the Council's shares in the company.

What impact would a sale have on Plymouth CityBus? Depending upon the proportion of the shareholding to be sold, a disposal may introduce new non-executive management to the company and open up opportunities for external capital funding. Previous examples of transfers to private ownership have also shown a number of other benefits, including investment in fleet, improvements in staff benefits and better customer service.

What needs to be achieved? We need to provide the information required for full Council to make an appropriately informed decision as to whether the Council should retain or dispose of all or part of the shareholding in Plymouth CityBus

What led to the request for this Report? Senior management have been concerned about the continuing viability of Plymouth CityBus under Council ownership and any possible reduction in value of the Council's shares in the company.

4 Effects for Customers of Plymouth CityBus

4.1 Transport Policy

Delivery of public transport services to a council's citizens is achieved through a synergy of private and public funded activity with a focus provided through the particular transport strategy a local authority has developed. Plymouth's local transport strategy is set out in the Council's Local Transport Plan. This plan has within it a number of objectives such as the development of High Quality Public Transport, establishing a quality bus partnership, increasing public transport usage, expanding the availability at bus stops of real time passenger information, improving bus speeds on main corridors, improving the frequency and punctuality of bus services generally.

Many local authorities have similar objectives within their transport plans and deliver on their objectives. They, like the Council, work in partnership with all providers to deliver the public transport services set out in their strategy. Plymouth is one of very few councils that own its bus company. However, it does not direct Plymouth CityBus to deliver the Council's policy objectives, rather the Council works in partnership with all operators to achieve that end.

Plymouth CityBus operates an efficient interconnected bus service. It does so in the interests of the company and the Council does not direct it to do so. Because of Plymouth CityBus's efficient interconnected services it is expected that a sale of shares would result in no decrease in the level of service received by its customers. In fact with any increased investment it may be able to expand its network coverage and obtain new routes.

4.2 Recent Disposals

There have been three recent sales of shares in bus companies to private operators, in Eastbourne, Preston and Bournemouth. It has been reported that there were a number of issues that led to these sales and the changes subsequently, which are described below.

Eastbourne Buses (80% owned by the council) had been in financial difficulties for a considerable period and the company closed routes in an attempt to stem the losses. Previously the council had sold a 20% stake to a large transport operator. Eastbourne was sold in November 2008 to Stagecoach which has invested in new buses for the fleet and is creating a more sustainable route network by integrating Eastbourne Buses into its other operations.

Preston Bus was owned by its employees and came under sustained competition from a large national operator which as a small company with limited funds it was not able to meet. This resulted in routes being reduced. The company was sold to Stagecoach in January 2009 and the local council believes that the sale will be positive with Stagecoach introducing city-wide ticketing and beginning to operate some services later at night.

Bournemouth Yellow Bus (100% owned by the local council) was sold to Transdev in late

October 2005. Since the sale, a significant investment has been made in developing the routes, services and marketing, including a new £8.9 million depot. Patronage has been increasing an estimated 20% year on year.

5. Strategic Objectives

This section examines in detail the impact that a sale of all or part of the shareholding in Plymouth CityBus would have on the following four areas:

- The future of Plymouth CityBus
- Plymouth CityBus staff
- Generation of income
- The reduction of risk to the Council.

5.1 The future of Plymouth CityBus

Plymouth CityBus holds risks in terms of possible competition and revenue volatility that it may be unable to manage independently. These risks, if they crystallise, could result in the gradual decline of the company over a number of years, and insecurity in relation to service provision.

5.1.1 Competition Issues

Plymouth CityBus estimates that it currently has c.62% of the local market measured in patronage terms. There is a perception that competition is increasing and this may in the future have an impact on Plymouth CityBus's financial performance. However at this time Plymouth CityBus is adequately dealing with this competition.

Following a decline of over 1.5m in passenger numbers from 2001/01 to 2005/06, patronage has now stabilised. Revenue did not show the same rate of decline. However, the company has experienced increasing competition recently which has resulted in the introduction of new ticket types and has therefore shown a decline in passenger numbers. This decline is also attributable to economic circumstances and has been further exacerbated by changes to the basis of calculation of passenger numbers.

Plymouth CityBus is coming under pressure from other operators who are beginning to compete with Plymouth CityBus in its traditional marketplace.

The Council has introduced taxibus services for routes that are either uneconomic, geographically inappropriate to service with larger vehicles, or where it is seeking improved penetration and profile. It is likely to promote extended use of taxibus services for areas currently covered by supported services. Plymouth CityBus does not currently operate taxibuses and its ability to compete for future subsidised routes could therefore be limited unless it changes its fleet and acquires the requisite hackney carriage licences.

