

Notice of Meeting

Council Overview Board

**Date & time**

Wednesday, 1 June
2016 at 10.00 am

Place

Ashcombe Suite
County Hall
Penrhyn Road
Kingston upon Thames
KT1 2DN

Contact

Bryan Searle or Ross Pike
Room 122, County Hall
Tel 020 8541 7368

ross.pike@surreycc.gov.uk

Chief Executive

David McNulty

If you would like a copy of this agenda or the attached papers in another format, eg large print or braille, or another language please either call 020 8541 9122, write to Democratic Services, Room 122, County Hall, Penrhyn Road, Kingston upon Thames, Surrey KT1 2DN, Minicom 020 8541 8914, fax 020 8541 9009, or email ross.pike@surreycc.gov.uk.

This meeting will be held in public. If you would like to attend and you have any special requirements, please contact Ross Pike on 020 8541 7368.

Members

Mr Steve Cosser (Chairman), Mr Eber Kington (Vice-Chairman), Mr Mark Brett-Warburton, Mr Bill Chapman, Mr Stephen Cooksey, Mr Bob Gardner Mr Michael Gosling,, Dr Zully Grant-Duff, Mr David Harmer, Mr David Ivison, Mr Nick Harrison, Mr Colin Kemp, Mrs Denise Saliagopoulos, Mrs Hazel Watson and Mr Keith Witham

Ex Officio Members:

Mrs Sally Ann B Marks (Chairman of the County Council) and Mr Nick Skellett CBE (Vice-Chairman of the County Council)

TERMS OF REFERENCE

The Board is responsible for the following areas:

Performance, finance and risk monitoring for all Council Services	HR and Organisational Development
Budget strategy/Financial Management	IMT
Improvement Programme, Productivity and Efficiency	Procurement
Equalities and Diversity	Other support functions
Corporate Performance Management	Risk Management
Corporate and Community Planning	Europe
Property	Communications
Contingency Planning	Public Value Review programme and process

PART 1
IN PUBLIC

1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

2 MINUTES OF THE PREVIOUS MEETING: 13 APRIL 2016

(Pages 1
- 6)

To agree the minutes as a true record of the meeting.

3 DECLARATIONS OF INTEREST

To receive any declarations of disclosable pecuniary interests from Members in respect of any item to be considered at the meeting.

Notes:

- In line with the Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012, declarations may relate to the interest of the member, or the member's spouse or civil partner, or a person with whom the member is living as husband or wife, or a person with whom the member is living as if they were civil partners and the member is aware they have the interest.
- Members need only disclose interests not currently listed on the Register of Disclosable Pecuniary Interests.
- Members must notify the Monitoring Officer of any interests disclosed at the meeting so they may be added to the Register.
- Members are reminded that they must not participate in any item where they have a disclosable pecuniary interest.

4 QUESTIONS AND PETITIONS

To receive any questions or petitions.

Notes:

1. The deadline for Member's questions is 12.00pm four working days before the meeting (Thursday 26 May 2016).
2. The deadline for public questions is seven days before the meeting (Wednesday 25 May 2016).
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 RESPONSES FROM THE CABINET TO ISSUES REFERRED BY THE SCRUTINY BOARD

There are no responses to report.

6 RECOMMENDATIONS TRACKER AND FORWARD WORK PROGRAMME

(Pages 7
- 14)

The Board is asked to monitor progress on the implementation of recommendations from previous meetings, and to review its Forward Work Programme.

7 RESIDENT EXPERIENCE BOARD TASK GROUP SCOPING

(Pages
15 - 22)

Purpose of the report: For Council Overview Board to review and

approve the scoping document as appropriate.

8 TRUST FUND TASK GROUP REPORT

(Pages
23 - 34)

Purpose of the report: This report provides Members with the findings of the Council Overview Board Task and Finish Group who were reviewing the management arrangements of the Council's Trust Funds, with the aim to bring them into effective use.

9 ANNUAL REPORT OF THE SHAREHOLDER BOARD

(Pages
35 - 78)

Purpose of the report: ***For the Council Overview Board to call the Shareholder Board to account for decisions it has taken in relation to any company for which the Council is a shareholder and for any returns it is making.***

10 INVESTMENT STRATEGY: PROPERTY PORTFOLIO

(Pages
79 - 90)

Purpose of the report: To provide an update to the Board on the Investment Strategy, noting the context of the Council's total portfolio of land & buildings.

11 EXCLUSION OF THE PUBLIC

Recommendation: That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information under the relevant paragraphs of Part 1 of Schedule 12A of the Act.

12 INVESTMENT STRATEGY: PROPERTY PORTFOLIO

(Pages
91 - 102)

This is a Part 2 annex relating to Item 9.

Confidential: Not for publication under Paragraph 3

Information relating to the financial or business affairs of any particular person (including the authority holding that information)

13 DATE OF NEXT MEETING

The next meeting of the Board will be held at 10:00 on Wednesday 6 July 2016.

**David McNulty
Chief Executive**

Published: Date Not Specified

MOBILE TECHNOLOGY AND FILMING – ACCEPTABLE USE

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It is requested that if you are not using your mobile device for any of the activities outlined above, it be switched off or placed in silent mode during the meeting to prevent interruptions and interference with PA and Induction Loop systems.

Thank you for your co-operation

FIELD_TITLE

MINUTES of the meeting of the **COUNCIL OVERVIEW BOARD** held at 10.00 am on 13 April 2016 at Ashcombe Suite, County Hall, Kingston upon Thames, Surrey KT1 2DN.

These minutes are subject to confirmation by the Board at its meeting on Wednesday, 1 June 2016.

Elected Members:

- * Mr Steve Cosser
- * Mr Eber A Kington (Vice-Chairman)
- * Mr Mark Brett-Warburton
- * Mr Bill Chapman
- * Mr Stephen Cooksey
- * Mr Bob Gardner
- * Mr Michael Gosling
- A Dr Zully Grant-Duff
- * Mr David Harmer
- * Mr Nick Harrison
- * Mr David Ivison
- A Mr Colin Kemp
- * Mrs Hazel Watson
- * Mr Keith Witham

Ex officio Members:

Mrs Sally Ann B Marks, Chairman of the County Council
Mr Nick Skellett CBE, Vice-Chairman of the County Council

94/16 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from Zully Grant-Duff and Colin Kemp. Denis Fuller attended as a substitute for Zully Grant-Duff.

95/16 MINUTES OF THE PREVIOUS MEETING: 02/03/2016 [Item 2]

The minutes of the previous meeting were approved as a true record of the meeting.

96/16 DECLARATIONS OF INTEREST [Item 3]

There were none.

97/16 QUESTIONS AND PETITIONS [Item 4]

There were none.

98/16 RECOMMENDATIONS TRACKER AND FORWARD WORK PROGRAMME [Item 5]

Key points raised in the discussion:

1. It was noted by the Chairman that the order of the agenda had changed to accommodate the Chief Executive's schedule.
2. The Board was informed that a meeting had taken place earlier in the week to discuss Trust Funds. The recommendations for Cabinet would be available in summer 2016.
3. The Chairman drew attention to the forward work programme for June and July and stressed the importance of including the Investment Strategy and the Shareholder Board report. It was agreed that the agency staff item and a paper on scrutiny in a new environment would be taken to the July meeting
4. There was a request for information on the scope and activity of the Public Value Transformation programme and Continuous Improvement Network to brief Members. The Board also queried how the council consults with residents was raised and whether there was an agreed policy framework.

A question was asked about the outcome of audit reports. The Chairman clarified the responsibility for scrutiny of internal audit findings lay with the Scrutiny Board with the relevant remit.

5. Members agreed that the Welfare Reform Task Group would be deactivated and officers would continue to monitor activity in this area.

99/16 LEADERSHIP RISK REGISTER REPORT [Item 6]

Declarations of interest:

None

Witnesses:

David McNulty, Chief Executive of Surrey County Council
Cath Edwards, Risk and Governance Manager, Finance
Nicola O'Connor, Finance Manager (Assets and Accounting)

Key points raised in the discussion:

1. Members of the Board questioned whether the risk management system could be used as a preventative system by ensuring the risks are effectively anticipated. The Chief Executive informed the Board that he took full responsibility for the Leadership risk register and each risk was assessed as high, medium or low for both inherent and residual risks. When asked whether the register might be used to prevent risk the Board he pointed out that prevention was not always a useful concept. The nature of these serious meant they might be mitigated through anticipation but risks would not be removed.
2. Members of the Board questioned the reason for devolution being stated as a high risk factor on the register. The Chief Executive explained to the Board that the 3CS Devolution deal was included as a high risk issue as the council not finalising the devolution deal could result in serious damage to the County due to the significant challenges faced by Local Government and this was an issue beyond the council's control.
3. The Board was informed that there was no political input before the report had been presented at Cabinet, as it was drafted by officers. It was stated that the Cabinet attended workshops to identify risks and agree how they might be mitigated.
4. Whilst acknowledging the improvement in the risk register, Members stressed concern regarding the risks distinguished and highlighted that there needed to be another way to highlight ongoing risks for example academisation of all schools. The Chief Executive acknowledged this issue but explained that at this point the risks were not entirely clear as it was a white paper but that this issue could end up on the register.
5. A Member of the Board expressed concern at the risk the lack of social workers within Surrey presented. The Chief Executive explained that this was a service rather than leadership risk. The Board were informed that due to the financial pressures of living in Surrey there was limited affordable housing so workers do not tend to work in the area. Therefore one of the key elements was to retain children's and adults social workers as best possible.

Stephen Cooksey entered the meeting at 10.20 am.

6. The Board noted that the number of high priority risks had gone up and the Chief Executive explained his view that honesty on the issues

faced by the council was a priority. This view extended to the public understanding the risks and challenges faced by the council. The main focus was to recognise the risk and to make sure there was a planned mitigation put in place not reducing the size of the register.

7. Responsibilities for the risk register were delegated to senior officers of the Council but the Chief Executive took overall full responsibility for the Leadership risk register. A Member stressed the importance of the Chairmen of the Scrutiny Boards considering service risk registers, which was agreed by the Board.

Recommendations:

1. The Board agreed that Scrutiny Board Chairmen should consider scrutiny of their relevant Directorate Leadership Risk Registers as appropriate.

100/16 EXCLUSION OF THE PUBLIC [Item 10]

The Board agreed for the item to be taken into Part 2 under Section 100(A) of the Local Government Act 1972, on the grounds that they involve the likely disclosure of exempt information under the relevant paragraphs of Part 1 of Schedule 12A of the Act.

101/16 SENIOR MANAGEMENT STRUCTURE REPORT [Item 11]

Declarations of Interest:

None

Witnesses:

David McNulty, Chief Executive of Surrey County Council

Key points raised during the discussion:

1. The Board highlighted issues relating to the Senior Management Structure report. The Board asked a number of questions which were responded to by the Chief Executive.

Recommendations:

None

102/16 PUBLICITY FOR PART 2 ITEMS [Item 12]

It was agreed that the points raised under Part 2 would not be available to the public.

103/16 RESPONSES FROM THE CABINET TO ISSUES REFERRED BY THE SCRUTINY BOARD [Item 8]

Key points raised in the discussion:

1. The Board noted the Cabinet's response.

104/16 BUDGET SCRUTINY [Item 7]

Declarations of interest:

None

Witnesses:

Nicola O'Connor, Finance Manager (Assets and Accounting)
Andy Tink, Senior Principal Accountant

Key points raised in the discussion:

1. The Chairman highlighted to the Board that the item was an informal discussion, outlining preliminary thoughts for officers to consider. Officers were asked to highlight and outline the typical budget setting process and how this was disrupted in 2016 and asked Members for their views on the budget scrutiny process.
2. Members questioned their involvement in the 2016/17 budget process, highlighting the engagement needed from the Scrutiny Boards to fulfil the Cabinet request for recommendations on how to realise savings. The Board expressed concern regarding the planning of the 2015/16 budget. It was suggested that for the 2017/18 budget monitoring figures should be reviewed by Scrutiny Boards in July 2016 to test projections and ensure that Cabinet and the Council Overview Board had time to consider any findings.
3. The importance of Scrutiny Boards receiving financial information to a high level of detail early in the process to facilitate good scrutiny was raised. Members emphasised that a key aspect of the process was for Finance Officers to provide an honest message on potential service changes to meet savings targets and the possible impact on service users to allow opportunities for Members to influence these options before a Cabinet decision.
4. Members acknowledged the budget proposals they had received for 2016/17, the Board expressed disappointment at the lack of opportunity to influence how the budget figures were set. It was stressed that there had been no update regarding the scope and projected impact of the Public Value Transformation programme.
5. The Senior Principal Accountant informed the Board that the budget setting process was complex due to Cabinet processes, leaving very little time for Scrutiny Board to add their comments. A Member suggested that Cabinet should discuss reviewing the budget plan in advance instead of making a final decision. It was added that it would be useful to have a detailed overview of the Medium Term Financial Plan savings and that when considering budget plans tabled or verbal reports were not sufficient.
6. The Finance Manager thanked the Board for their comments and would feed the information back to the finance team. The Chairman of the Board stressed the importance of trust in allowing information to be given to members of the Board before it reached Cabinet.

105/16 DATE OF NEXT MEETING [Item 9]

The Board's next meeting is on 1 June 2016.

Meeting ended at: 11.35 am

Chairman



Council Overview Board
1 June 2016

RECOMMENDATIONS TRACKER and FORWARD WORK PROGRAMME

1. The Board is asked to review its Recommendation Tracker and Forward Work Programme, which are attached.

Recommendation:

That the Board reviews its work programme and recommendations tracker and makes suggestions for additions or amendments as appropriate.

Next Steps:

The Scrutiny Board will review its work programme and recommendations tracker at each of its meetings.

Report contact:

Ross Pike, Scrutiny Manager

Contact details: 020 85417368, ross.pike@surreycc.gov.uk

Sources/background papers: None.

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**Council Overview Board
ACTIONS AND RECOMMENDATIONS TRACKER – UPDATED 31 March 2016.**

The recommendations tracker allows Members to monitor responses, actions and outcomes against their recommendations or requests for further actions. The tracker is updated following each meeting. Once an action has been completed, it will be shaded out to indicate that it will be removed from the tracker at the next meeting. The next progress check will highlight to members where actions have not been dealt with. Please note that this tracker includes recommendations from the former Council Overview & Scrutiny Committee.

Recommendations made to Cabinet

Date of meeting and reference	Item	Recommendations	To	Response	Progress Check On
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Scrutiny Board and Officer Actions

Date of meeting and reference	Item	Recommendations/ Actions	To	Response
1 October 2015	CARBON & ENERGY POLICY	An update to be provided on the savings achieved from the light dimming initiative.	Energy Manager	Requested.

Date of meeting and reference	Item	Recommendations/ Actions	To	Response
1 October 2015	CARBON & ENERGY POLICY	Report back to the Board following the SE7 Energy Managers Group meeting, to highlight any best practice.	Energy Manager	Requested.
1 October 2015	CARBON & ENERGY POLICY	Include aspirational and step change measures in a future report to the Board	Energy Manager	Requested.
5 November 2015	HR&OD SERVICE	A briefing note to be circulated on major changes made to HR policies, following the current period of review and refresh	Director of People & Development	A briefing note to be emailed.
28 January 2016 A2/2016	RECOMMENDATIONS TRACKER AND FORWARD WORK PROGRAMME	A Council Overview Board Bulletin to be trialled as a way of sharing updates on actions and issues of interest to the Board.	Scrutiny Manager	The aim is to produce the first bulletin in April 2016.
3 March 2016	STAFF SURVEY REPORT	The Scrutiny Chairman to consider whether there were any specific issues from the staff survey for their areas which would require further scrutiny.	Council Overview Board Chairman	Scrutiny Officers have highlighted this recommendation to their Chairmen.
3 March 2016	STAFF SURVEY REPORT	The outcomes of the review of the effectiveness of the High Performance Development Programme to be shared with the Chairman and Vice-Chairman of the Board.	Strategic Change and Efficiency Manager	An update to be provided. HR advised that 21 September would be an appropriate date for a report.

