

A separate report is submitted in the private part of the agenda in respect of this item, as it contains details of financial information required to be kept private in accordance with Schedule 12A of the Local Government Act 1972. The grounds for privacy are that it contains information relating to the identity, financial and business affairs of any particular person (including the authority holding that information). The public interest in maintaining the exemption under Schedule 12A outweighs the public interest in disclosing the information.

Scrutiny Co-ordination Committee
Coventry Shareholder Committee

12th March 2026
17th March 2026

Name of Cabinet Member:

Cabinet Member for City Service – Cllr P Hetherton

Director approving submission of the report:

Director of Finance and Resources

Ward(s) affected:

None.

Title:

Sherbourne Recycling Limited Business Plan 2026/27 - update to the Waste Services Agreement and Shareholder agreement.

Is this a key decision?

No.

Executive summary:

Sherbourne Recycling Limited (SRL) was incorporated in February 2021 after the successful completion and contract award for the design and construction of a Material Recycling Facility (MRF) located in Coventry. Coventry City Council and seven other local authorities (North Warwickshire Borough Council, Nuneaton and Bedworth Borough Council, Rugby Borough Council, Stratford-on-Avon District Council, Solihull Metropolitan Borough Council, Walsall Council and Warwick District Council) jointly own the company and are customers of the facility since it became operational during 2023.

The purpose of this note is to provide oversight of the business plan for SRL for 2026-27, to provide an update on the Waste Services Agreement in place between Coventry City

Council and SRL and to seek delegated approval, to facilitate changes to the Shareholder Agreement.

These changes will enable the appointment of an independent non-executive Chair to the Board of Directors. Provide future provision for an additional three independent board directors, if and when needed. The appointment of an independent Chair will further enhance the governance of the company, as it embarks on its next phase of business growth and development. This change will also make future provision to bring additional skills into the boardroom where needed.

This change would also look to amend board voting rights from one vote at a Board meeting weighted according to the relevant proportion of shares held to one vote per board member and to include voting rights for the independent Chair and Managing Director.

As a company evolves and matures, it's common for board composition and governance arrangements to be reviewed and developed over time. Shareholder voting rights, Shareholding equity percentages and reserved matters would not change because of this decision.

Recommendations:

The Scrutiny Co-ordination Committee is recommended, following consideration of the corresponding public report to:

- (1) Consider the report and identify any additional recommendations to the Coventry Shareholders Committee

The Coventry Shareholder Committee is recommended following consideration of the corresponding public report to:

- (1) Consider any comments and/or recommendations from Scrutiny Co-ordination Committee.
- (2) Approve the proposed changes to the Shareholder Agreement as set out in Appendix 1 of the corresponding private report.
- (3) Note the principles of the Business Plan for Sherbourne Recycling Group 2026 –2027 set out within section 2.2.15 to 2.2.23 of this report
- (4) Note the changes to the Waste Services Agreement between Coventry City Council and Sherbourne Recycling as set out in Appendix 2 of the corresponding private report.
- (5) Delegate authority to the Director of City Services, following consultation with the Director of Law and Governance the Cabinet Member for City Services, to undertake any due diligence and thereafter to finalise and implement the necessary variations to the Shareholder Agreement and Waste Supply Agreement for Sherbourne Recycling Ltd and Sherbourne Recycling Trading Ltd.

List of Appendices included:

None.

Background papers:

None

Other useful documents

None

Has it or will it be considered by Scrutiny?

Yes – Scrutiny Co-ordination Committee 12th March 2026

Has it or will it be considered by any other Council Committee, Advisory Panel or other body?

No

Will this report go to Council?

No

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Business Planning Update for 2026-27 for Sherbourne Recycling Limited

1. Context (or background)

- 1.1. SRL was established in 2021, with the construction phase completed during 2023 and became operational in September 2023. SRL is the result of an innovative collaboration between eight local authorities in the West Midlands who invested £65M in the creation of a state-of-the-art MRF, integrating specialist artificial intelligence with optical sorters and robotics to produce high quality recyclate destined for UK markets.
- 1.2. The current board composition is made up from eight nominated Council appointed directors, as well as the Managing Director and Company Secretary. The Council's Director of Digital Services is the Council's nominated Board Director. There are currently no independent non-executive directors on the board.
- 1.3. SRL also has a trading subsidiary; Sherbourne Trading Ltd, whose board currently replicates the Board of the main company.
- 1.4. Under the existing Shareholder Agreement, it does not make provision for an independent chair, non-executive independent chairs or for such directors to be remunerated. The current governance arrangements for the Chair of the Board, is that it rotates every twelve months between Council appointed directors unless otherwise agreed by the Board.
- 1.5. The current Board director voting rights are based on a % weighting to reflect the differing levels of investment made by each shareholding council.
- 1.6. SRL has achieved several initial successes, including securing its first external clients, contributing to national policy discussions, featured on the BBC's One Show and the 'living lab' is attracting work from major fast moving consumer good companies.
- 1.7. In 2025, SRL won three national awards:
 - APSE's national award for best Commercialisation and Entrepreneurship Initiative.
 - Material Recycling World National Recycling Awards for Recycling Facility of the Year and Independent Operator of the Year.