Although most subsidised routes are operated by First Devon & Cornwall, the planned reduction in the number of supported services reduces the marketplace in which Plymouth CityBus can compete although the event will provide an opportunity to assess new routes

on a commercial basis.

The company finds itself in a marketplace that has limited potential apart from through population increases and investment by the Council in public transport. To increase its market share it would need either to enter into more direct competition with other competitors or to expand outside the city. Both of these are high risk strategies that could result in a significant increase in competition in relation to its core services, which it might be unable to defend.

5.1.2 Capital Investment

Bus companies are capital intensive businesses, requiring significant investment in vehicles and depots. For example, it is estimated that Plymouth CityBus will require £7.4m through to 2013.

Plymouth CityBus has a fleet of 181 vehicles, 169 of those being standard vehicles for stage services and 12 coaches. The fleet is replaced as it deteriorates, and in order for the company to meet legislative requirements and other targets. Currently, the average age is 8.7 years, but it is reducing and has almost reached the 2010 target of 8 years average age. Of the "stage vehicles" (i.e. excluding coaches), 23% are compliant with future environmental standards and over 60% have low floor access (2010 target is 50%).

In order to comply with future legislative standards Plymouth CityBus has identified that it will need to replace 51 buses of differing types and 12 coaches and refurbish 38 low floor vehicles. So as to protect its business base and encourage future use, the company intends to invest £6.8m in 50 vehicles over the next four years.

It is considered that the disposal of all (and, to a lesser degree, part) of the shareholding would facilitate the private sector investment needed to enable Plymouth CityBus to benefit from the opportunities arising from the growth of the city and developments in wider transport policy. Additionally a private sector shareholder may provide access to capital resources in order to counter competition from other operators. Experience shows that many bus companies when acquired by private companies benefit from increased investment in their fleet (a recent example is that Stagecoach put 12 new buses into the fleet of Eastbourne Buses within days of acquiring the company).

5.2 Plymouth CityBus Staff

Plymouth CityBus employs 485 staff of whom 321 are drivers, 126 are in maintenance or similar roles and 26 are administrative staff. The average length of employment within the company is 6.7 years. It operates an apprenticeship scheme.

Currently c.70% of employees participate in the Company's pension schemes. There are two pension schemes. A defined benefits pension scheme with 42 members and a defined contribution scheme.

In previous bus company sales by local authorities, those companies' employees have often benefited from an increase in the investment in the company and have been given access to new benefits, for example share schemes.

5.3 Generation of Income

This section provides details of the annual income stream which the Council has received from Plymouth CityBus historically and the potential capital receipt that could be received as a result of disposing of all or part of the shareholding in the company.

5.3.1 Annual dividend receipt

Plymouth CityBus's Board's approach for the last few years has been to approve dividends based on one third of net profit before tax.

Figure 1 - Profits & dividend

Period	Profit before tax & dividend	Dividend
	£000's	£000's
2005/6	675	223
2006/7	1,833	609
2007/8	1,145	378
2008/9	1,126 unaudited	375 unaudited

Therefore, for the four years to 31 March 2009 assuming payment of £375,000 in total dividends for the year to 31 March 2009 the income which will have been received by the council is £1,585,000. This is an average of £395,000 per annum. In 2006/7 and 2008/9 the profits of the company were buoyed by significant additional income resulting from a refund of insurance provisions.

The risks relating to the future receipt of dividends from Plymouth CityBus are set out in section 5.4.

5.3.2 Potential receipt on disposal

Should the Council dispose of a portion or all of its shareholding it would reduce (in the case of a 100% sale, to zero) its income from dividends. The estimated net receipt from a disposal is described in Part II of this report. However it is expected that a disposal of all the shareholding would generate a receipt well in excess of £10m.

5.3.3 Comparison of returns

Dividends have averaged approximately £395,000 for the last four years. If this level of return continued it would take in excess of twenty five years to achieve the same return as the minimum estimated from the disposal of all the shareholding,

5.4 Reduction of risk to the Council

Currently the Council holds a number of risks in maintaining the current ownership structure of Plymouth CityBus:

- possible reductions in the level of dividend income in the future
- the potential need for a capital injections into the company from the Council
- the risk of reductions in value of the Council's shares in the company.

All of these risks would be increased by declining financial performance of the company.

5.4.1 Profit / cashflow performance

The company's forecast for the next four years indicates that it will have adequate cash for operational purposes as well as its capital investment programme. However, the high fixed cost base of the business makes it vulnerable if its revenue growth projections are not achieved.

