

## Notice of Meeting

# Strategic Investment Board

**Date & time**

Tuesday, 25 June  
2019 at 10.00 am

**Place**

County Hall, Kingston  
upon Thames, Surrey  
KT1 2DN

**Contact**

Angela Guest, Democratic  
Services Officer  
Room 122, County Hall  
Tel 020 8541 9075

**Chief Executive**

Joanna Killian

angela.guest@surreycc.gov.u  
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**This meeting will be held in public. If you would like to attend and you have any special requirements, please contact Angela Guest, Democratic Services Officer on 020 8541 9075.**

**Elected Members**

Mr Mel Few (Cabinet Member for Finance), Dr Zully Grant-Duff (Cabinet Member for Corporate Support), Mr Colin Kemp (Deputy Leader) and Mr Tim Oliver (Leader of the Council)

## AGENDA

### 1 APOLOGIES FOR ABSENCE

### 2 MINUTES OF THE PREVIOUS MEETING

Minutes of the dissolved Investment Board of 20 May and Minutes of the dissolved Shareholder Board 25 April 2019 are to be dealt with under Part 2 of the agenda.

### 3 DECLARATIONS OF INTEREST

All Members present are required to declare, at this point in the meeting or as soon as possible thereafter

- (i) Any disclosable pecuniary interests and / or
- (ii) Other interests arising under the Code of Conduct in respect of any item(s) of business being considered at this meeting

#### NOTES:

- Members are reminded that they must not participate in any item where they have a disclosable pecuniary interest
- As well as an interest of the Member, this includes any interest, of which the Member is aware, that relates to the Member's spouse or civil partner (or any person with whom the Member is living as a spouse or civil partner)
- Members with a significant personal interest may participate in the discussion and vote on that matter unless that interest could be reasonably regarded as prejudicial.

### 4 ANNUAL SHAREHOLDER BOARD REPORT

(Pages 5  
- 36)

This annual report is presented for comments and approval before being presented to Cabinet.

*[Decisions on this item can be called in by the Performance & Resources Select Committee]*

### 5 CBRE ADVISOR REPORT

CBRE to provide a brief update for information.

### 6 ASSET MANAGEMENT UPDATE - NEXUS

The Board will receive a verbal update for information.



**7 RANGER HOUSE, STATION APPROACH, GUILDFORD**

(Pages  
37 - 40)

Guildford Station is set to be redeveloped by Network Rail (NRIL). Ranger House currently has the benefit of 71 spaces in the Station Car Park. Under the terms of the lease if NRIL requires this area as part of the redevelopment, it is only obliged to provide 48 spaces in an alternate location. Approval is sought for the amendment of the Station Piazza covenant to allow this building encroachment, in favour of retaining the full allocation of 71 car parking spaces on the same terms as the current lease.

*[Decisions on this item can be called in by the Performance & Resources Select Committee]*

**8 EXCLUSION OF THE PUBLIC**

That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting during consideration of 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.

**9 ASSET MANAGEMENT UPDATE: DEBENHAMS WINCHESTER**

CBRE will provide a brief update for information.

**10 SHAREHOLDER BOARD MINUTES - (25 APRIL 2019)**

(Pages  
41 - 44)

The draft minutes of the Shareholder Board are attached for approval.

**11 INVESTMENT BOARD MINUTES (20 MAY 2019)**

(Pages  
45 - 48)

The draft minutes of the Investment Board are attached for approval.

**12 PUBLICITY FOR PART 2 ITEMS**

To consider whether the item considered under Part 2 of the agenda should be made available to the Press and public.

**Joanna Killian  
Chief Executive**

Published: Monday, 17 June 2019

## **MOBILE TECHNOLOGY AND FILMING – ACCEPTABLE USE**

Those attending for the purpose of reporting on the meeting may use social media or mobile devices in silent mode to send electronic messages about the progress of the public parts of the meeting. To support this, County Hall has wifi available for visitors – please ask at reception for details.

Anyone is permitted to film, record or take photographs at council meetings with the Chairman's consent. Please liaise with the council officer listed in the agenda prior to the start of the meeting so that the Chairman can grant permission and those attending the meeting can be made aware of any filming taking place.

Use of mobile devices, including for the purpose of recording or filming a meeting, is subject to no interruptions, distractions or interference being caused to the PA or Induction Loop systems, or any general disturbance to proceedings. The Chairman may ask for mobile devices to be switched off in these circumstances.

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*

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**SURREY COUNTY COUNCIL**  
**STRATEGIC INVESTMENT BOARD**



**DATE:** 25 JUNE 2019

**REPORT OF:** LEIGH WHITEHOUSE, EXECUTIVE DIRECTOR OF RESOURCES

**LEAD OFFICER:** ANNA D'ALESSANDRO, DIRECTOR OF CORPORATE FINANCE

**SUBJECT:** ANNUAL REPORT OF THE SHAREHOLDER BOARD

**SUMMARY OF ISSUE:**

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 has made investments and created trading companies to deliver income and efficiencies and in doing so has 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.