It's industry good practice to review governance arrangements at certain points to ensure they remain effective, fit for purpose and aligned to changing business needs.

2. Options considered and recommended proposal

- 2.1. **Option 1: Not Recommended - Do not approve the changes to the Shareholder Agreement** – This would contravene the external governance review recommendations that have been made and would not represent good governance

for the company. In seeking to change the Shareholder Agreement three options considered by the Board and Shareholders were:

- 2.1.1. **Appointing an independent Chair without voting rights:** The professional advice is not to do that. A Chair of a board would expect to have a vote on decision making matters of the Board. Having a vote will ensue personal investment in SRL and therefore a vested interest in its success.
- 2.1.2. **Not appointing an independent Chair:** The annual rotation of Chair by Council appointed directors is not effective corporate governance, as does not provide the board with continuity of leadership. Council appointed Chair's often lack the additional time commitment needed for this role and there will be more pressure in the short-term with local government re-organisation.
- 2.1.3. **Not having the ability to appoint Independent Non-Executive Directors:** The professional advice is that business evolves and looks to grow it is useful to have the ability to appoint such skills to the Board. The appointment of such Non-Executive Directors will require a Board recommendation to Shareholder Panel for a decision which ensures Shareholders continue to inform the decision-making process.

2.2. **Option 2: Recommended – Approve the changes to the Shareholder Agreement**

- 2.2.1. Changes to the Shareholder Agreement are recommendations from an independent external governance review, which was commissioned by the Board of Directors (with Shareholder support). This review was a commitment within the 2025/26 SRL business plan, as the Board and Shareholders recognised company governance would need to evolve, as the business continues to develop and grow. A summary of these changes is included as Appendix 1 of the corresponding private report.
- 2.2.2. It's often expected that corporate governance arrangements are reviewed at appropriate times. In the case of SRL, it was expected that governance arrangements during the construction phase would need to be reviewed once there had been a period of operational running of the company. It was recognised that what is needed at construction phase and running a business are likely to be different.
- 2.2.3. There are currently two formal governance boards in place for SRL. The SRL Board which oversees and provides direction on the day-to-day management and operational matters of the business. This is represented by Board Directors from each partner organisation – the Coventry representative being the Director of Digital Services.
- 2.2.4. The SRL Shareholder Panel oversees and provides direction on overall strategic and large-scale matters of the business via its Delegations Policy which was approved by Full Council. This is represented by elected member representatives from each of the partner organisations – the Coventry representative being the Cabinet Member for City Services.

- 2.2.5. The proposed change to the Shareholder Agreement will update how voting works at the SRL Board by moving from a system where votes are weighted according to each council's shareholding, to a simpler approach where every board member has one equal vote. This change is needed so that an independent Chair and any future independent non-executive directors can properly carry out their duties as full board members. In practice, this adjustment does not materially alter how the key decisions of the company are made. All significant or strategic matters will still follow the existing shareholder voting rules via the SRL Shareholder panel, where each council's vote remains weighted in line with its ownership share. This means that shareholders retain full control over significant decisions, and the shift to equal board votes only affects day-to-day board governance, not the major reserved matters that determine the direction of the company.
- 2.2.6. It is important to note that the voting rights of Shareholders for reserved matters will not be affected by this change and CCC would continue to retain their % vote weighting as per the original Delegations Policy, as set out in the Shareholders Agreement.
- 2.2.7. All eight shareholding Councils must formally agree to amend the Shareholder Agreement, for the changes to Shareholder Agreement to be implemented. At SRL's November shareholder Panel, there was in principle support for the appointment an independent Chair and the other changes, as set out in this report. Formal decisions are being progressed by all eight shareholders.
- 2.2.8. The voting rights of Shareholders for reserved matters will not be affected by this change and would continue to retain their % vote weighting as per the original Delegations Policy, as set out in the Shareholders Agreement.
- 2.2.9. All eight shareholding Councils must formally agree to amend the Shareholder Agreement, for the changes to Shareholder Agreement to be implemented. At SRL's November shareholder Panel, there was in principle support for the appointment an independent Chair and the other changes, as set out in this report. Formal decisions are being progressed by all eight shareholders.
- 2.2.10. Based on the rationale set out, this is the recommended option.
- 2.2.11. Waste Services agreement update**
- 2.2.12. Each partner organisation has a Waste Service Agreement in place with SRL. The Waste Service Agreement is the formal mechanism that:
- Enables partner councils to send their recyclate to Sherbourne Recycling
 - Ensures SRL can legally and operationally process that material
 - Sets transparent financial terms and risk-sharing arrangements
 - Creates a consistent, collaborative framework across the partner authorities
 - Supports both interim and long-term use of the Coventry MRF as a shared regional asset