Sensitivity analysis has been performed to demonstrate the impact of a decline in forecast performance of bus and coach services on the company's Profit Before Taxation and closing cash balance. The cash balance analysis is contained within the Part II report.

These sensitivity analyses show that, typically for a business with high fixed assets and operating costs, small changes in income or costs can have significant impact on the bottom line and/or cash flow requirements. On the other hand, the industry is now seen as a stable one, able to generate profits if actively managed.

5.4.2 Impact of competition

Section 5.1.1 set out details of the increasingly competitive bus market in which Plymouth CityBus operates, and which has already had an adverse effect on the company. If this competitive environment becomes more difficult for Plymouth CityBus, it could further depress the company's financial performance, resulting in lower profits, dividends and cash available to invest in the fleet.

The bus industry has experienced a number of situations over recent years in which a concerted effort by one operator has had a seriously detrimental effect on another operator. It is worth noting that the company that has suffered in these situations has often been relatively small and/or municipally owned, as such companies often lack the resources needed to defend their position against such actions.

Recent examples of this kind of action against municipally owned bus companies include action against Preston Bus which damaged its business (subsequently acquired by

Stagecoach) and action against Chester Bus which resulted in protracted litigation; the business was eventually sold to First Group.

If Plymouth CityBus's operations were to be exposed to a significant competitive move by another operator its financial performance and the value of the shareholding could suffer considerably.

5.4.3 Availability of funding

Capital investment can either be funded by retained profits in the business, or by raising debt or through capital injections from shareholders. The capital investment of about £7.4m required by Plymouth CityBus will need to be funded from one of these sources.

While Plymouth CityBus management forecasts being able to meet the capital needs of the business, a small decline in revenue of 1 or 2% may require the company either to defer capital investment or to seek capital from the Council. In addition to the difficulties this may present to the company in terms of continuing to operate at existing levels, a failure to obtain such investment would also affect its ability to grow the business.

6.Financing the Project

This section comments on the possible costs of the project. However as noted above it is expected that a disposal of all the shareholding would generate a receipt well in excess of £10m. At the current level of dividend it would take in excess of 25 years to reach this sum.

6.1 Disposal Costs

The disposal of a private shareholding in a company is a rarely undertaken transaction for a public authority. While officers have the negotiation skills to undertake the project there is no expertise within the council of similar projects. Technical issues arising for the council include the Financial Services regulations, State Aid, Transport Act requirements and public law requirements.

A number of different advisers are required to support the process. These are:

- Financial advisers to prepare the commercial bid documents, ensure Financial Services regulations compliance, communicate with the market, support negotiations with bidders and close a sale.
- Legal advisers to prepare or advise on all necessary documents, legal sale documents, complete legal due diligence and advise on specialist law issues
- Vendor due diligence advisers. These advisers will conduct an exercise to provide independent reports on Plymouth CityBus for prospective purchasers. This will enable more accurate bidding and facilitate closing a sale (and so the risk on Plymouth CityBus performance) at an early stage.

- Transport advisers. To ensure we accurately reflect current and future transport opportunity in the sale process.

The Council will also establish a small team to project manage the process. The project costs in delivering a project of this complexity are estimated to be £946,000. This is split between external advisers (£768,000) and internal project costs (£178,000). The Council could choose to cease the project at any stage and the costs would be curtailed at that point. The project will be delivered in three distinct phases (see below) and the costs (including contingency) incurred per stage are estimated to be:

- Stage 1 £499,000
- Stage 2 £144,000
- Stage 3 £303,000

For comparative purposes the Council invested £900,000 in the establishment of a strategic partnership with Highways service provider Amey. Bournemouth when disposing of their shareholding in Yellow Bus spent £882,000 on external advisers.

Bidders involved in the project (and particularly those whose detailed bids are considered by the Council, involving detailed discussion and negotiation) will incur significant costs themselves. These will all be incurred at the bidders' own risk and it will be clearly stated at all stages of the project that this is the position. The Council will be under no obligation to proceed with the sale of some or any of its shareholding and bidders would participate in the project on this explicit basis.

It is probable that all future expenditure and any receipts in relation to the project will occur during the financial year 2009/10.

6.2 Delivery Timetable

The delivery of this project is complex and will require full time dedicated resource from within and outside the Council. The suggested organisation and governance structures to support the delivery of the project are described in the Recommendations in this report. It is anticipated that it would take around 6 months from the initial Cabinet decisions for which this report is prepared to complete the project and the disposal of any shares, if a decision is taken by Council at the end of the project to sell all or part of the shareholding.