**RECOMMENDATIONS:**

It is recommended that the Annual Report of the Shareholder Board (Annex A) is endorsed and that Cabinet present the report to the Council meeting in October 2019.

**REASON FOR RECOMMENDATIONS:**

To inform the Council about the activities of the Shareholder Board.

The Shareholder Board has been established in accordance with best practice governance to ensure effective oversight and alignment with the strategic objectives and values of the council.

**DETAILS:**

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 responsibilities and powers include:
  - approval of annual business plans; and
  - reviewing the financial and overall performance of trading companies; and
  - appointing and removing directors.

2. The Board safeguards the Council's interest and takes decisions in matters that require the approval of the Council as owner or a shareholder of a company. Shareholder control 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 taken by the directors of each company.
3. The Shareholder Board comprises the Leader, the Deputy Leader, the Cabinet Member for Corporate Support and the Cabinet Member for Finance. The board is supported by officers of the Council, including the Section 151 Officer (Executive Director of Resources) and the Monitoring Officer (Director of Law & Governance).
4. The Shareholder Board meets at least quarterly and receives detailed 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. In future the role of the Shareholder Board will be undertaken by the Strategic Investment Board which combines the functions of the Shareholder Board, the Investment Board and the Asset Strategy Board.

#### **CONSULTATION:**

6. The Strategic Investment Board as the successor to the Shareholder Board considered the annual report at their meeting July 2019.

#### **RISK MANAGEMENT AND IMPLICATIONS:**

7. 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 the governance to ensure that risks are effectively managed.

#### **Financial and Value for Money Implications**

8. The Shareholder Board is responsible for monitoring 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.

#### **Section 151 Officer Commentary**

9. In June 2019 SCC's shares in FutureGov were acquired by Panoply Holdings, an AIM listed group of companies specialising in information technology and innovation consulting. The sale, which was approved by Cabinet in May 2019, delivered a substantial profit on the Council's original investment".

### **Legal Implications – Monitoring Officer**

10. There are no direct legal implications arising from this report. The legal basis for company ownership and oversight is explained in the body of the report.

### **Equalities and Diversity**

There are no direct equalities implications arising from this report.

### **WHAT HAPPENS NEXT:**

The annual report of the Shareholder Board will be presented to Council at its July 2019 meeting.

#### **Contact Officer:**

Susan Smyth, Head of Strategic Finance (Business Development & Investment) and Secretary to the Shareholder Board  
Tel: 020 8541 7588

#### **Annexes:**

Annex A – Annual Report of the Shareholder Board.

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# Shareholder Board Annual Report

Financial Year 2018/19



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



The council's strategic framework for innovation and investment has supported the development of initiatives to enhance the financial resilience of the council. The Shareholder Board monitors the council's trading activity and its investments in companies to ensure satisfactory performance and effective risk management. The financial returns delivered by trading and investment helps to ensure that we continue to deliver quality services to our residents.

The Shareholder Board provides effective over-sight 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 the year to deliver innovation in service delivery and in enhancing the financial resilience of the council. The Investment Board produces an annual report about the council's property investment portfolio and therefore to avoid duplication this report focusses on other investments and trading activity. There is a degree of overlap however since the council's property investment company is covered in this report in a similar way to its other companies. The relationship to the investment strategy is explained in more fully in the report.



Tim Oliver  
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 which are reviewed on an annual basis.
- Meetings take place at least quarterly.

The Shareholder Board is comprised of 4 members of the council's Cabinet and is supported by officers of the council, including the Section 151 Officer (Executive Director of Resources) and the Monitoring Officer (Director of Law & Governance).

#### Members

- Leader
- Deputy Leader
- Cabinet Member for Corporate Support
- Cabinet Member for Finance

#### Advisors

- Chief Executive
  - Executive Director of Resources (Section 151 Officer)
  - Director of Law & Governance (Monitoring Officer)
  - Head of Strategic Finance (Board Secretary)
- \*

In future the functions of the Shareholder Board, the Investment Board and the Asset Strategy Board will be combined into a new Board, the Strategic Investment Board, to commence from June 2019.

## 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.

Surrey Choices was set up in order to safeguard the provision of services to people with learning and physical disabilities. 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 investment in the Municipal Bonds Agency will give the council an alternative source of finance at preferential rates.

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

## THE COUNCIL'S SHAREHOLDINGS

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



Company	Ownership
Halsey Garton Property	100%
S.E. Business Services	100%
Surrey Choices	100%
South Ridge Development*	50%
TRICS	16.7%
FutureGov	13.7%
Municipal Bonds Agency	3.4%

*South Ridge Development is a Limited Liability Partnership*

South Ridge Development is the Joint Venture arrangement with Places for People to deliver housing and mixed use development on the council's vacant sites. The Joint Venture is arranged as a Limited Liability Partnership (LLPs) which is a structure permissible in certain circumstances and is beneficial for the council as it is transparent for tax.

The Shareholder Board provides oversight for LLPs in a similar way to companies limited by shares. Further information about LLPs is included in the glossary section.