Date of meeting and reference	Item	Recommendations/ Actions	To	Response
13 April 2016	LEADERSHIP RISK REGISTER REPORT	The Board agreed that Scrutiny Board Chairmen should consider scrutiny of their relevant Directorate Leadership Risk Registers as appropriate.	Scrutiny Board Chairman	An update to be provided once risk register scrutiny has been scheduled.

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COMPLETED ACTIONS- TO BE DELETED

Date of meeting and reference	ITEM	Recommendations/ Actions	To	Response
3 June 2015	REPORT OF THE WELFARE REFORM TASK GROUP	A number of recommendations were made to Cabinet by the Welfare Reform Task Group. These recommendations were accepted and are being monitored by the Welfare Reform Task Group		The Welfare Reform Task Group is due to meet in April and a progress update will be provided in the Board's bulletin in May 2016.

1 October 2015	CARBON & ENERGY POLICY	Provide the Council Overview Board with an update on review of business mileage, lump sum payments and any related incentives for staff	Head of Property/Director of People and Development	This was picked up as part of the Surrey Pay and Reward Strategy package. Details of the package were provided to Members at a workshop on 16 March 2016.
1 October 2015	ANNUAL REPORT OF THE SHAREHOLDER BOARD	An update on the Shareholder Board review of the Council's involvement in the joint venture company (Babcock 4S) to be included in the next scheduled report to Council Overview Board in April 2016.	Shareholder Board	This has been scheduled for June 2016
1 October 2015	ANNUAL REPORT OF THE SHAREHOLDER BOARD	Receive progress update on Surrey Choices governance mechanisms and report to the Council Overview Board if necessary	Social Care Scrutiny Board/Shareholder Board	The Social Care Services Board have scheduled a review of Surrey Choices in late spring 2016. The Chairman has met with relevant officers and more information will be presented to the Board alongside the Shareholder Board report in June 2016.
5 November 2015	AGENCY STAFF	More information to be made available regarding the difficulty of recruiting.	HR Relationship Manager	An item on the use of agency staff has been scheduled for the July meeting

Council Overview Board – Forward Work Programme 2016

6
July
2016

- Budget Scrutiny
- Agency Staff
- Scrutiny in a new environment
- Public Value Transformation
- Municipal Bond Agency
(possible call in)

21
September
2016

- High Performance Development Programme Review

Future items

- Devolution
- Consultation Framework
- Trust Fund progress review

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Council Overview Board

1 June 2016

TASK GROUP SCOPING REPORT

- 1 Scrutiny Boards wishing to establish task groups are required to complete a scoping report, which sets out details of the task group's objectives, proposed timescales, the resources required, and sources of information. Prior to work commencing on reviews, the scoping reports are submitted to the Council Overview Board for consideration, so that any links with other areas of work or potential duplication can be identified. This also enables the Board to gain an awareness of the issues being investigated across all services of the Council.
- 2 The scoping document for the Library Strategy Task Group (Resident Experience Board) is attached for the Scrutiny Board's consideration (**Annex 1**).

Recommendation:

That the Board reviews the attached task group scoping report and suggests any amendments or additions for consideration by the Resident Experience Board.

Next Steps:

The Board will be kept informed of progress and outcomes as appropriate.

Report contact: Ross Pike, Scrutiny Board, Democratic Services

Contact details: 020 8541 7368, ross.pike@surreycc.gov.uk

Sources/background papers: None

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Resident Experience Board - Libraries Task and Finish Group Scoping Document

The process for establishing a task and finish group is:

1. The Scrutiny Board identifies a potential topic for a task and finish group
2. The Scrutiny Board Chairman and the Scrutiny Officer complete the scoping template.
3. The Council Overview and Scrutiny Board reviews the scoping document
4. The Scrutiny Board agrees membership of the task and finish group.

Review Topic: Libraries Strategy for 2020

Select Committee: Resident Experience Board

Relevant background

Detail the background to the issue, and consider some of the following questions: What is the service we are providing? What is the Council responsible for? What is the legislative framework?

Under the Public Libraries and Museums Act 1964, Surrey County Council has a statutory responsibility to provide a comprehensive and efficient library service for all persons in the area that want to make use of it.

The expectations of what libraries should provide have grown enormously in the previous decade with the arrival of digital services and lifestyles. Libraries now have a role in helping prevent digital and social exclusion and promoting learning and well being as well as increasing access to cultural experiences and participation.

Surrey libraries have 319,000 current members of which approximately 234,000 used library services within the last year with book borrowing still the most popular - 5,890,000 million issues in 2014/15.

National library usage figures, prepared annually for the Chartered Institute of Public Finance and Accountancy (CIPFA), show that library visits are in decline, however Surrey's decline has been slower than the National average (see table below).

VISITS		
Year	SURREY	CIPFA
2010/11	4,105,909	313,987,060
2011/12	4,030,563	306,590,715
2012/13	3,763,487	288,043,871
2013/14	3,858,348	282,332,177
2014/15	3,678,437	265,280,231
% diff on the year	-4.7%	-6.0%
% diff 5 years	-10.4%	-15.5%

The library service in Surrey makes available for loan a collection of 1.45 million physical books, audio books on CD and electronic download for adults and children, ebooks, DVDs, language courses and music on compact discs. It also has a very wide range of on-line reference and other resources including magazines.

Books remain the lifeblood of the service and one of the highest valued and most used services. As libraries move into the future there will be a natural and gradual shift from the holding of some physical formats and an increase in digital downloadable content which

reflects the changing demand between formats.

The library service invests a lot of effort in maintaining a good quality stock offer with attractive presentation. The service has 6.75% market share of all UK library book issues. Recorded UK library loans were down last year by 5.9% but Surrey libraries' loans were only down 0.5% in comparison.

The library service also has a strong digital offer to residents through the provision of IT equipment and wi-fi and helping with IT skills.

This work is developing and currently covers activities such as supporting over 700 reading groups, providing author events and reading promotions. Libraries are also working with a range of partners to increase involvement in local literary festivals. Redesigning more libraries to have flexible spaces such as Woking and Dorking where a range of events can be held is key to this ambition and would provide facilities to promote art and craft exhibitions, and live or streamed performances, activities which could attract people who would not necessarily use a library.

The service places a lot of emphasis on encouraging children to enjoy language and books from the earliest possible age, to develop a love of reading and the habit of library use.

Surrey's Corporate Strategy, "Confident in Surrey's future" 2015-2020 maps out three strategic goals – Wellbeing, Economic Prosperity and Resident Experience. Achievements against these priorities this year include:

- increasing the range of services,
- growing income,
- increasing volunteering,
- improving efficiency,
- customer contact through digital technology,
- wellbeing (involving a range of partners in Health Services, Social Care and Public Health),
- economic prosperity:
 - helping children become literate through the early enjoyment of language and books;
 - supporting study and personal development;
 - helping job seekers and others by providing access to IT and support through learning sessions and digital buddies;
 - distribution of thousands of leaflets and posters promoting local events, tourist information and information about Surrey supporting the local economy;
 - online business information provided aimed at small companies starting up and young people going into business),
- and resident experience:
 - making services as accessible and simple to use as possible
 - introducing many ways to encourage people to manage their borrowing so they do not incur fines, including being able to borrow and return books from and to any library, drop boxes for out of hours returns, 24/7 automatic renewals, pre-overdue emailing to borrowers whose books are becoming due, and a mobile app
 - bus pass and blue badge checking service.

In many communities libraries are the visible "front door of the County Council" and a place where people can seek advice and help face to face.

The library network consists of 53 libraries with three levels of service offer. There are:

- a) 10 Main town libraries, "Group A" libraries
- b) 18 Town libraries, "Group B" libraries
- c) 14 Community libraries, "Group C" libraries
- d) 10 Community Partnered Libraries (CPLs) - 9 running and 1 in transition run by

volunteers with support from SCC.
There are also 3 Community Links - local book collections run by volunteers and the award winning Performing Arts library at Dorking.

The Surrey Library Service is the largest service within Cultural Services with a net budget of £9.6m. This includes a sum of £1.3 raised by the service as income from a range of services and activities.

The library budget is for expenditure controlled by the service which is mainly staffing, library resources and expenditure linked to income generation. It does not include the budgets for library related expenditure incurred as part of corporate and centralised services, which totals approximately £7.8m. These centralised services include premises costs, Information Technology and support services.

Why this is a scrutiny item

Why look at this issue now? What has changed that needs investigating? (e.g. the budget is overspent or a KPI is falling).

As funding is likely to remain at a very low level for a long period there is now a need to reshape Surrey's Library Service. Solutions may need to be more far reaching than before and their impact needs to be considered.

The Resident Experience Board discussed, at their meeting on 17 March 2016, a number of potential Service model options which could address the annual spend for Libraries. From this discussion it was decided that these options needed to be investigated further and tested for viability.

Library Service customers and staff met with the Board in the morning of 17 March 2017 in a workshop. Their discussions with the Board covered: the expectations customers have of their library service; expectations from staff regarding what they may be asked at work; income generation and possible ideas and libraries as community spaces.

What question is the task group aiming to answer?

What is the basic question that the task group is trying to answer? It will be a 'what' or 'how' question, not 'why'.

What should be the Library Service's offer to Surrey's residents in 2020, and what steps need to be taken to achieve this?

Aim

Detail the change (outcome) across Surrey that the task and finish group aims to deliver.

To work with the Library Service officers to assist in planning a strategy to transform the library offer in Surrey; ensuring the offer remains current and relevant to Surrey's residents and library customers, and to ensure that Surrey's Libraries remain relevant in the future, and in step with changing trends and embracing new technologies.

This strategy should also look to encourage links with other Council services/partners with a view to improved integration of services, such as: social care services, public health and other public sector partners as well as local businesses.

Objectives

Break the aim of the project out into specific objectives (Specific, Measurable, Attributable, Realistic and Timely), e.g. to reduce the average cost of services provided to the elderly by £xx by April 2008.

Objectives:

1. To address key issues facing the Library Service for the 2016/17 financial year
2. Investigate future income generation targets and ventures
3. Investigate how the Library Service can work closely with other public sector partners such as social care and health services in the future as part of their service offer.
4. Investigate how the Library Service can work in partnership with local businesses and community resources in Surrey.
5. To help plan and strategise the delivery of Surrey's Library Service for the life of the current Medium Term Financial Plan, 2016-2020.
6. To further understand the demographics of the Library Service membership; to recognise any trends within this information, and to use this information to help:
7. To produce a set of recommendations on future service delivery?

Scope (within / out of)

For clarity also define work that is out of scope, e.g. the review is to cover all SCC owned Property, but will exclude schools property.

In scope

The provision models for Surrey's library network (banding system)

The provision and support for the Community Partnered Libraries in Surrey

The service infrastructure

Library buildings and locations

Out of scope

Library related expenditure from corporate budgets.

Outcomes for Surrey / Benefits

Which corporate priority will this review support or deliver? Which failing KPI's will this review look to address?

Resident Experience, Wellbeing and Economic Prosperity.

Proposed work plan – TO BE AGREED AT THE FIRST TASK GROUP MEETING

It is important to clearly allocate who is responsible for the work, to ensure that Members and officers can plan the resources needed to support the task group.

Timescale	Task	Responsible
October 2016	<ul style="list-style-type: none">Investigate how the Library Service currently works in partnership with other public sector partners, local businesses, volunteers and other community resources with a view to identify opportunities to develop existing relationships, and to identify other viable partnerships.	Officers & Members

October 2016	<ul style="list-style-type: none"> Understand the current Library membership and any moving trends in the membership and its activity. Investigate how these trends could shape the Service's future offer. 	Officers & Members
April 2017	<ul style="list-style-type: none"> To investigate and address key issues facing the Library Service for the 20216/17 financial year. 	Officers & Members
April 2017	<ul style="list-style-type: none"> Investigate current income generation schemes, and identify potential new ventures. 	Officers & Members
Spring/Summer REB meeting 2017	<ul style="list-style-type: none"> To agree and produce a set of recommendations on the future service delivery of Surrey Libraries 	Officers & Members

Possible witnesses

- Library Customers
- Surrey Libraries staff
- Library Staff from other/neighbouring Local Authorities
- Property Services
- Officers working on Public Value Transformation programme

Useful Documents

- Surrey County Council's Library Service and the Development of a Future Strategy (Resident Experience Board, March 2016)
- Annexes E 1&2 – Briefing Note re Public Libraries and Museums Act 1964 (Resident Experience Board, March 2016)
- Public Libraries (John Woodhouse & Noel Dempsey, House of Commons Library, 15 April 2015)
- Libraries Deliver: an Ambition for Public Libraries in England 2016-2021 (Department for Culture, Media & Sport, 23 March 2016).
- Library Peer Challenge – Final Report (Local Government Association, February 2016)

Potential barriers to success (Risks / Dependencies)

- Information availability
- Officer time
- Potential duplication of work with the Public Value Transformation programme.

Equalities implications

Equalities implications will be considered as the strategies are developed to ensure it does not negatively impact on any protected group.

Task Group Members	Yvonna Lay Ramon Gray Karan Persand John Orrick
Co-opted Members	Rose Wilson, Head of Service Representatives from Library Senior Management Team as required (Others TBC)
Spokesman for the Group	TBC
Scrutiny Officer/s	Dominic Mackie



Council Overview Board
1 June 2016

Trust Funds

Purpose of the report: This report provides Members with the findings of the Council Overview Board Task and Finish Group who were reviewing the management arrangements of the Council's Trust Funds, with the aim to bring them into effective use.

Introduction:

1. Many local authorities act as trustees for funds that have been set up for charitable or non charitable purposes. These are known as trust funds and many of these trusts are set up through a bequest from a local resident for a very specific purpose.
2. Surrey County Council currently acts as custodian trustee to 44 trust funds, of which for 38 the Council is the sole trustee. The Council has shared responsibility with other trustees for the remaining 6 (see Annex A).
3. The majority of the trusts were established in the mid 20th century, although some are considerably older, and over time the aims and objectives of many of the trusts have become obsolete and the trusts are effectively dormant.
4. Last year Internal Audit carried out a review of trust funds and concluded that the Council is not making best use of the trusts. At the 2 March 2016 meeting, the Council Overview Board agreed to set up a Task and Finish Group (TFG) to proactively review the trust funds. The aim of the TFG was to ensure options are explored so that the trust funds:
 - are effectively brought back into use, to support the communities of Surrey as originally intended.
 - are invested effectively to produce the best returns possible, while ensuring the security of the investments.
 - reduce the risk of them becoming dormant again in the future.
 - reduce the administrative burden to the Council, while ensuring the Council is fulfilling its responsibilities in respect of these funds.