2.2.13. The original Waste Services Agreement was established during the build phase of the SRL facility. Since the facility has become operational and more established, a review of the WSA has been undertaken in conjunction with each partner organisation. The changes are summarised below:

- All mention to commissioning payments now removed
- Gate fee simplified to one amount and fixed and variable element removed
- Reconciliation payment included for quarter end reconciliation on actual tonnage
- Rebate – the essence of this is the same in that it is a full pass through of all material revenue / cost of the supplier council's material.
- Contamination uplift – wording not changed but previously in variable cost of gate fee now deducted from rebate.

2.2.14. A summary of changes proposed for the Waste Services Agreement is included as Appendix 2 of the corresponding private report.

2.2.15. Overview of Business Plan for 2026/27

2.2.16. SRL has performed well over the twelve months. Operational performance KPIs are reported regularly to the SRL Board covering areas such as plant availability and throughput (which are steadily improving), inbound and outbound haulage and stock controls and Health & Safety. The plant is able to process all delivered material with only the occasional need to extend operating hours when demand increases or due to maintenance requirements.

2.2.17. The business plan set the aim of achieving and implementing ISO standards 9001 (quality management), 14001 (environmental management) and 45001 (occupational health & safety) which were achieved in March. The business is currently in the process of being recertified.

2.2.18. Sherbourne's high performance and quality standards have been recognised over recent months with the company winning the award for Best Commercialisation and Entrepreneurship Initiative at the Association for Public Service Excellence (APSE) Annual Service Awards 2025 and taking home the awards for Recycling Facility of the Year and Independent Operator of the Year at the MRW National Recycling Awards in November.

2.2.19. The current business plan for Sherbourne Recycling Limited runs from 2025 – 2028.

2.2.20. The Business Plan sets out four main strategic priorities:

a) Operational Excellence

- Continued optimisation of facility performance through maintenance, improved cleaning regimes, and equipment enhancements.
- Targets include increasing plant availability to 85% and reducing residue to below 18%.

- Ongoing work with partners to improve material quality, helping reduce disposal costs and increase rebates.

b) Response to Legislative Change

Government reforms (Simpler Recycling, Extended Producer Responsibility, Deposit Return Scheme, and Emissions Trading Scheme) will significantly change waste composition and service expectations. Sherbourne will:

- Support partners in meeting statutory duties, including TEEP (technically, environmentally and economically practical) assessments and adapting to four-stream collection requirements;
- Assess and plan for the inclusion of cartons, films, and flexibles;
- Engage with national bodies and industry to ensure policy alignment and future readiness.

c) Commercial Growth to Support Council Dividends and Reduce Costs

- Expansion of third-party contracts to make better use of facility capacity.
- Participation in the spot market for some recyclates where financially advantageous.
- Sherbourne Trading will lead commercial initiatives while Sherbourne Recycling maintains core public-sector processing.
- Planning approval to increase operational capacity will enable additional revenue and improve economies of scale.

d) Environmental, Social and Governance Commitments

- Commitment to reducing carbon emissions through improved recycling quality and local reprocessing markets.
- A new Environmental and Social Values Charter will set measurable targets.
- Strengthened workforce development including apprenticeships and local training partnerships.
- Plans to pursue ISO 9001, 14001 and 45001 accreditations and work towards B-Corp status. Certified B Corporations are companies verified by B Lab to meet high standards of social and environmental performance, transparency, and accountability

2.2.21. Progress against the plan is reported to the SRL Shareholder Panel where there are representatives from each partner organisation.

2.2.22. It is important to note that SRL meeting all of its financial obligations to each of the partner organisations in respect of the loan repayments. See 5.1 below

2.2.23. There are strong working relationships between SRL colleagues and operational colleagues. For Coventry this is specifically noted in the collective work being undertaken to address the high contamination rate of recycling being sent to SRL from Coventry.