The major milestones for the project are as follows:

Stage	Date	
-	2/6/09	Cabinet authority to proceed
1	30/6/09	Advertise for interest in acquiring shares and invite bids
2	1/9/09	Assess bids, negotiate and invite final bids
3	27/10/09	Receive final bids, negotiate and make recommendations
-	30/11/09	Presentation of report and recommendations to full Council

7. Economic Case

The Part II report sets out the likely financial impact for the Council of a disposal of shares. It identifies the potential financial benefits of the project and includes a sensitivity analysis undertaken on estimated income and costs.

8. Options Analysis

An analysis was carried out in March 2008 which examined possible options for the Council's involvement in Plymouth CityBus.

The options favoured by the analysis over leaving the position unchanged were a transformation of the business, a partial sale or a full sale of the shareholding. The benefits of a sale were perceived to be that private sector expertise and funds could be brought to Plymouth CityBus, giving it security and the ability to take advantage of the opportunities likely to arise from growth in the city and from wider transport policy.

A partial sale of the shareholding in Plymouth CityBus was the most favoured option as it was also felt that if the Council maintained a shareholding it might be able to directly influence the delivery of social benefits through Plymouth CityBus.

The options analysis was reviewed by the Plymouth CityBus board in June 2008. The outcome was broadly endorsed and accepted.

9. Estimate of Value of Plymouth CityBus Shareholding

The value of the shareholding in Plymouth CityBus was estimated under three scenarios:

- a sale of all the shares with no premium for the development potential in the depot
- a sale of all the shares taking account of the future potential enhanced proceeds from the development of the existing depot
- the sale of a 40% or 49% shareholding in Plymouth CityBus

The estimated value of Plymouth CityBus is set out in Part II of this report. However, it is expected that a disposal of all the shareholding would generate a receipt well in excess of £10m.

If a minority stake of 40% or 49% in Plymouth CityBus is sold a significant discount is likely to be applied because that level of share ownership would not give the purchaser control of the company and would result in a lack of ability to easily be able to sell the investment in the future. This is reflected in the valuation estimate described in Part II of this report. However, the retention of a small minority interest (sub 20%) is unlikely to have a significantly detrimental impact on the value received per share. It might proportionally reduce the total income received as the Council would be selling fewer shares.

Officers have consulted two separate firms of financial advisers on the likely impact of the recession and credit crunch on the disposal valuation estimate of Plymouth CityBus. Both believed that for most prospective purchasers the acquisition of Plymouth CityBus was a relatively small acquisition and they could finance it themselves. In the light of this, both believed the potential market price for the Plymouth CityBus shareholding is largely unaffected by the current economic downturn.

Plymouth CityBus is seen as a potential prize in the bus industry as one of the last 13 remaining municipally owned bus companies and with a good demographic profile, benefiting from a progressive transport policy and platform for integration and growth. The bus sector is a stronger part of the economy in view of a move towards public transport resulting from green issues as well as higher running costs of private vehicles. Nationally, after a period of decline, passenger numbers have up to recently generally been increasing.

10. Conclusion

Currently, Plymouth CityBus faces a number of issues, including:

- Falling revenues as a result of increasing competition
- Vulnerability of its level of profits due to its relatively small size and geographic limitations
- A need to invest in new fleet

These issues could impact on Plymouth CityBus and the Council in a number of ways:

- Reduced profitability in Plymouth CityBus resulting in lower dividend income to the Council
- Reduced ability by Plymouth CityBus to invest in its assets, reducing the quality of service offered to customers and the ability of Plymouth CityBus to grow the business
- Reduction in value of the Council's shares in Plymouth CityBus as a result of a declining performance of the company
- The Council may need to invest or lend money to Plymouth CityBus

At this juncture, the Council has a number of options it may investigate in respect of its shares in Plymouth CityBus:

- 1) Maintain the current ownership structure and relationship with the company
- 2) Sell part of its shareholding
- 3) Sell all of its shares

It would be possible for the Council to market the shares so as to obtain information about the comparative advantages of selling all or part of the shareholding, so that this could be taken into account in any future recommendation to full Council.

Many other councils have opted for a sale of all or part of their interest in their bus companies which has often resulted in sizable capital receipts for the councils, increases in investment in the bus companies and improved service for customers.

In light of the experience of other councils and the risks attached to continued 100% ownership of Plymouth CityBus, it is recommended that the Council should test the market for selling all or part of its shareholding in the company.