Background:

5. At the time that many of the trust funds were established and passed over to the County Council, the Committee Structure operated in the Council, with the responsibility of the trust overseen by the relevant committee. Of the 44 trusts, 34 are education or school based.
6. As time has progressed, the aims and objectives of many trusts are no longer relevant and the schools to which they related no longer exist. In addition, the council moved to an Executive and scrutiny committee model in the late 1990s leading to the majority of the trust funds becoming inactive.
7. Of the 44 trusts, seven of them can be considered to be active, that is, they are making payments. Annex A provides a schedule of all the trust funds. This shows the purpose of the trust, its value and activity at the end of 2015/16 financial year.
8. The monies received from the bequests are held by the Council or invested and the return on this investment has either built up the trust over the years or has been used to support the aims of the fund. Investment is usually through a specific charitable investment fund, provided by the fund managers, BlackRock.
9. Finance supports a number of the trusts by providing basic bookkeeping services and the production of year-end statements and accounts, as required. They also provide an overview of any investments, but do not actively manage them.

Council Overview Board Task & Finish Group

10. The Council Overview Board considered a report on the Council's current trust fund management arrangements at its 2 March 2016 meeting. At this meeting Members agreed to form a smaller group to carry out an in depth review of the management of the trusts. Three Members volunteered to serve: Steve Cosser, Mark Brett-Warburton and Nick Harrison.
11. The primary purpose of the TFG was to find an effective and sustainable solution that would bring the moribund trusts back into use for the communities of Surrey.
12. A range of options were considered, based on the size of the trust, whether the County Council was the sole trustee, whether there was an obvious succession route and the general activity of the trust. Below is a summary of the range of options and considerations that were discussed:
 - The trusts the Council would be immediately focusing on would be the ones for which Surrey County Council is the sole trustee.

- Where the school or natural successor to the school is identifiable, the Council could liaise with them and the Charity Commission to consider transferring the trust where possible. In some cases, where the amount was small, and if agreed, this could be a one off payment, rather than the transfer of the trust for the school to continue to administer.
 - Where the school or natural successor school is not identifiable, the Council could liaise with the Charity Commission to group these if possible and pass to the relevant service area, such as Education Service.
 - The Council could liaise with the Charity Commission and transfer all trusts to the Community Foundation for Surrey, wherever possible.
13. These options were explored individually and the TFG concluded that to transfer trusts to the Community Foundation for Surrey was the most favourable option. The reasons for this conclusion can be summarised as follows:
- It is best aligned to deliver the original requirements of the funds in a sustainable way;
 - It would ensure legal and financial compliance with charity law;
 - It is the least complicated option to administer and deliver;
 - It would consider the individual needs of the original bequest and maintain the opportunity to involve and consult with all interested stakeholders in the transfer of funds and the ongoing decision-making.
 - It meets the objective of trying to ensure the effective investment of funds.
14. During the course of the TFG activity, Members became aware that some work was already being carried out to negotiate the terms of a number of trusts. It was agreed that this work would be considered when reviewing the individual trust funds with the Community Foundation for Surrey and linkages with relevant stakeholders will be made at the point the funds are transferred to ensure their input into the ongoing decision making in relation to the funds.

Community Foundation for Surrey (CFS):

15. The Community Foundation for Surrey (CFS) was established in 2005 and is an independent charitable trust, raising the charitable donations for the benefit of people in Surrey. It aims to connect people who want to give, with those in need. The CFS currently manages over 60 individual charitable funds that have been donated by individuals, families, companies and trusts. These funds support an ongoing programme of grant-making to communities across Surrey. During 2015-16, over £1 million of grants were distributed to over 339 local community and voluntary projects. Since establishing, CFS has awarded approximately £6 million to 2,144 projects. In addition, CFS has built up permanent community funds of £9.5 million from which the income generated is used to award grants in perpetuity.

16. The TFG met with the Community Foundation on 29 April to discuss the potential to transfer charitable trust funds held by the Council, identify and explore any potential obstacles and define processes and understand possible benefits.
17. The TFG concluded that transferring trust funds to CFS would result in the following benefits:
- All the **legal** responsibilities would pass to the Trustees of CFS, relieving the Council of all legal liabilities in line with the Charity Commission requirements;
 - All **financial** obligations, including investment, quarterly and annual reporting, payment of cheques and full administration of the funds would be undertaken by CFS;
 - It provides a **sustainable**, stable and effective solution that enables funds to grow, to be held in perpetuity as a legacy for local communities;
 - The trust funds would be used as close to the **original objectives** as possible, ensuring the aim and spirit of the donor is maintained;
 - There is scope to **involve** Surrey County Council and other relevant stakeholders as much as required in the award of grant decisions, devoid of the administrative, legal and financial responsibilities;
 - The CFS has an existing **infrastructure**, processes and resources to undertake the transfer and administration of the trust funds effectively;
 - The CFS has extensive **outreach** links and networks in place to ensure funds provide support to local communities and people in need;
 - The assets will be transferred in a **bespoke** way, in that a discrete named fund or funds can be established with a separate identity but with the added security of being part of the CFS;
 - There is an option to **merge** a fund with an existing fund with similar objectives to increase the benefit of the Trust;
 - CFS would use its **expertise** to manage the detailed work in transferring the fund with the Charity Commission, significantly reducing the time and cost to the County Council;
 - The CFS is an **accredited** organisation, passing the standards set by the Charity Commission at an exemplary level.
18. The Charity Commission (Annex B) actively supports and encourages the transfer of charitable trusts from Councils to Community Foundations and 37 Councils have transferred £38million to their Community Foundations in recent years.
19. In 2012 and 2013 respectively, two trust funds were successfully transferred to the CFS by Surrey County Council. This was done by involving all the relevant stakeholders, such as Parish Councillors, local Members and youth groups, to which the trust related to and was managed successfully and smoothly. One was the Chobham Lawson Bequest and the second the Abbey Barn Trust – both have been

providing support and benefit to the relevant communities in Surrey Heath and Runnymede since then, with the full involvement of local panels in decision making.

Process:

20. The work can be led primarily by the Community Foundation and the link person to the Charity Commission, who has already led on a wide range of trust transfers from local authorities to Community Foundations across the country. The County Council will support as needed but this approach would save both time and cost to the Council.
21. A two stage approach is likely to be recommended and this is based on the experience of other local authorities and trust transfers to Community Foundations. This would be as follows:
 - Stage one will be to seek 'in principle' agreement from the Charity Commission to close, amalgamate and transfer the Trusts. This would involve reviewing all the Trusts being focused on, including examining the governing documents.
 - Stage two will involve understanding the details, involving relevant stakeholders and preparing the detailed papers to seek formal permission from the Charity Commission and to enable the transfer.

Finance:

22. The financial implications of this proposal are:
 - 1% of the total capital value of each fund, per annum (or 1.5% for Funds with a capital value under £250,000) would be taken from the income by the CFS and paid quarterly in arrears.
 - A one off set-up fee, to cover the initial cost of transferring and making any necessary changes, would be taken from the funds at the time of transfer. This would cover some of the administrative costs of the specific work in liaising with the Charity Commission, seeking their approval and providing all the legal requirements for the transfer. This cost is in line with the standard process all Community Foundations have when setting up or transferring trust funds. When the Council transferred the two trusts listed in paragraph 19, a 3% and 5% set up cost was agreed with the CFS at that time. This will be negotiated by the Council with CFS as the amount of the transfer is larger than previous transfers.
 - All other costs including audit fees and end of year accounts would be covered by CFS.

Management arrangements:

23. Each fund would be managed through a Fund Agreement which would show how funds are to be managed and used. This would have a separate fund identity if required and all funds would be used towards

meeting the objectives of the fund, less the agreed contributions of management fees, as highlighted above.

24. Any grant issued and related procedures will be in the specified name of the fund and will be acknowledged in the CFS annual report and any other publications. There will be an opportunity for future donations or legacies to be added to these funds, enabling them to potentially grow over time.
25. The funds will be invested in accordance with the CFS Investment Policy and will benefit from the existing expertise and skills of the Foundation's Finance and Investment Group and Board of Trustees. The investment manager is currently Investec and has a performance target return of 4% plus RPI.

Eligible Funds:

26. The TFG have concluded that all trust funds where the Council are the sole trustee should be recommended to be transferred to the CFS. With the exception of the following two funds:
 - Lingfield Guest House – while at present Surrey County Council is the sole trustee, there is a request, currently awaiting Charity Commission approval, to change this and other trustees have been identified. It is therefore suggested by the WTFG that this fund be treated alongside the other trusts where Surrey County council is not the sole trustee.
 - Looked after Children – these represent monies left to specific looked after children who are currently in the Council's care. This money has to be held in trust by the Council until the child turns 18. The TFG propose that no action is taken in relation to these trusts and they continue to be held by the Council, as corporate parent, until the children reach 18.
27. For the remaining trust funds, where the Council is not the sole Trustee, it is recommended that there should be separate discussions held with each individual fund. In each case, the Council should facilitate a discussion between themselves, the other trustees and the CFS to examine if transfer of the trust to the CFS would deliver the benefits identified above while enabling the existing trustees to maintain full oversight of the trust and decision making in relation to the awarding of funds.
28. A further report to Cabinet in due course will summarise the conclusions of these discussions and make recommendations in relation to these remaining trust funds as appropriate.

Future Bequests:

29. If a new fund is bequeathed to the Council, the Council will look for solutions that ensure the trust fund is used in line with the bequest and maximum value is drawn from the fund.

30. The Council will liaise with the Community Foundation for Surrey and relevant stakeholders to seek to develop a permanent and sustainable solution in line with the recommendations in this report.

Recommendations:

31. That the Council Overview Board supports the proposal of the WTFG and asks the Cabinet to agree to:
- the transfer of trust funds for which the County Council is the sole trustee, to the Community Foundation for Surrey and to authorise officers to begin the liaison with the CFS to ensure this is actioned at the earliest possible date.
 - a further report outlining the proposals in relation to those trust funds where the Council is not the sole trustee, is submitted in due course following discussions with the other trustees.
 - Cabinet request the Council Overview Board monitor these arrangements on an ongoing basis and report back to Cabinet on any recommendations in the future as needed.

Next steps:

- A report is taken to Cabinet for agreement on 21 June 2016
- Officers from the County Council work immediately thereafter with the Community Foundation for Surrey and the Charity Commission in making arrangements for the transfer to the trust funds to the CFS – work to start in June 2016.
- Officers set up discussions with relevant trustees of those funds that are not solely managed by the County Council.
- An initial report on progress is submitted to COB in six months time.

Report contact: Councillor Steve Cosser, Chairman, Council Overview Board
Saba Hussain, Policy and Strategic Partnerships Manager

Contact details: Telephone: 0208 541 9122 / 0208 541 9876
Email: steve.cosser@surreycc.gov.uk
saba.hussain@surreycc.gov.uk

Sources/background papers:

Annex A – List of existing Trust Funds
Annex B – Charity Commission Statement

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Surrey County Council Trust Funds - March 2016

Service Area	Trust Name	Annual Income Total - 2015/16	Amounts paid out during 2015/16	Balance sheet Total at 31 March 2016	MV of Investments at 31 March 2016	SCC sole trustee?	Other trustees?	Fund Purpose
Education	Charity of Robert Phillips	£57,363	£107,764	£2,011,437	£1,834,474	No	3 Trustees appointed by Elmbridge BC	To provide land and buildings in trust for a public library/ museum or any similar charitable purpose and the promotion of education in music, drama and fine arts
Education	Surrey Educational Trust	£8,400	£225,766	£619,863	£600,000	No	2 Trustees are SCC of 9	
Community Education	Henrietta Parker Trust	£30,740	£12,575	£1,287,571	£849,287	Yes	-	To Found or endow a school or institute of Technical or Manual Instruction in Cookery, Laundry Work and Hygiene
Community Education	Surrey Historic Buildings Trust	£28,953	£24,701	£481,816	£402,544	No	3 Trustees are SCC of 9 trustees	To Preserve for the benefit of the public such of the historical, architectural or constructional heritage as may exist in Surrey.
Community Education	Surrey History Trust	£10,620	£5,180	£34,716		No		To help rescue and promote Surrey's history. Raising funds to secure the purchase and conservation of collections.
Library and Museum	The Guest House, Lingfield	£21,521	£16,604	£554,241	£465,970	Proposal awaiting charity commission approval to change trustees		To maintain the Lingfield Guest House, which is used as a public library and museum with an attached maisonette providing rental income.
Highways	Long Ditton Trust Fund			£22,062				To provide for improvements to the highway in Long Ditton. Interest accumulated on the trust fund is made available for highway improvements.
Social Services	Looked After Children	£211	-	£61,280	-	Yes	-	Money left to looked after children to be held in trust by the Council until the child's 18 birthday
	Kinton Old Pupil's Fund	£183	-	£6,365	£6,947	Yes	-	To provide equipment to aid Looked After Children entering employment or training
	Captain Brown's	£1	-	£138		Yes	-	To provide sporting equipment for Looked After Children
	Ottershaw	£2	-	£187		No	-	To assist pupils and former pupils of Ottershaw School
	Beaverbrook - Bennett fund for Empire Knowledge	£19	-	£5,388		Yes	-	To provide an annual award promoting the knowledge of the British Empire
	AJ Stevens History Prize	£5	-	£1,494		Yes	-	Annual Natural History Prize at Bourne School, Farnham
	Brian Gale Memorial Trust	£2	-	£562		Yes	-	To provide prizes to pupils at Frimley and Camberley County School
	Charles Goffin Memorial Trust	£3	-	£726		Yes	-	To provide an annual sportsmanship prize for one boy and one girl at Dorking County School
	Cromwell Edwards	£1	-	£305		Yes	-	To award an English prize at Ashford County School
Dyson Memorial Trust	£1	-	£282		Yes	-	To provide an annual music award at Dorking County School	
Edgar Dailley Girl Guides Trust Fund	£1	-	£411		Yes	-	To provide an income for the National Association of Girl Guides	

Schools

Eric Thomas Scholarship Fund	£47	-	£13,024	£2,300	Yes	-	To assist boys of Surbiton County School who need financial aid on leaving the school in order to attend university or college.
F Robinson Memorial Trust	£5	-	£1,476		Yes	-	To provide an annual prize for art at Frimley & Camberley Grammar School
Gwen Ridgeway Needlework Trust Fund	£1	-	£344		Yes	-	To provide an annual needlework prize at Ockley Parochial School
Hale Trust	£1	-	£298		Yes	-	To enable Surrey pupils to visit Hindleap Warren Activity Centre
Henrietta F Le Personne	£11	-	£2,948		Yes	-	To be spent on the promotion of domestic science
Henry Blanchett	£3,239	-	£172,723	£83,920	Yes	-	To provide books for school pupils born and resident in Ewell and Stoneleigh
J McLaren Bequest Trust	£1	-	£228		Yes	-	To provide books for Ash Vale County First School
Jean Whiting Prize Trust Fund	£1	-	£336		Yes	-	To provide an annual girls prize at Dorking County School
Lane Prize Trust Fund	£3	-	£930		Yes	-	To provide an annual prize for girls in domestic science and for boys in handicraft at Kingfield School
Le Personne Trust	£26	-	£7,342	£525	Yes	-	To provide prizes for good behaviour at schools in Caterham and Warlingham
Lord Knyvett	£3,864	£3,571	£147,160	£116,731	No	Several trustees	To give financial assistance to pupils in the parish of Stanwell.
MA Cannon Bequest Fund	£0	-	£118		Yes	-	To provide annual prizes for biblical knowledge at Godstone County First School
Mary Tate Memorial Trust	£7	-	£1,784	£600	Yes	-	To provide prizes for field studies in geography at Warlingham School
Murial Fry Trust Fund	£20	-	£5,577		Yes	-	To provide uniforms for pupils needing financial assistance when transferring from Holland to Oxted Schools
PA Blackaby Trust Fund	£8	-	£2,233	£200	Yes	-	To provide books for the library at Cleves School
RA Buer Prize Trust Fund	£4	-	£1,074		Yes	-	To provide prizes for nature study at St Marys Shackleford
Robert Beloe Trust Fund	£7	-	£2,048		Yes	-	To assist teachers to make visits of a training or study nature
Roberts Memorial Trust Fund	£12	-	£2,872	£42	Yes	-	To assist a boy recommended by the head at Dorking County School in preparing for his future career
Stedmen-Methuen Trust Fund	£27	-	£7,460		Yes	-	To provide a scholarship to pupils living in the Guildford area
Tulk Bequest	£12,138	-	£361,494	£350,685	Yes	-	To provide outdoor sports facilities for Surrey secondary schools
Unwin Award	£4	-	£999		Yes	-	To provide an annual prize at Kingfield School
Wheeler-St Witley Trust Fund	£2	-	£467		Yes	-	To be used by SCC to exercise their power and duties under the Education Act
Whyteleaf City Girls Prize Trust Fund	£1	-	£152		Yes	-	To provide a prize at the Whyteleafe County Grammar School
Winter Prize Trust Fund	£1	-	£253		Yes	-	To award bibles as prizes at Caterham County Schools
Woolmer Hill Education Trust Fund	£13	-	£3,492	£600	Yes	-	To financially assist pupils in Haslemere
Yarrow Trust Fund	£2,373	-	£119,897	£59,761	Yes	-	To provide educational facilities in Hindhead district



The Charity Commission acknowledges that community foundations have a reputation for the effective management of charitable funds in order to maximise their impact at local level.