3. Results of consultation undertaken

3.1. No consultation undertaken.

4. Timetable for implementing this decision

4.1. The business plan and waste service agreement changes are included in this report for noting. Upon the approval of this report, SRL will be notified that the Shareholder has approved the changes to Shareholder Agreement and the changes will be progressed through SRL and CCC legal teams.

5. Comments from Director of Finance and Resources and Director of Law and Governance

5.1. Financial Implications

The Council has a waste supply contract with SRL. Payments are made quarterly in advance based on estimated tonnages and adjusted to reflect actuals as necessary.

The annual company plan will include projected dividends subject to company profit levels, which the Board will be asked to authorise. No dividend is forecast in the financial year ending March 2026.

The Council, along with the other shareholders, provided long term loans to finance the construction of the MRF. These loans were in proportion to shareholdings, with the Council providing 21.5%. SRL are up to date with loan repayments at the time of reporting.

5.2. Legal Implication

Sherbourne Recycling Limited ("SRL") is jointly owned by eight local authority shareholders. Under the existing Shareholders' Agreement (SHA), no amendment or variation can be made unless all Shareholders agree unanimously. The proposed governance changes therefore require Coventry City Council's approval as part of this collective decision-making process.

In accordance with the Delegations Policy within the SHA, decisions relating to amendments to the Shareholders' Agreement are classified as Shareholder Reserved Matters and fall within the remit of the Council's Shareholder Committee. Cabinet approval is required to authorise the Shareholder Committee to provide the Council's formal consent to the proposed variations.

If unanimous approval across all Shareholders is not obtained, the current SHA will remain in force and the proposed changes cannot be implemented. The Council must act in accordance with its obligations under company law, the SHA and its internal governance arrangements.

The Council and Sherbourne Recycling Limited ("SRL") are also proposing to vary the existing Waste Supply Agreement between the parties. The same amendments have been shared with all Shareholders to ensure consistency, and the underlying

commercial principles have been agreed between the Council, SRL and the operational leads.

6. Other implications

6.1. How will this contribute to the One Coventry Plan?

The ongoing forecast reduction in carbon dioxide emissions with Council vehicles not having to travel to alternative facilities, the reduction in the amount of waste due to the production of higher quality output materials and the powering of the facility using low carbon fuel sources will contribute to tackling the causes and consequences of climate change.

The savings on the previous haulage costs to transport waste to for processing and the additional income generated by the sale of recycled materials will help to contribute towards the continued financial sustainability of the Council.

6.2. How is risk being managed?

The Council have provided a shareholder loan to SRL which creates risk due to currency fluctuations, default and interest rate risk. The risk of default is mitigated by regular monitoring of company performance, SRL budgeting for the repayments in their business plan and the security provided by a legal charge over the assets of the company.

SRL have identified risks and mitigations which are specific to the operations of the company in the appended business plan.

6.3. What is the impact on the organisation?

The Council must continue to provide the appropriate staffing resources to manage its equity interest and the commercial loan, seeking external advice where needed. The long-term investment value was assessed by an external valuer as at 31st March 2025. The valuers report included a valuation of the MRF site by a chartered surveyor.

There is also an ongoing time commitment from the CCC Director who sits on the SRL Board and the Cabinet Member for City Services who sits on the SRL Shareholder Panel

6.4. Equalities / EIA?

The Public Sector Equality Duty (PSED) contained in section 149 of the Equality Act 2010 requires public authorities to have due regard to several equality considerations when exercising their functions. While the Council does not have control over the operations of SRL and are not involved in day-to-day operations, it does have significant influence. It is important for the Council to consider the PSED in its role as a shareholder. SRL's objectives are to provide a safe place of work for all and to be a good neighbour that positively contributes to the local community and demonstrates strong social and environmental practices. SRL have developed an Equality & Diversity policy and all policies and procedures were reviewed within 6 months of

company incorporation by appointed HR consultancy support. This provides assurance that no specific groups are likely to be negatively impacted by the operations of the company.

No equality impact assessment has been carried out as the recommendations in this report do not constitute a new project or review existing / develop new Council strategies, policies, guidelines or services.

6.5. Implications for (or impact on) climate change and the environment?

The development and future operation of the MRF is expected to make a positive impact on climate change and the environment. Further details are provided in section 6.1 of this paper as performance in this area is a key reason that SRL contributes towards the One Coventry Plan.

6.6. Implications for partner organisations?

SRL is operated in partnership with seven other local authorities from across the region. Any impact on the Council or the other shareholders as a result of the report is covered in the appended documents.

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