The Charity Commission and community foundations have worked closely in recent years to ensure that trustees seeking to revitalise moribund (dormant) or ineffective trust funds (and who are looking for an effective way of carrying on their good work in future years) can release their funds to a community foundation as part of their appraisal of options. The Charity Commission welcomes and supports this initiative and encourages all charities to ask themselves whether they should work with community foundations as an alternative to continuing, particularly if they agree with one or more of the following statements:

- We find it difficult to identify beneficiaries
- We cannot spend the income of the charity
- We find ourselves providing money to the same people or groups every year
- We find it difficult to attract trustees
- We would like to be involved in how the money is spent but we do not want the legal responsibility of being a trustee
- The work of administering the charity and its investment is becoming onerous or disproportionate to the level of funding
- We wish that we knew more about local issues and opportunities and who else was funding what

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COUNCIL OVERVIEW BOARD

1 JUNE 2016

ANNUAL REPORT OF THE SHAREHOLDER BOARD

Purpose of the report: Scrutiny of the Shareholder Board.

As part of its strategy to innovate in developing new models of delivery and to benefit from the freedoms introduced by the Localism Act, Surrey County Council established a Shareholder Board, which reports annually to the Council. The purpose of the Board is to safeguard the Council's interest as shareholder and to take decisions in matters that require the approval of the Council as owner of a company.

The Council Overview Board is able to call the Shareholder Board to account for decisions it has taken in relation to any company for which the Council is a shareholder and for any returns it is making.

The Shareholder Board

1. The Shareholder Board was created following the report to Cabinet in March 2013 outlining the Council's strategic approach to innovation and evaluating new models of delivery. It has been established in accordance with best practice governance principles to ensure effective over-sight and alignment with the strategic objectives and values of the Council. The Board's authority and powers include:
 - appointing and removing directors;
 - approval of annual business plans; and
 - reviewing the financial and overall performance of trading companies.
2. The Board safeguards the Council's interest and takes decisions in matters that require the approval of the Council as owner of or a shareholder in a company. The shareholder role is exercised over all companies owned by the Council, and in relation to any shares held whether the purpose is trading, service provision, or investment. Decisions in relation to the day to day operation of companies are the responsibility of the directors of each company.

3. The Shareholder Board comprises of 3 Members of the Council's Cabinet and the Chief Executive. The board is supported by officers of the Council, including the Section 151 Officer (Director of Finance) and the Monitoring Officer (Director of Legal & Democratic Services).
4. The Shareholder Board meets at least quarterly and receives detailed and comprehensive information and briefings to support its decision-making. The extent of this decision-making depends upon the Council's shareholding and the requirements of each company's Articles of Association, or other contractual documents such as a Shareholders Agreement in relation to Joint Venture companies.
5. The Annual Report of the Shareholder Board is attached as ANNEX A to this report.

Risk Management

6. Effective risk management is a vital part of the Council's approach to innovation and establishing new models for service delivery and to generate income. The Shareholder Board provides this strong governance to ensure that risks are effectively managed.

Financial Implications

7. The Shareholder Board is responsible for reviewing the financial performance of companies in which the council owns shares and also maintains oversight of the Council's group position. The Board and its advisors ensure that the relationship between the Council and its companies are on an "arms-length" basis as required by legislation. This means, for example, that the Council must recover the full cost of any accommodation, goods and services supplied to a trading company. Any financial assistance provided must be for a limited period, provided under a formal agreement and made in the expectation of returns in the future.

Next Steps:

The report of the Shareholder Board is presented to the Overview Board for the purpose of scrutiny. The report will be presented to Cabinet at their meeting on 21 June 2016 and to Council on 12 July 2016.

Contact Officer:

Susan Smyth, Strategic Finance Manager (Secretary to the Shareholder Board)
Tel: 020 8541 7588

Annexes:

Annex A – Annual Report of the Shareholder Board.

Annex B COB – Record of Decisions taken by the Shareholder Board (since the last report to the Scrutiny Board).

Annex C COB – Financial Results

Sources/background papers:

1. Strengthening the Council's Approach to Innovation: Models of Delivery (Cabinet March 2013)
 2. Investment Strategy (Cabinet July 2013)
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Shareholder Board Annual Report

Financial year 2015/16

June 2016



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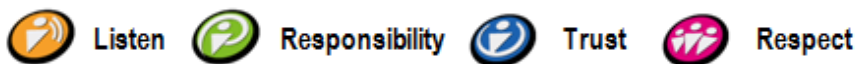
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INTRODUCTION

The council has created trading companies and made investments to enhance the financial resilience of the council.



Our Corporate Strategy, Confident in Surrey's future



The council's strategic framework for innovation and investment is supporting the development of new ideas and approaches to enhance the financial resilience of the council. This increased emphasis on commercial activity has led to the creation of the Shareholder Board to monitor the council's trading activity and ensure satisfactory performance and effective risk management. The financial returns delivered from innovation and investment will help to ensure that we continue to deliver quality services at the right cost for our residents.

The Shareholder Board is an example of best practice governance. It provides effective oversight and alignment with the strategic objectives and values of the council. The Board safeguards the council's interests and takes decisions in matters that require the approval of the council as owner or as a shareholder of a company.

The Annual Report of the Shareholder Board provides an overview of the progress we have made in developing new models of delivery and enhancing the financial resilience of the council.



David Hodge
Leader of Surrey County Council

THE SHAREHOLDER BOARD

Governance

- The Shareholder Board was created in September 2013 following the report to Cabinet setting out the council's strategic approach to innovation and new models of delivery.
- The Board and its role is noted in the constitution of the council.
- The Board works in accordance with its Terms of Reference (see Annex B) which are reviewed on an annual basis.
- Meetings take place at least quarterly.

The Shareholder Board is comprised of 3 members of the council's Cabinet and the Chief Executive. The board is supported by officers of the council, including the Section 151 Officer (Director of Finance) and the Monitoring Officer (Director of Legal & Democratic Services).

Members

- Leader
- Deputy Leader
- Cabinet Member for Business Services & Residents Experience
- Chief Executive

Advisors

- Deputy Chief Executive
- Director of Finance (Section 151 Officer)
- Director of Legal & Democratic Services (Monitoring Officer)
- Strategic Finance Manager (Board Secretary)

THE SHAREHOLDER BOARD

Purpose

The primary and most common purpose behind the creation of a Local Authority Trading Company (LATC) is to enable a council to participate in commercial trading activities. Many local authorities have created an LATC for this purpose, with the most common reason given being in order to grow income to protect services. Surrey County Council's first trading company, Babcock 4S Ltd, the Joint Venture with Babcock to provide school improvement services was created in 2003

The decision to create a company or invest in shares is taken by Cabinet upon the basis of a business case. Like many other councils, SCC has created companies in order to trade and grow income; with profits generated for the council available to support the delivery of the council's Medium Term Financial Plan and enhance financial resilience. This is however not the only reason for the creation of a company or investment in shares.

Cabinet approved the creation of a Property Company in order to strengthen the council's ability to invest in a diversified and balanced portfolio of assets in pursuit of the Investment Strategy. The council's investment in FutureGov Ltd enhances this portfolio of assets and supports a company that has a track record of delivering innovative products and solutions in children's services and adult social care.

The council's participation in the Joint Venture Company, Bandstand Square Developments Ltd, delivers the council's strategy of enhancing economic prosperity in the county. This company, a special purpose vehicle, was established in order to deliver the economic regeneration of Woking Town Centre in partnership with Woking Borough Council and a private developer, Moyallen Ltd.

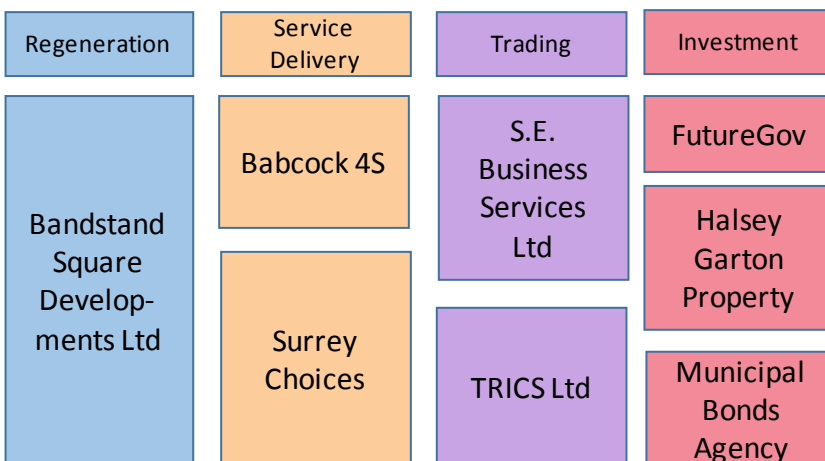
THE SHAREHOLDER BOARD

The Council's Shareholdings

The council has created companies and purchased shares in order to;

- Deliver services, benefiting from efficiencies driven by operating in a commercial environment,
- Trade & generate income
- Invest in assets to deliver an income and enhanced asset value in the longer term.
- Deliver regeneration

Cabinet Decision
To create a company or invest in shares



The decision to create a company or to invest in shares is taken by Cabinet or in accordance with delegated decision-making, upon the basis of a business case which articulates the financial implications and associated risks for the council.

These proposals are made with realistic and prudent expectations regarding the investment required and the length of time it will take to establish a successful company.

The council therefore recognises that returns will not necessarily be received in the short-term but will contribute to financial resilience in the longer term.

THE SHAREHOLDER BOARD

The Council's Shareholdings

Company	Ownership
Surrey Choices Ltd	100%
S.E.Business Services Ltd	100%
Halsey Garton Property Ltd	100%
Bandstand Square Developments Limited	24%
Babcock 4S Limited	19.99%
TRICS Consortium Limited	16.67%
FutureGov. Ltd	13.1%
Municipal Bonds Agency	Minority*

*Will depend on total equity raised

Shareholder Board & Decision-Making

The day-to-day operation of each company is the responsibility of the Directors (of each company) with the Shareholder Board being responsible for taking decisions on behalf of the council where these are of a more strategic nature. The extent of this decision-making will depend upon the council's shareholding and upon terms included in a company's Articles of Association (matters reserved for the Shareholder) and / or a Shareholders Agreement in relation to Joint Venture companies.

The Articles of Association for the companies wholly owned by the council stipulate that the shareholder, that is the Shareholder Board on behalf of the council, are required to approve or make decisions in relation to the following, for example,

<u>Decision</u>	<u>Rationale</u>
Changes to the Articles	Removes all controls
Appoint and remove Directors	To ensure that the company is appropriately managed and that there is satisfactory governance
Material change in the nature or scope of the business	To ensure companies only undertake activities for which approval has been given and to protect the council's reputation /continued

THE SHAREHOLDER BOARD

Reserved Matters (continued)

<u>Decision</u>	<u>Rationale</u>
Purchase of shares or interest in another company. Acquisitions of any business or any shares.	Significant business decision which may involve further financial risk
Borrowing or the raising of finance (except from SCC). The creation of any security interest (except SCC)	To avoid taking on debt that undermines security for SCC debt (excluding de-minimis bank overdrafts) and to avoid incurring further financial risk
Issuing, withdrawal or buy back of shares	To maintain SCC ownership as originally intended
Enter any Joint Venture, consortium or partnership	To ensure companies only undertake activities for which approval has been given by Cabinet or the Shareholder Board, to protect SCC reputation. To ensure that it is the council that takes decisions that may involve substantial financial risk (rather than the Directors alone).
Selling, transferring, leasing, assigning property or assets (excluding de-minimis and replacement of operational equipment)	To avoid dilution of assets or security in relation to SCC debt
Disposal of any business or any shares	To maintain SCC ownership as originally intended
Entering into an administration order or steps to voluntarily wind up the company	To protect SCC's reputation

The decisions set aside for Shareholder approval listed above are an extract of the type of matters contained in the Articles of Association of each of the council's LATCs. The Shareholder Board reviews these articles on a periodic basis to ensure that they remain appropriate.

THE SHAREHOLDER BOARD

Company Details

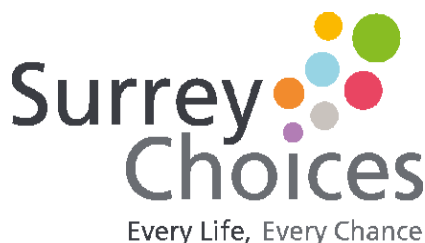
The following pages contain information about each company, including a description of activities and purpose, Cabinet approval & date of incorporation and progress made to date. Information of a financial and commercially sensitive nature has been excluded.

Directors

Each company must have at least one person named as a Director – the council itself cannot act in this capacity. The Shareholder Board is responsible for appointing (and removing) Directors to act on behalf of the council. Directors have specific responsibilities in Company Law and therefore the Shareholder Board will need to ensure that persons with the appropriate skills are selected. The name of the person(s) appointed to each company is noted in the next section of the report. In the case of Joint Ventures the person appointed by the council to act in respect of its shareholding is noted. Directors appointed by the council receive no additional remuneration and undertake this role as part of their duties as an officer or member.

Company	Page
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SURREY CHOICES LTD



Cabinet Approval	December 2013
Ownership	100%
Date of Incorporation	March 2014
	Commenced Trade in August 2014
Council Investment	£100 Share Capital
Directors	Simon Laker (Managing Director) & Kevin Kilburn

Company Profile

Surrey Choices Ltd commenced trade in August 2014, following Cabinet approval of the business case in December 2013. The company provides people with learning and physical disabilities with a range of services in a variety of settings. The service offer includes day services and support for people who wish to seek employment or become engaged in work, volunteering or training opportunities. The Shared Lives service matches carers who provide support in a family home environment to people with disabilities. The company has recently developed a respite service creating additional capacity in the Surrey based market. The commissioning contract to supply services to the council triggered the transfer of employees from the council to the company under TUPE regulations in August 2014.

Business Case

The council created the company in order to ensure the sustainability of the services provided and to create a commercial environment in which to deliver efficiencies and continued innovation. Benefits to the council are to be derived by two means;

- Income generated from trading activity by supplying services to those people with personal budgets and those that privately purchase, and,
- A reduction in the cost of services, that were previously delivered in-house from economies of scale delivered as a result of trading activity and from reducing fixed costs.

The business case demonstrated that the company would make a modest profit within the first five years of operation.

SURREY CHOICES LTD

Council Investment

The council provided share capital of £100 and loans to enable the company to purchase operational assets from the council and to provide for working capital requirements– all lending has been provided on an “arms-length” basis at market rates of interest.

Progress Report

The Company has secured approval from the Care Quality Commission for the regulated services provided and for the newly developed respite provision. Changes have been made to the management team who have undertaken a thorough review of responsibilities, standards and policies, with these being re-shaped from the customer perspective. Management layers have been reduced such that there are now three tiers of management across the business and use of agency staff has reduced with increases to the permanent staffing.

The company are putting in place changes to improve the internal controls and governance environment following growing concerns expressed by both Internal Audit and the Shareholder Board and the report of the external auditors, Grant Thornton, which identified a number of weaknesses. The Directors have made changes to the overarching governance within the company, taking on board advice from the auditors to improve the visibility and collective responsibility for the company’s financial performance. Improvements include regular meetings with the auditor to track progress with the plans being monitored by the Shareholder Board on a regular basis.

The company delivers services to the council under a commissioning contract; this is currently a block arrangement meaning that the risk of any volume increase rests with the company rather than with the council. Over the last year the number of new referrals from the council has significantly increased and this has contributed to a deteriorating financial situation, such that a loss is expected for this first full year of trading. The Shareholder Board is satisfied that these cases would have created a volume pressure within the council under previous arrangements and that the company is providing the additional services at a lower cost compared to the previous in-house provision. Discussions have concluded between the company and the Adults commissioning team to agree appropriate adjustments to the block contract.

The Shareholder Board are sufficiently encouraged by the progress made by the Directors to believe that a credible recovery plan is achievable to return to profitability. The company has further developed their financial plans for the forthcoming year which will continue to be reviewed by the Shareholder Board.

S.E.BUSINESS SERVICES LTD



Cabinet Approval	March 2013
Ownership	100%
Date of Incorporation	June 2013. Commenced Trade in December 2013
Council Investment	£100 Share Capital
Directors	Liz Mills, Laura Langstaff & Steve Ruddy

Company Profile

S.E.Business Services commenced trade in December 2013 following Cabinet approval as part of the New Models of Delivery strategy in March 2013. The company provides business to business professional, technical, training and contingency services, enabling the council to trade in those functions in which it has particular expertise and capacity.

Business Case

Originally developed in order to enable the council to trade and to provide IT services, including data hosting, helpdesk and application support to a private sector organisation, the company has further developed and expanded to provide further IT contracts and services. Shareholder Board approval followed by Cabinet approval in March 2014, has enabled the company to enter the aviation fire contingency market created as a result of regulatory and licensing changes for UK airports. The company was selected to provide these services under contract in April 2014.

S.E.BUSINESS SERVICES LTD

Council Investment

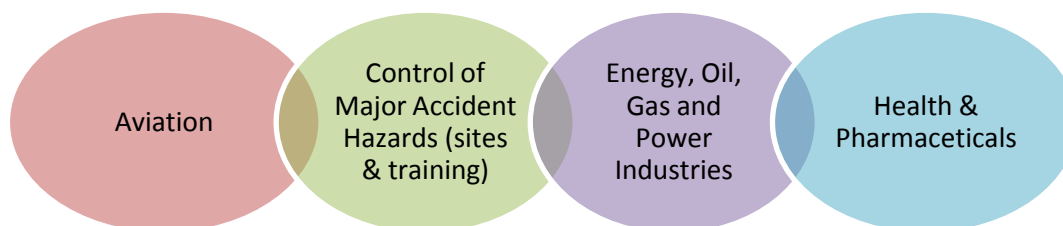
The council provided share capital of £100 and an initial working capital loan to enable the company to commence trade– all lending has been provided on an “arms-length” basis and has been fully repaid.

Progress Report

The company has delivered profits in excess of those expected in the Business Case and compared to its approved Annual Business Plan. These profits have been delivered as a result of entering the fire aviation contingency market and by securing a strategic contract with Heathrow Airport. This enabled the company to declare a dividend in relation to the first full year of trading to 31st March 2015 (incorporating retained earnings from the prior year) and a further dividend for the year ending 31st March 2016.

The company employs staff as required to deliver confirmed contracts, and engages appropriate contractors, advisors and service providers to undertake the activities of the company. The Company receives services from the council, including contract delivery and operational services, commercial bid management support together with professional legal and finance services and accountancy support services. The council makes an appropriate charge to the company for any services provided, ensuring that the full cost of the activity is recovered.

The company will continue to develop its client base and reputation in the market in order to secure further contracts in target markets from the provision of business continuity services, training and development, technical services and subject matter consultancy and advice.



HALSEY GARTON PROPERTY LTD

Cabinet Approval	May 2014
Ownership	100%
Date of Incorporation	June 2014
Council Investment	£2,544,000 Share Capital (as at 31.03.2016)
Directors	John Stebbings & Susan Smyth

Company Profile & Business Case

Halsey Garton Property Ltd was incorporated in June 2014 in order to fully implement the recommendations of the Investment Strategy approved by Cabinet in July 2013. The company will enable the council to invest in a diversified and balanced portfolio of assets delivering income, asset growth and enhancing the council's financial resilience over the longer term.

Council Investment

The council provided initial share capital of £1,000 and provides further equity and debt financing to enable the company to progress agreed investments. This is provided on an arm's length basis following the approval of the business case by Cabinet. The council provided a further £2.5m of equity funds in enable the company to purchase its first investment asset in November 2015, with the balance provided as debt financing.

Progress Report

Cabinet approved the company's purchase of premises at Hampton Park West, Wiltshire in November 2015. This asset is occupied by Avon Rubber PLC as their global headquarters and UK manufacturing and distribution facility and hence provides an Industrial sector asset to complement and provide balance to the council's own portfolio. An investment approved by Cabinet in March 2015 was withdrawn from sale by the vendors during the due-diligence process and therefore did not proceed. Further investments have been made by the company in the first quarter of hte financial year.

The first dividend is expected to be received after the first full year of trading, in 2016/17.

BANDSTAND SQUARE DEVELOPMENTS LTD

Cabinet Approval	September 2012
Ownership	24%
Date of Purchase of Shares	February 2013
Council Investment	£7,200 Share Capital
Surrey County Council Directors	Denise Le Gal & Trevor Pugh

Company Profile

Bandstand Square Developments Ltd (BSDL) is a company created for the purpose of delivering a regeneration of Woking town centre and is owned in partnership with Woking Borough Council (WBC) and a private developer, Moyallen Ltd. The company will be wound up upon completion of the development and is therefore in nature, a Special Purpose Vehicle (SPV).

Business Case

The council's participation in the regeneration project aligns with the strategic priorities of the council to support economic growth and will ensure the long-term viability of the retail offer in the town. The development, known as Victoria Square, will provide further retail premises, a hotel and residential accommodation. The development will create additional employment in both the development phase and the longer term and will require the relocation of the existing fire station and changes to the highway. BSDL are responsible for securing the planning permission, funding and delivering the replacement Fire Station to the council's specification.

BANDSTAND SQUARE DEVELOPMENTS LTD

Council Investment

The council has provided share capital of £7,100. Development loans for the first phase of the project are being provided to the Joint Venture by both SCC and WBC, on equal terms, and at a margin above the cost of equivalent borrowing. WBC will repay all loan funding upon completion of the development when it takes ownership of the freehold from the company.

Progress Report

Phase 1 of the project is focussed upon putting together the redevelopment site, securing planning consent and developing the new Fire Station. Specifically;

Activity	Status
Site Acquisition Secure planning consent for the relocation of the Fire Station	Completed Planning consent secured and a construction contract awarded. Construction is in progress with the new Fire Station expected to be delivered in the summer of 2016.
Secure planning consent for the main scheme and agree terms with a residential development partner, a hotel operator and a large retailer for the main components of the scheme.	Planning consent for the Victoria Square scheme was approved in November 2014. Negotiations with various parties continue with the company seeking tenders for the main construction contract and a hotel operator.

The new Fire Station will provide additional garaging for specialist vehicles and provides enhanced training facilities including a smoke house and an area for Road Traffic Accident training. Construction is expected to be completed in the summer of 2016.

BABCOCK 4S LIMITED

Cabinet Approval	July 2003
Ownership	19.99%
Date of Incorporation	September 2003
Council Investment	£199.99
Surrey County Council Director	Jason Russell

Company Profile

The Company provides specific and statutory educational support services under a Service Delivery Agreement (SDA) with the council and has developed to provide a range of services to schools. Their services include those related to education, including curriculum advice, governor support and more generic services such as personnel services, technology support and facilities management. The company also provides services to other local authorities.

Business Case

The Joint Venture company was formed in 2004 when the council selected a commercial partner to deliver its school support and improvement services. Originally named VT Four S Limited, the company was renamed as Babcock 4S Limited when Babcock Internal PLC acquired VT Education and Skills Limited in 2010.

The Joint Venture was proposed in a time of uncertainty regarding the role of Local Education Authorities. The Government had announced its intentions for the greater independence of schools and predicted that the market for education services would be provided by a small number of larger providers. The council formed the Joint Venture in response to these proposed changes, selecting a partner to enable the services to be traded, utilising the partner's commercial skills to enter the market and providing greater sustainability if the levels of service purchased by the council were to decline.

BABCOCK 4S LIMITED

Council Investment

The council received a substantial consideration from VT Education and Skills upon commencement of the Joint Venture and award of the contract to supply services. Investment required to establish the company in the market was provided by VT Education and Skills, as at the time Local Authorities were operating under a different capital finance regime which restricted borrowing and investment.

Progress Report

The Joint Venture has proved to be successful, delivering a financial return to the council as a shareholder, significant dividends and improving school performance as part of its SDA with the council. However it is expected that the company will be significantly impacted by changes in the schools market in the future. The change to academy status means that a proportion of funding is transferred from the local authority to individual schools and the academy is then responsible for commissioning its own support services. Some academies have chosen to continue to purchase their support services from B4S but others have not. The company has lost a number of significant local authority contracts since 2012 or seen the contract value of those remaining significantly reduce.

The changes in the market will therefore impact upon the nature and viability of the business in the future. The Shareholder Board recognise that the increasing emergence of free-schools and multi-academy trusts will impact on whether a single provider for schools improvement is the best long-term approach and that the company will need to manage these risks and any associated costs, such as redundancy, accordingly.

TRICS CONSORTIUM LTD



Cabinet Approval	July 2014
Ownership	16.67%
Date of Incorporation	October 2014
	Commenced Trade in January 2015
Council Investment	£37,500 Share Capital
Surrey County Council Director	Mike Green

Company Profile

TRICS Consortium Ltd commenced trade in January 2015, following Cabinet approval in July 2014. The Company provides a service to the transport planning and property development customer community by providing access to a comprehensive database of travel patterns known as trip rates. Trip rate data is used by planning consultants in support of planning applications in order to demonstrate the impact of major developments on local traffic. The database is recognised in national planning policy and is widely used by the planning profession and its use has been given due weight by Inspectors at Planning Inquiries.

The company is a joint venture with five other local authorities, Dorset County Council, East Sussex County Council, Hampshire County Council, Kent County Council, and West Sussex County Council. These councils held the rights to the database under a long-standing partnership arrangement and therefore became the shareholders of the company. The company now owns all Intellectual Property Rights in relation to the database and the brand.

Business Case

The creation of the company ensures that the commercial activities of the consortium councils is being undertaken in an appropriate manner and will enable the growth potential of the database into other territories to be fully exploited.

TRICS CONSORTIUM LTD

Council Investment

The council, together with the other five local authority shareholders, invested equity funds to provide for working capital and set-up expenses. The funds provided were from balances held by the consortium, created from surpluses from previous activity.

Progress Report

The Company commenced trading on 1st January 2015 when it took over the operation of the database from the incumbent supplier. The company comprises of the Managing Director, recruited to deliver the day-to-day operation of the company and three employees that TUPE transferred from the previous supplier. The company achieved its highest ever number of members (customers) in December 2015 and is benefiting from the more optimistic financial climate which has a large influence on activity within the industry. The company is developing plans to expand its reach into international markets, particularly in New Zealand and Australia.

The company delivered a profit in excess of expectations for the first full year of trading due to tight control of set-up costs and the improving economic environment. The company has distributed a dividend to its shareholders thereby delivering a return on investment within a short timeframe.

FUTUREGOV

Cabinet Approval	December 2013
Ownership	13.1%
Date of Purchase of Shares	January 2014
Council Investment	£125,000
Surrey County Council Director	Julie Fisher until 1 st March 2016. From April the board meetings of the company will be attended by an observer.

Company Profile

FutureGov Ltd provides innovative digital solutions to Local Authorities and specialises in the children's services and adult social care market. Their products and consultancy services have been purchased by a number of authorities including those in Australia.

Business Case & Council Investment

The investment in FutureGov strengthens a partnership that has already delivered innovative products within social care. The council's investment of equity and debt finance in 2014 was made alongside investment from Nesta, a charity whose investment function has a track record in identifying commercial opportunities that deliver social value. The debt financing provided by both parties is at market applicable interest rates, with the interest receivable offsetting the funding costs incurred on the initial equity investment. The business case expected that the investment would generate a modest net return to the council over a five year period.

Progress Report

The company has delivered a significant growth in sales revenue since the date of investment however continues to fall short of delivering fully against its ambitious business plan and profits targets. The products have sold well in Australia but have had limited success within the UK market. As a result of this, the company are further refining their business strategy which is expected to include a refocusing towards consultancy services.

MUNICIPAL BONDS AGENCY

Cabinet Approval	Decision taken under delegated approval September 2015.
Ownership	Minority – will depend upon the total equity raised.
Date of Incorporation	September 2014
Council Investment	£450,000 share capital

Company Profile

The Municipal Bond Agency's objective is to provide an alternative to the Public Works Loans Board (PWLB) as a cheaper source of borrowing for local authorities from the issuing of bonds. The agency, developed by the Local Government Association, has raised equity funds from 56 councils to provide for operating costs and sufficient capital against risks.

Business Case & Council Investment

The council's equity investment will be long-term in nature as the agency is not expected to break-even until at least 2018. The agency will provide access to all local authorities to raise external borrowing provided that they meet the criteria set, however preferential terms will be provided to those councils that are also shareholders in the company. This means that, for example, on a loan of £10m the council will save £15,000 per annum compared to PWLB, and if it were not a shareholder the saving would be about £5,000.

Progress Report

The Municipal Bond Agency has distributed a framework agreement which set out the terms upon which local authorities will be able to borrow from them. Authorities will be expected to pass the agency's own credit checks and agree to a joint and several guarantee that would operate if a local authority defaulted on its borrowing. Once sufficient numbers approve the framework, the agency will develop plans for the first bond issue.

GLOSSARY (and associated principles)

Articles of Association

A company's Articles of Association set the rules (the constitution) for the company. The Articles are filed as part of the incorporation process and are publically available documents. The objects of the company describe what the company will do. The objects of a company are now deemed to be unlimited, unless the Articles limit them.

The Articles may restrict the decision-making powers of the Directors – these are described as Reserved Matters. The Articles may be changed at any time by a special resolution of the members (the shareholders) of the company.

Companies created by the council follow the model articles with the exception of the introduction of reserve powers in matters of strategic importance and one or two other minor exceptions.

Assets

A council owned company may purchase assets from the council. In disposing of assets, the council must ensure that it receives appropriate market value and the company in turn will be required to purchase at market value in order to ensure that there is no financial subsidy or advantage that may be deemed as state aid.

The council will retain property assets unless there is a financial advantage to transfer (for example, where the purpose of the trading company relates to property activities). Market rents will be charged for occupancy of property assets – rents are a pre-tax expense making this arrangement tax efficient and this also ensures that the council's balance sheet remains strong and is not diluted.

Surrey Choices Ltd purchased operational assets, such as vehicles and musical equipment, at appropriate market values from the council and this formed part of the initial set-up costs for the company.

Debt Financing

Debt financing provides the funds required to run a business. With limited or inadequate funds at a Company's disposal, the company may borrow the money required to grow and develop the business.

Interest on debt is a business expense, and therefore deducted before tax.

Companies created by the council, such as S.E.Business Services and Surrey Choices have been set-up with limited equity funds. Funding for growth and working capital requirements has been provided by the council under an agreed loan facility.

GLOSSARY (and associated principles)

Directors Duties

The Shareholder Board are responsible for appointing (and removing) Directors to act on its behalf in relation to companies in which the council holds shares. Directors duties are described in the Companies Act 2006 and include a responsibility to promote the success of the company, exercise independent judgement and exercise reasonable care, skill and diligence.

Directors appointed by the Shareholder Board do not receive additional remuneration for their role and are covered by indemnities provided by the council in respect of financial loss (an extension of the indemnities provided by the council to staff and members as agreed by Cabinet in March 2013). This does not and cannot extend to negligence, default, breach of duty or breach of trust.

The council's legal team brief Directors so that they understand their duties.

Group Companies

Companies form a Group if one is a subsidiary of the other or both are subsidiaries of the same body corporate or each of them is controlled by the same person. Companies within a Group can take advantage of Group Tax relief. In tax legislation, the council is a body corporate that can perform the link between LATCs and therefore the losses of one company can be offset against profits of another.

This group status in tax law also provides the council with the ability to be exempt from stamp duty which would ordinarily apply to property transactions (including the entering into lease arrangements between group companies).

The council is required to produce Group Accounting statements which mean that the financial results of its LATC's will be included together with the financial results of the council. The council will continue to also produce detailed Annual Statements of Accounts on a single entity basis as now.

Joint Venture

A Joint Venture company is one that is owned by more than one shareholder, where the shareholders concerned are corporate bodies in their own right. The term Joint Venture is not one that is legally defined and is often used in respect of other arrangements that do not necessarily involve a limited company.

LATC (Local Authority Trading Company)

The terminology "LATC" is often used to describe a company that is owned by a Local Authority (i.e. Local Authority Trading Company). It is not a legally recognised different form of company however most companies described as LATC's are companies limited by shares, with the shares and therefore the company being wholly owned by the local authority.

GLOSSARY (and associated principles)

Companies created by SCC are most likely to be limited by shares, as this structure ensures that profits can be returned to the shareholder (the council) in the form of dividend payments, and provides the possibility for future sale. It is the most suitable structure for trading activity and enables the Council to create a tax group.

It is possible that other company structures may be applicable in certain circumstances; however these structures tend to involve the removal of council control or would mean an inability to return profits.

Reserved Matters

Reserved matters are important decisions for which the Directors are required to seek and gain Shareholder Approval. These decisions are written in the Company's articles of association which set the constitution or the rules for the running of the company.

The Shareholder Board has delegated authority to perform these functions on behalf of the council. The reserved matters of SCC's companies have been written to ensure that the Shareholder Board is responsible for consideration of issues of strategic importance, take decisions that may involve changes to financial risks or may have an impact on the council's reputation.

Share Capital (Equity)

Equity or shares in a company represent the ownership interests. The Equity invested is the amount of funds contributed by the owners to the financial requirements of the company. In a limited liability company, the owners / shareholders lose no more than the amount invested. Equity invested at start-up is evaluated on the basis of assets owned and/or earnings potential.

Financial returns to the shareholders are made in the form of dividend payments. Dividends are not a business expense and are paid from post-tax profits.

Shareholders

The Shareholders (the owners of a company) and directors have different roles in a company. The Shareholders own the company and the directors manage it.

The Directors must obtain shareholder approval for decisions where the shareholder has restricted the powers of the Directors – these are called reserved matters. The Shareholder Board has delegated authority to perform these functions on behalf of the council.

Shareholders Agreement

These are agreements between shareholders which are private documents. These agreements set out how the shareholders interact with each other and can define what happens in the event of dispute.

GLOSSARY (and associated principles)

A shareholder agreement is only relevant when there is more than one shareholder and is recommended practice for Joint Ventures.

SCC has entered into shareholder agreements in respect of the Woking Bandstand Development (BSDL), TRICS Consortium Ltd and in relation to the investment in FutureGov Ltd (in this instance called an Investment Agreement).

Support Services

The 2003 Local Government Act provides the ability for the council to enter into agreements for the supply of goods and services, by and to a LATC. The supply of goods, services and financial assistance must be made without subsidy. The legislation guides the council to apply CIPFA definitions of total cost in calculating the cost of supplies made to a Trading company. This provides the ability to recover all costs in the organisation, including a proportion of all central overheads, depreciation, capital costs and pension back-funding. This wide definition allows significant overhead recovery in the provision of services to an LATC. The supply of goods and services calculated on this basis will be compliant with state aid legislation.

The arrangements for LATCs should seek to ensure that the overall cost base of the Group is not unnecessarily duplicated or increased as a result of any new arrangements. Therefore SCC will provide services to an LATC where it is in a position to do so, where these services are fit for purpose for the business and support its strategy and can be supplied at a cost that is competitive. This is particularly important from a Group perspective where costs are relatively fixed, for example in the provision of payroll services where a substantial portion of the cost relates to the system.

TUPE

The Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) protects employees when a business changes to a new owner and apply to “relevant transfers” which may occur in many situations, including service provision or contract changes. In these situations, the employment transfers, employment terms and conditions transfer and continuity of employment is maintained.

The new employer is therefore required to provide the same terms and conditions to the staff concerned. Alternate provision can be made, e.g. a cash alternative to a lease car, but this alternate provision must be acceptable to the employee.

SCC is required to follow the provisions of the TUPE act. This will apply where a service is being transferred to a trading company, as occurred with the award of the commissioning contract for services to Surrey Choices.

A LATC will additionally be required to follow TUPE provisions when taking over a service contract from another supplier – for example, as in the case for S.E.Business Services in the provision of IT managed services previously supplied to the customer by another provider.

GLOSSARY (and associated principles)

Teckal

Procurement complications arise where the Local Authority creates a company to supply services that the LA wishes to continue to purchase – be those that were previously in-house or previously provided externally. The Council is not permitted to automatically purchase from a LATC company outside of normal EU procurement rules. The LATC is required to tender alongside other private sector suppliers.

Procurement issues in relation to the purchase of goods and services from a LATC were evaluated in the Teckal case. According to the 1999 Teckal judgement, public procurement rules do not apply to contracts if the control exercised by the contracting authority over the entity awarded the contract is similar to that which it exercises over its own departments and, if at the same time that entity carries out the essential part of its activities with the controlling authority. This judgement has now been codified into a new EU Directive and in UK Law by the Public Contract Regulations 2015.

SCC will need to ensure that arrangements comply when considering transferring activities to a trading company, assuming that the council wishes to continue to purchase the services. The arrangements for Surrey Choices comply with these considerations.

A LATC falling within the Teckal exemptions will itself be required to comply with the EU public procurement rules, and therefore Surrey Choices is subject these procurement regulations.

Transfer Pricing / State Aid

Transfer Pricing refers to the price at which divisions of a company or a group of companies transact with each other – the terminology relates to all aspects of inter-company financial arrangements. These arrangements have potential implications for the tax authorities. The UK has adopted principles of “arms length” in tax laws.

State Aid issues would apply where a LATC is established, or provided with goods and services and financial assistance at a subsidy.

SCC will need to ensure that it steers an appropriate path or middle ground between issues of transfer pricing (in relation to tax) and those in relation to State Aid. The cost of goods and services and financial assistance (e.g. loans) supplied by the Council to an LATC will therefore be tested against the market to ensure that prices / rates can be justified on an arm’s length basis.

SHAREHOLDER BOARD TERMS OF REFERENCE



SHAREHOLDER BOARD

TERMS OF REFERENCE

Overview

The Shareholder Board will exercise the Council's role as shareholder in any company, limited by shares wholly or partly owned by the Council for the purposes of service provision and/or trading activities. The Board acts with the delegated authority of Cabinet to ensure the performance of any such company is satisfactory.

Any reference in these terms of reference to "Company" is defined as a company in which the Council holds shares.

The Shareholder Board may also decide, from time to time, whether to accept proposals to submit a bid to provide goods and /or services which, if successful would commit the council to the establishment of a company (which may include a joint venture company). In these instances, the decision of the Shareholder Board would be ratified in accordance with the council's decision-making process.

Membership

- | | |
|--|---------------|
| • Leader of the Council (Chairman) | David Hodge |
| • Deputy Leader of the Council | Peter Martin |
| • Cabinet Member for Business Services | Denise Le Gal |
| • Chief Executive | David McNulty |

The Director of Finance, Director of Legal & Democratic Services and the Strategic Director for Business Services will be advisors to the Board to provide open and strong technical advice. Susan Smyth, Strategic Finance Manager, will act as secretary to the Board. Additional advisors may be invited to attend the Board as required.

Purpose

The Shareholder Board will:

1. Have the power to appoint and remove Company Directors
2. Approve and monitor Company Business Plans
3. Approve the allotment of further shares in a Company (whether to third party shareholders or the Council)
4. Exercise any reserved powers in the Articles of a Company
5. Endorse any amendments to Company Business Plans
6. Periodically evaluate financial performance of a Company
7. Agree significant capital or revenue investments proposed by a Company
8. Determine the distribution of any surplus or the issue of any dividends from a Company
9. Consider any recommendation from Company Directors to cease trading
10. Report to the Council annually on trading activity
11. Review the risks associated with trading activities.

The Shareholder Board will not have operational control over Companies. All decisions regarding the day to day operation of each Company, its business developments and commercial opportunities, staff terms and conditions and the development and implementation of its internal procedures, rest with the Directors of each Company.

Relationship to scrutiny

Select Committees will retain their scrutiny function in relation to the Shareholder Board. The Council Overview Board will be able to call the Shareholder Board to account for progress in relation to any Company for which the Council is a shareholder and any returns it is making.

Scope

In respect of Teckal-compliant companies

The Shareholder Board will:

1. Monitor Teckal compliance at least annually.
2. Ensure the Business Plan of a Teckal compliant Company is aligned to the corporate objectives of the Council.

In respect of non Teckal-compliant wholly Council-owned companies

The Shareholder Board will also:

1. Seek to achieve appropriate returns on investment from trading activities.
2. Ensure trading activities are conducted in accordance with the values of the Council.

In respect of any shareholding and/or joint ventures

The Shareholder Board will:

1. Evaluate the return and benefits of the shareholding against the values of the Council.
2. Where appropriate, exercise influence over the company and /or joint ventures in accordance with the values of the Council.

In respect of the submission of a bid which will commit the council to the establishment of a company (or Joint Venture)

The Shareholder Board will:

1. Evaluate the return and benefits of the proposal, including an evaluation of the proposed profit share in a Joint Venture.
2. Seek to achieve appropriate returns on investment from trading activities.
3. Ensure trading activities are conducted in accordance with the values of the Council.

Operation of the Shareholder Board

1. The Cabinet has delegated to the Shareholder Board the authority to take decisions in respect of 100% of the Council's shareholding in any Company.
2. The Shareholder Board will meet quarterly, or as required.
3. The quorum for a meeting of the Shareholder Board is a minimum of 3 members, one of whom must be the Leader or Deputy Leader, who will chair the meeting.

4. The Shareholder Board may take decisions outside of a Company's general meeting as follows;
 - a. At meetings of its members by consensus of those present, unless any member of the Board requires a vote, in which event a majority decision will be taken with each member of the Shareholder Board present having a single vote. The Chairman of the meeting has a casting vote in the event that there is no clear majority; or
 - b. In cases of urgency, by a decision made by the Leader or Deputy Leader in consultation with the Chief Executive.
5. Any decisions made by the Shareholder Board in accordance with 4a or b above, must be notified to the Company's directors as soon as reasonably practicable following such decision being taken.
6. The Shareholder Board may take decisions at a Company's general meeting in accordance with the principles set out in 4a above.
7. The Chairman approves the agenda for each meeting. The agenda and papers for consideration are circulated at least two working days before the meeting. After each meeting, the Chairman approves the meeting notes and actions and signs any resolutions agreed by the Board.
8. The Shareholder Board will review the Terms of Reference annually.

V6

Last reviewed: 16.07.2015

ANNEX B

Shareholder Board – Record of Decisions

April 2015 to March 2016

23 April 2015

Item / Company	Description	Decision	Key Points
Surrey Choices Ltd	Annual Business Plan	Agreed	The Shareholder Board reviewed and approved the Annual Business Plan.
Babcock 4S Ltd	Strategy discussion	Agreed/ Noted	The Shareholder Board agreed that no changes should be made to the restrictive covenant and requested that a strategic options paper be prepared for future consideration.

3 June 2015

Item / Company	Description	Decision	Key Points
Babcock 4S Ltd	Strategy	Noted	The Shareholder Board received an interim report providing an update on the progress of the strategic review of the Joint Venture.
Surrey Choices Ltd	Draft (unaudited) Annual Accounts	Noted	The Shareholder Board reviewed the draft Annual Accounts for the year ending 31 March 2015. The draft results for the first partial year of trading are in line with expectations (excluding the impact of the pension valuation). The Board will receive the final audited accounts at a later date.
S.E.Business Services Ltd	Draft (unaudited) Annual Accounts	Noted	The Shareholder Board reviewed the draft Annual Accounts for the year ending 31 March 2015. The results are an improvement upon the agreed Business Plan. The Board will receive the final audited accounts at a later date.
S.E.Business Services Ltd	Dividend	Agreed	The Shareholder Board approved that the company pay a dividend of £400,000, and noted that this dividend incorporates retained profits from the first partial year of trading.
S.E.Business Services Ltd	Commercial Opportunity	Agreed	The Shareholder Board approved that the company may progress business development opportunities (these opportunities are subject to a signed Non-Disclosure Agreement)

16 July 2015

Item / Company	Description	Decision	Key Points
Governance	Director Appointments	Agreed	The Shareholder Board agreed changes to Director appointments for Surrey Choices Ltd and Bandstand Square Developments Ltd following changes in member & officer responsibilities.
Governance	Shareholder Board Annual Report	Agreed	The Shareholder Board approved the Annual Report, which is to be presented to Cabinet in July.
Governance	Terms of Reference	Agreed	The Shareholder Board agreed minor changes to the Terms of Reference (appended to the Annual Report)
S.E.Business Services Ltd	Business Development Strategy	Agreed	The Shareholder Board approved the Business Development Strategy and agreed that the company may progress certain business opportunities.
Bandstand Square Developments Ltd	Approval of Reserved Matters	Agreed	The Shareholder Board approved that BSDL may enter into contractual arrangements in relation to the existing Fire Station and in respect of the replacement provision.
Municipal Bonds Agency	Provision of Equity Finance	Noted	The Shareholder Board noted the decision of the Director of Finance to provide equity finance in order to deliver an investment return and benefit from borrowing at preferential rates of interest.

24 September 2015

Item / Company	Description	Decision	Key Points
Babcock 4S Ltd	Strategy discussion	Noted	The Shareholder Board noted a verbal update on the strategic review of the Joint Venture company.
FutureGov Ltd	Annual Accounts	Noted	The Shareholder Board reviewed the Annual Accounts. The Deputy Leader will arrange a follow-up visit to the company, it being a year since his last visit.
Surrey Choices Ltd	Director Appointments	Noted	The Shareholder Board discussed the requirement for a further Director of the company and requested that the Director of Legal Services develop an appropriate appointment process for an external non-executive director.

19 November 2015

Item / Company	Description	Decision	Key Points
Governance	Director Appointments	Agreed	The Shareholder Board approved the following changes to Director appointments a) Laura Langstaff will be appointed as a Director of S.E.Business Services Ltd. John Stebbings is standing down. b) Jason Russell will be appointed as the council's director for Babcock 4S following the departure of Susie Kemp. c) Mike Green will be appointed as the council's director for TRICS Consortium Ltd. Dominic Forbes is standing down.
S.E.Business Services Ltd	Annual Accounts	Approved	The Shareholder Board approved the Annual Audited Accounts of the company for the period ending 31.03.2015.
Surrey Choices Ltd	Director Appointments	Noted	The Shareholder Board discussed and agreed the proposed recruitment process and job profile for selecting an external non-executive Director for Surrey Choices Ltd.
Babcock 4S Ltd	Strategy discussion	Noted	The Shareholder Board noted the update report on the strategic review of the Joint Venture company. The board noted that the risk of changes in the market resides with the company and that further consideration of the council's approach to schools improvement is required.
FutureGov Ltd	Strategy discussion	Noted	The Shareholder Board received a report from the Deputy Leader following his visit to the company.

7 December 2015

Item / Company	Description	Decision	Key Points
Surrey Choices Ltd	Annual Accounts	Agreed	The Shareholder Board approved the Annual Audited Accounts of the company for the period ending 31.03.2015. The Shareholder Board discussed the Auditors report with the Directors of the company and sought reassurance that improvements will be made to the governance and controls of the company.

Item / Company	Description	Decision	Key Points
FutureGov Ltd	Progress Update	Noted	The Shareholder Board noted a performance update received from the company.

1 February 2016

Item / Company	Description	Decision	Key Points
Surrey Choices Ltd	a) Controls & Governance b) Management Accounts	Noted	<p>The Shareholder Board noted the management actions being put in place to improve the internal controls & governance of the company.</p> <p>The Board discussed the management accounts and noted that a significant loss is being forecast for the current year primarily due to increased volumes under the block contract with the council.</p> <p>The board are satisfied that they have seen sufficient progress being made to feel encouraged that a recovery plan is achievable. The Annual Business Plan of the company will be reviewed at a future meeting of the Shareholder Board.</p>
BSDL	Annual Accounts	Noted	The Shareholder Board noted the annual accounts for the joint venture company for the year ending 31.12.2014 and noted that these have now been filed at Companies House.

1 March 2016

Item / Company	Description	Decision	Key Points
S.E.Business Services Ltd	Annual Business Plan	Agreed	The Shareholder Board reviewed and approved the Annual Business Plan.
S.E.Business Services Ltd	Director Appointment	Agreed	The Shareholder Board agreed to appoint Steve Ruddy as a Director of S.E.Business Services Ltd and accepted the resignation of Paul Brocklehurst.
Halsey Garton Property Ltd	Annual Business Plan	Agreed	The Shareholder Board reviewed and approved the Annual Business Plan.
Halsey Garton Property Ltd	Appointment of Auditors	Agreed	The Shareholder Board approved the appointment of Grant Thornton as auditors to the company.

Item / Company	Description	Decision	Key Points
Governance	Shareholder Board Annual Report	Noted	The Shareholder Board noted the first draft of the Annual Shareholder Board report which is to be presented to Council Overview Board on 1 June 2016 and Cabinet on 21 June 2016.
FutureGov Ltd	Director resignation	Agreed	The Shareholder Board accepted the resignation of Julie Fisher as a Director of the company and noted that the Council is able to rely upon the Articles of Association and Investment Agreement to continue to participate in the significant business decisions of the company. Susan Smyth will attend board meetings of the company as an Observer.

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ANNEX C

Shareholder Board – Company Results

The following additional information is provided for the Overview and Scrutiny Board. The company results noted in the table are as per the latest available Annual Statement of Accounts that have been filled at Companies House.

Company	Ownership	Latest Published Accounts	Turnover	Profit / (loss) after tax	Profit / (loss) after tax – excluding exceptional items and unrealised adjustments	Last Dividend Received	
			£000s	£000s	£000s	£000s	
Surrey Choices Ltd	100%	31st March 2015	7,639	-957	-43	na	The results are for the first part year of trading (from August 2015) and are after set-up costs of £551,000 and an unrealised pension liability loss adjustment of £363,000.
S.E.Business Services Ltd	100%	31st March 2015	1,919	321	321	400	These results are from the first full year of trading. Retained earnings from the initial partial year of trading were £148,000. The first dividend was received in respect of the Financial Year (FY) 2015/16 and incorporated the prior year profit.
Halsey Garton Property Ltd	100%	31st March 2015	na	na	na	na	The company commenced trading in November 2015 and therefore published a "nil" return.

Company	Ownership	Latest Published Accounts	Turnover	Profit / (loss) after tax	Profit / (loss) after tax – excluding exceptional items and unrealised adjustments	Last Dividend Received	
Bandstand Square Developments Ltd	24%	31st December 2014	3,284	0	0	na	The company is a Special Purpose Vehicle for the purpose of delivering the Victoria Square scheme and therefore not expected to create a trading surplus. The turnover is in relation to incidental rental income received pending redevelopment. Assets under construction and assets purchased in site assembly are recorded on the balance sheet at £18.1m. WBC and SCC are providing the loan funding to enable the company to complete Phase 1 of the project – SCC has provided £17.5m to the end of May 2016.
Babcock 4S Ltd	19.99%	31st March 2015	22,111	-2,744	2,310	273	The loss is after the impact of an unrealised pension liability loss (net) adjustment of £5.1m. Excluding this adjustment the profit after tax was £2.3m. The last dividend received was in respect of FY 2013/14.
TRICS Consortium Ltd	16.67%	31st December 2015	1,340	512	512	81	These are the draft results of the company from their first year of trading. The final audited version is due shortly.

Company	Ownership	Latest Published Accounts	Turnover	Profit / (loss) after tax	Profit / (loss) after tax – excluding exceptional items and unrealised adjustments	Last Dividend Received	
FutureGov Ltd	13.10%	31st December 2014	1,392	-588	-588	na	The loss is higher than that expected at the time of SCC's investment (when the business plan estimated a loss of £476,000) however it was in line with forecast. The Annual Accounts for the year ending 31.12.2015 are expected shortly.
Municipal Bonds Agency	minority	na	na	na	na	na	The first set of accounts are being reviewed at an AGM on 24.05.2016 and will be published thereafter.

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Council Overview Board
1 June 2016

Investment Strategy: Property Portfolio

Purpose of the report: Scrutiny of the Investment Strategy

To provide an update to Members on the Investment Strategy, noting the context of the Council's total portfolio of land & buildings. The report provides a note of the role of the Investment Advisory Board and its oversight of the strategy and an update on the progress made in pursuit of the strategy.

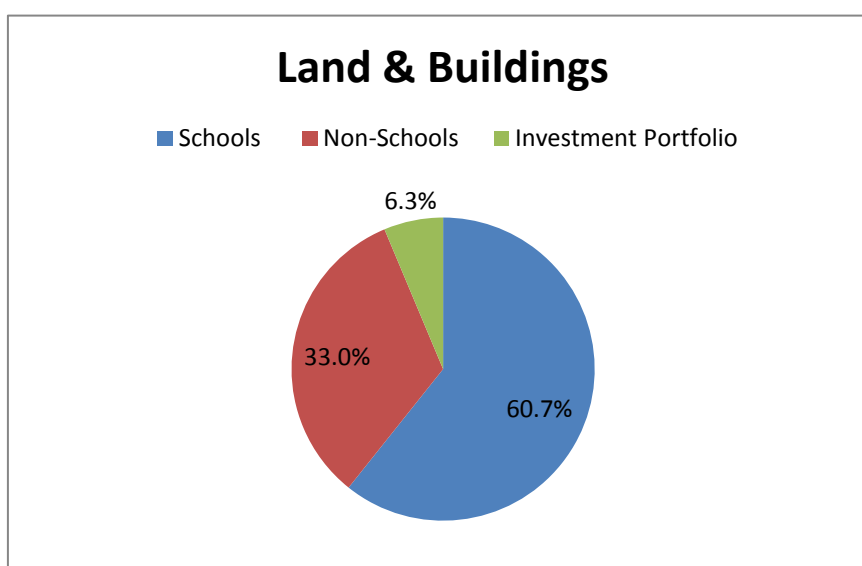
Introduction: Investment Strategy

1. The Investment Strategy was agreed by Cabinet in July 2013 as one of a series of responses to improve the financial resilience of the Council in the longer term. The Budget report in February 2013 created the Revolving Investment and Infrastructure Fund to meet the initial revenue costs of initiatives to deliver savings and income.
2. The main principles of the Investment Strategy as agreed by Cabinet are as follows;
 - a. Use of the established Revolving Investment and Infrastructure fund (the Investment Fund) to meet the initial revenue costs of funding initiatives that deliver savings and enhance income in the longer term,
 - b. The Investment Fund will be used to support investments that generate additional income to support the delivery of the Council's functions and services,
 - c. Creation of a diversified and balanced portfolio of investments to manage risk and secure an ongoing annual overall return to the Council,
 - d. Investing in schemes that have the potential to support economic growth in the county, and
 - e. Retaining assets where appropriate and undertaking effective property and asset management, and if necessary associated investment, to enhance income generation.

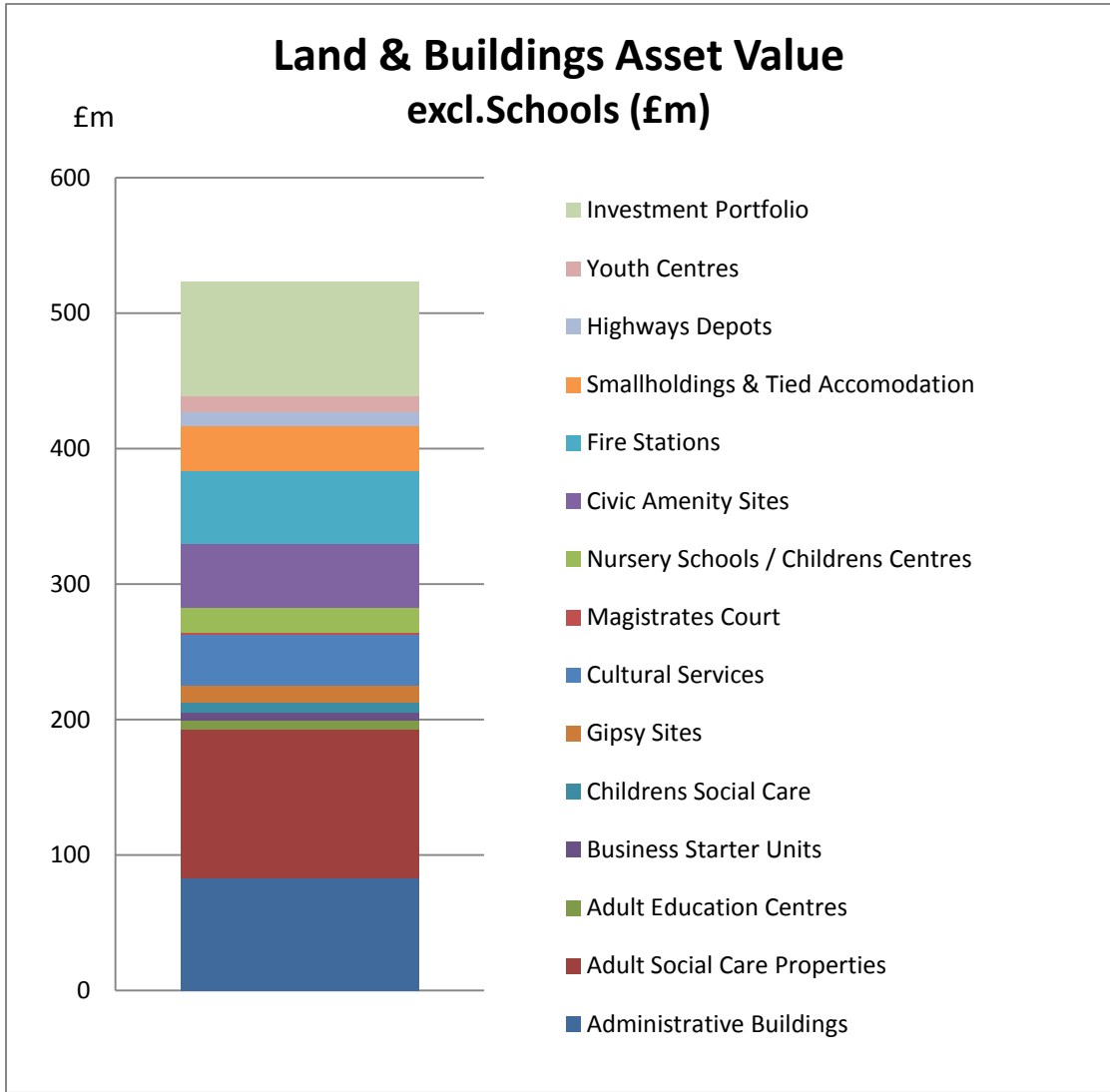
3. The governance for the Investment Strategy is provided by the Investment Advisory Board (IAB), established following the Cabinet report in July 2013 and comprising members of the Cabinet, supported by officers. The IAB is responsible for providing appropriate evaluation of opportunities (including business cases), prior to Cabinet approval and for the strategic management of the overall portfolio of investments consistent with the aims of the Investment Strategy. The IAB will also regularly review actual outcomes of each investment. The terms of reference of the IAB are attached in full as Annex 1.
4. Cabinet approved the creation of a Property Company (Halsey Garton Property Ltd) in May 2014 in order to strengthen the Council's ability to invest in a diversified and balanced portfolio of assets. The portfolio of investments therefore consists of both property and non-property assets and includes assets held by the council together with those owned by the Property Company.
5. All investments will be required to demonstrate a return in excess of the opportunity cost of capital, which will be calculated with reference to the Council's interest payable on equivalent borrowing and the statutory minimum revenue provision (MRP) that sets aside funds for the repayment of the borrowing. In accordance with the conditions set by the Prudential Code, the provision of finance to enable the Council's property company to invest in assets of a commercial nature will be funded by reserves and capital receipts. However the same test will apply to all acquisitions in order to reflect the opportunity cost of using these internal resources.

Background: Council Land & Buildings

6. The council currently owns operational land and buildings to the value of £1,332m¹. Land & buildings are primarily held and managed for the purposes of current service delivery; for example to provide education or library services. The Council also holds assets, purchased under the Investment Strategy, for potential long-term future service requirements or to aid the economic development of an area. Property Assets held and managed as the Investment Portfolio make up 6.3% of the total land and buildings value as at the last balance sheet valuation date of 31.03.2016.



¹ Balance Sheet Value as at 31.03.2016



7. Property Services work in support of the service strategies of the Council and it is these strategies that determine the Council's portfolio of land & buildings. The Strategic Asset Management Plan provides a guide to future property decisions and the link between the strategic consideration of assets and their role in the delivery of the council's services. The plan covers the range of activities undertaken by the Property team, from investment and acquisition to the day-to-day management of the built estate. The service is currently looking to refresh the document and develop a joint strategic approach across the Orbis partnership. This will articulate, for example, the journey to adopting a common approach to the management of the rural estate in order to deliver efficiencies over the longer term.

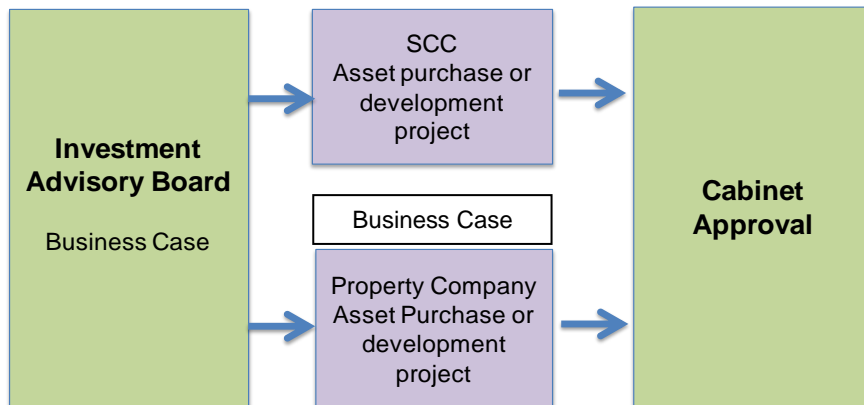
Governance: Investment Advisory Board

8. The Investment Advisory Board was established following the Cabinet report in July 2013 and is comprised of members of the Cabinet, supported by officers. Officers receive support from independent specialist professional advisors where appropriate. The Board are responsible for the strategic management of the investment portfolio consistent with the aims of the Investment Strategy. This includes the consideration of all business case proposals that contribute to the delivery of the Investment Strategy and meet the investment criteria.



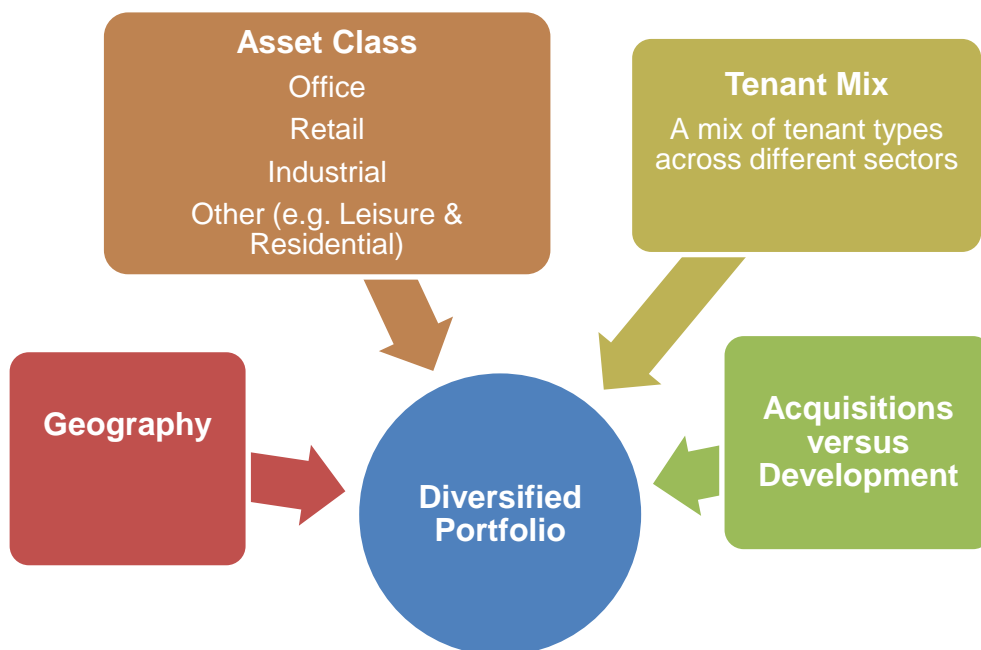
9. The Investment Advisory Board is responsible for
- Ensuring that opportunities recommended to Cabinet for approval have been thoroughly evaluated, ensuring that there is an appropriate balance between risk and reward and that the acquisition contributes to the achievement of the aims of the strategy.
 - Reviewing proposals to enable the Council's Property Company to purchase assets, recommending to Cabinet that the Council provide equity and / or loan finance to facilitate the purchase.
 - Monitoring the progress made in respect of achieving an appropriately balanced and diversified portfolio over the longer term across the combination of council owned assets and those owned by the Property Company.

- d. Monitoring the financial outcomes, including a review of the annual valuation exercise and consideration of market intelligence to inform acquisitions and disposals.

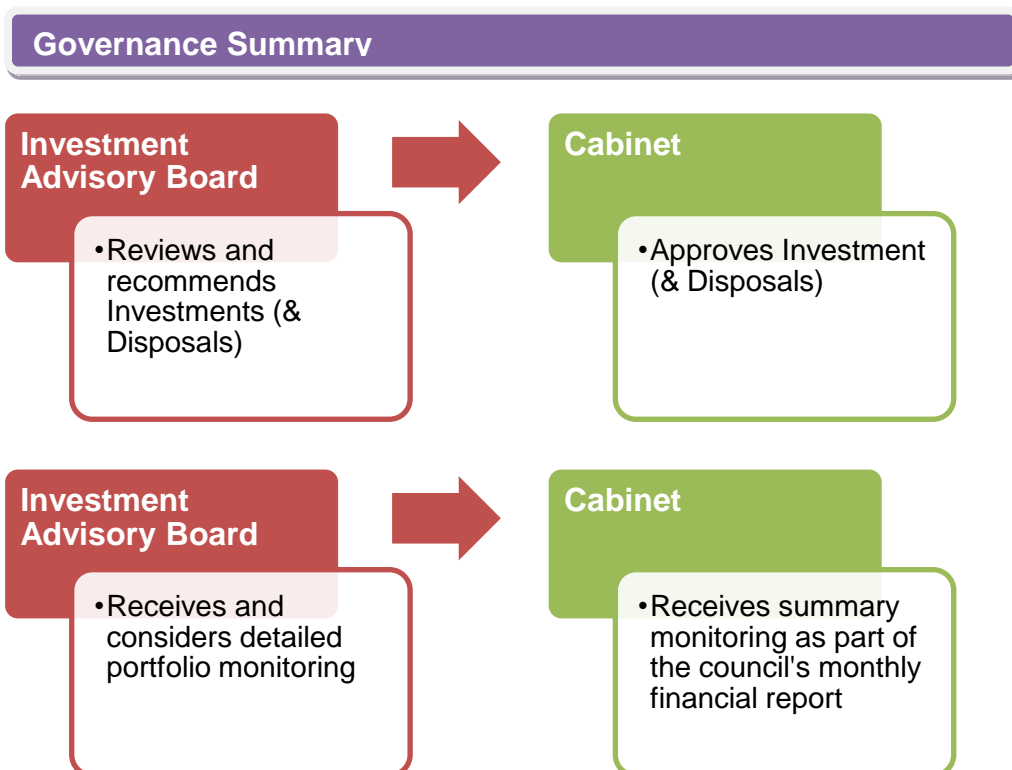


Risk Management

- 10. The Investment Strategy means that the Council is managing different financial risks. Investments will be subject to inherent economic and market risks, and therefore a balanced portfolio of investment is recommended. However a balanced portfolio will take some time to create and will be dependent upon appropriate opportunities coming to the market.
- 11. The performance of the portfolio across the Council and the Property Company will be monitored by the IAB. The Investment Strategy notes a preference towards assets within Surrey that are of good quality, in good or growth locations however in order to create a diversified portfolio a mix of geographical locations will be required. The portfolio will be managed in order to avoid the over-reliance upon single tenants or types of tenants in terms of their impact as a percentage of the total portfolio.



12. Development opportunities will have a higher risk than investing in existing assets but will also provide the opportunity for a greater rate of return. Priority will be given to development opportunities within Surrey where the wider benefits to the county will be taken into consideration, such as provision of affordable housing, new business premises or town centre regeneration.
13. Assets that are being developed will not produce an immediate income stream and there will be occasions when a tenant triggers their break clause or vacates at the end of their lease resulting in a potential letting void. In these circumstances there will be a revenue loss position on these particular assets however this will be offset by the net revenue income produced by other assets in the property portfolio. The Council's Revolving Investment and Infrastructure fund is available to meet the initial revenue costs of opportunities that produce an income in the longer term.
14. The governance process put in place is designed to mitigate these risks. All investment opportunities will be based upon a robust business case, developed using appropriate technical advisors and which take into account due and proper consideration of the balance between risk and reward and an assessment of the underlying security of the investment to ensure compliance with the fiduciary duty the council holds.



Financial Implications

15. The Council may fund its capital expenditure through the use of its reserves, capital receipts and prudential borrowing. Any borrowing that is undertaken by the Council is made in accordance with the conditions of the Prudential Code, which requires the borrowing to be affordable, sustainable and provide value for money. As the Council does not hypothecate borrowing, the use of receipts or the utilisation of cash resources against individual projects or acquisitions, we assume that all the Council's activities in progressing the Investment Strategy will increase the Council's requirement to borrow. All investments are therefore required to demonstrate a return in excess of the opportunity cost of capital which is calculated with reference to the Council's interest payable on equivalent borrowing and the statutory minimum revenue provision (MRP) that sets aside funds for the repayment of the borrowing.
16. The Investment Strategy provides an ability for the Council to invest in schemes that have the potential to support economic growth or deliver economic regeneration within the county. This may mean that schemes with lower returns are considered however all investments need to demonstrate a return in excess of the opportunity cost of capital in order to be affordable for the Council.
17. The Investment Portfolio will provide an income to the Council over the longer term, contributing to, and strengthening financial resilience. The Council approved the creation of the Revolving Investment and Infrastructure Fund in the budget report approved by the council in February 2013 to meet the initial revenue costs of initiatives. In creating this reserve, the Council recognised that it will take some time to build a portfolio that delivers a net income. The reserve is not used to provide for the initial capital expenditure but to provide for the cost of any additional borrowing that is not being offset by additional income, as is the case for development spend.
18. The Portfolio consists primarily of property investments which have been made in order to deliver economic regeneration or to provide for long-term future service use, whilst delivering an investment return. These assets provide flexibility in the estate whilst producing a net revenue. The Council has also provided its subsidiary company, Halsey Garton Property Ltd, with equity and debt financing to facilitate the purchase of assets for their investment return. This finance is provided in order to enable the council to create a diversified portfolio of assets in order to manage risks. The Council has invested £75.3m to the year ending 31 March 2016 on income generating property assets which have delivered a net income of £2.1m. Further information about the financial returns from the property investment portfolio is provided in the PART TWO annex to this report.

Recommendation

That the Scrutiny Board continues to support the Council's approach to investment which is carried out in order to improve the council's financial resilience over the longer-term and notes the role of the Investment Advisory Board and associated governance arrangements.

Report contact:

Susan Smyth, Strategic Finance Manager (Secretary to the Investment Advisory Board) Email: susan.smyth@surreycc.gov.uk

Annex 1: Investment Advisory Board Terms of Reference
Annex 2: PART TWO Investment Portfolio Details

Sources/background papers:

1. Investment Strategy (Cabinet July 2013)
2. Establishment of a Property Company (Cabinet May 2014)

TERMS OF REFERENCE

Overview

The Investment Advisory Board will recommend investments to Cabinet for approval and will manage the portfolio of investments.

Membership

- | | |
|--|---------------|
| • Leader of the Council (Chairman) | David Hodge |
| • Deputy Leader of the Council | Peter Martin |
| • Cabinet Member for Business Services | Denise Le Gal |
| • Associate Cabinet Member for Assets and Regeneration | Tony Samuels |
| • Cabinet Member for Adult Social Care | Mel Few |
| • Chief Executive | David McNulty |

The Investment Advisory Board will be supported and advised by the following officers of the council

- | | |
|--|----------------|
| • Director of Finance | Sheila Little |
| • Director of Legal & Democratic & Cultural Services | Ann Charlton |
| • Chief Property Officer | John Stebbings |
| • Secretary to the Board | Susan Smyth |

The Investment Advisory Board will additionally be supported as required by appropriate professional external advisors which will be commissioned by the Investment Advisory Board when deemed necessary in relation to specific investment or types of investments.

Purpose

1. The Investment Advisory Board will consider all proposals that contribute to the delivery of the investment strategy and meet the investment criteria. Officers will provide advice on each proposal for consideration. This advice will include how each investment proposal could be taken forward, including a consideration of the risks, structuring and

financing required. Appropriate investments will be recommended to Cabinet for approval.

2. Each investment considered by the Investment Advisory Board will be supported by a business case. In approving a business case, the Board will satisfy itself that the investment is within the council's legal powers, it has properly considered the advice provided and its structure provides value for money taking into account all financial considerations, including taxation. Full due and proper consideration will be given to the balance achieved between risk and reward and the underlying security of the investment proposed to ensure compliance with the fiduciary duty of the council.
3. The Investment Advisory Board will be responsible for the strategic management of the overall portfolio of investments, ensuring that an appropriately balanced portfolio is maintained over an agreed period and that all risks, including those that are emerging are given due consideration.
4. The Investment Advisory Board will consider and recommend the use of the Revolving Investment and Infrastructure Fund (the Investment Fund) to meet the initial revenue costs of appropriate initiatives that deliver income in the longer term. The Board will receive reports twice a year regarding the status of the Investment Fund for consideration.
5. The Investment Advisory Board will approve the use of the Revolving Investment and Infrastructure Fund to procure external advice, for example property investment advisors, legal and financial specialists, including taxation advice.

Scope

6. The Investment Advisory Board will consider all significant investment activity including, but not limited to, the acquisition of property, share capital and provision of financial assistance, for example loan financing.
7. The Investment Advisory Board will consider investment in council owned trading companies (LATC) where the proposal includes significant financial investment in excess of £1.0m. Once established, trading companies will be overseen by the Shareholder Board.

Evaluation Criteria

8. The Investment Advisory Board will apply the criteria described in the Investment Strategy approved by Cabinet in July 2013 in evaluating proposed investments. These are;

a) The acquisition or investment is within the powers of the Council and can be undertaken with appropriate regard to tests of reasonableness, fiduciary duty and value for money.

If this is the case, then the following criteria will be evaluated

b) The amount of investment required is greater than the threshold for investment which has been set for the Investment Strategy (initially more than £10m except for trading opportunities where this threshold will not apply). In establishing the portfolio it may be the case that smaller sized investments will be considered.

c) The period over which a return will be made, ensuring that this is achieving a balance between the short, medium and longer term.

d) Whether the investment aids the achievement of a balanced portfolio in the longer term.

e) That the rate of return is consistent with the level of risk involved (within tolerances) as defined by the Investment Strategy.

Meetings

9. The Investment Advisory Board will have scheduled meetings on a monthly basis with further meetings arranged if necessary in order to respond promptly to opportunities. Meetings will be cancelled if there are no agenda items to be discussed.

10. The quorum for the Board is a minimum of 3 members, with one being the Leader or Deputy Leader.

11. The Chairman approves the agenda for each meeting. The agenda and papers for consideration are circulated at least two working days before the meeting. After each meeting, the Chairman approves the meeting notes and actions agreed. Susan Smyth, Strategic Finance Manager, will act as secretary to the Board.

12. The Investment Advisory Board will review the Terms of Reference annually.

Date of Last Review 21.03.2016

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of the Local Government Act 1972.

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