## Disposals



Babcock 4S was formed in 2004 when the Council selected a commercial partner to deliver its school support and improvement services. The Joint Venture was successful but the company more recently has been significantly impacted by changes in the schools market and the changing role of Local Education Authorities. The Council's contract for services came to an end in March 2019.

As a result of the changing market a buyer for the business was identified by the shareholders and in February 2019 the business was sold to Strictly Education. Strictly Education was formed in 2002, based in Milton Keynes supplying services to 1,500 schools, 500 academies and 100 Multi-Academy trusts. The company were looking to expand their services and their geographical reach through acquisition and secure economies of scale.

The sale to Strictly Education secures the future of the business enabling the continued delivery of services to Surrey schools. The terms of the sale enabled the council to receive a capital receipt and a final dividend payment.

## 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 council's wholly owned companies 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 matters summarised in the table below.

# Shareholder Board Annual Report

<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
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 in order to protect SCC reputation. To ensure that it is the shareholder 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

## Directors

Each company must have at least one person named as a Director – the council itself cannot act in this capacity. The Shareholder Board has been responsible for appointing (and removing) Directors to act on behalf of the council. In future this function will be undertaken by the Shareholder and Investment Panel. Directors have specific responsibilities in Company Law and therefore the board or panel making the selection will need to ensure that persons with the appropriate skills are appointed. 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.

In February 2018 the Shareholder Board appointed 3 members to be Directors for its wholly owned companies-

Halsey Garton Property	•Edward Hawkins
S.E.Business Services	•Jeff Harris
Surrey Choices	•Bernie Muir

These members work alongside the other appointed directors, bringing their valuable experience to the board, and will be responsible for delivering the day-to-day activities of the company in accordance with the strategies and business plans agreed by the Shareholder Board.

As Directors, their role is not to provide scrutiny, but to be accountable to the Shareholder Board, alongside other directors, for the performance of the company and for their own performance as a Director. The Shareholder Board and its successor the Strategic Investment Board will continue to be the subject for scrutiny rather than individual directors.

Directors appointed by the council receive no additional remuneration and undertake this role as part of their duties as an officer or member of the council.

## 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. Financial information has been included where this is generally publically available (e.g. from the statutory accounts of each company) or not commercially sensitive however information that is commercially sensitive, such as the future business plans, has been excluded

Cabinet Approval	May 2014
Ownership	100%
Date of Incorporation	June 2014
	Commenced trade in November 2015
Council Investment	Share Capital £93m Loans of £234m (as at 31 <sup>st</sup> March 2019)
Return on Investment	In 2018/19 the company paid a dividend of £1.6m and made interest payments to the council of £12.2m.  The dividend in 2017/18 was £1.6m and in 2016/17 was £750,000.
Directors	Edward Hawkins (Susan Smyth to June 2019)

# HG

**Halsey Garton**  
Property Ltd

Halsey Garton Property Ltd is named after people associated with the history of Surrey County Council.

Halsey was the first Chairman of the council (1893) and Garton was the High Sheriff of Surrey in 1913.

## 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 enables the council to invest in a diversified and balanced portfolio of assets to deliver income and enhance 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 or more recently under the delegated authority of the Investment Board. The council has provided a further £93m of equity funds and loans of £234m as at 31<sup>st</sup> March 2019 to enable the company to purchase agreed investment assets.

## Progress Report

The company purchased its first asset in November 2015. The company now owns investment assets with a value of £302m – with the following key indicators.



Assets held by HGP	Description
Hampton Park West, Melksham	Manufacturing and warehouse facility
Washford Mills, Redditch	Retail warehouse units
Hawkley Drive, Bristol	Manufacturing and warehouse facility
Manton Wood, Worksop	Distribution warehouse
Aztec West, Bristol	Single tenanted office
Wiggs House, Salford	Distribution warehouse
Friar Street, Worcester	Cinema and retail / restaurant units
Travelodge, Stratford	Hotel and retail units
Willowbrook, Loughborough	Retail units (out of town location)
Oakgrove, Milton Keynes	Retail units (out of town location)
Stratham Street, Macclesfield	Retail warehouse unit
High Street, Winchester	High Street department store
Blenheim Park, Nottingham	Distribution warehouse
Malvern Shopping Park, Worcestershire	Retail units (out of town location)
Travelodge, Hatfield	Hotel
Park Spring Road (Symphony), Barnsley	Manufacturing and warehouse facility
Kitemark Court, Milton Keynes	Single tenanted office

The company paid a dividend of £1.6m in 2018/19 and paid the council £12.2m in interest payments. Further information about the company and its investment portfolio is provided by the Investment Board Annual Report.



Cabinet Approval	March 2013
Ownership	100%
Date of Incorporation	June 2013. Commenced Trade in December 2013
Council Investment	£100 Share Capital
Return on Investment	The company has provided the following dividends- 2014/15: £400,000                      2015/16                      £400,000 2016/17: £440,000                      2017/18                      £400,000 2018/19: £500,000
Directors	Jeff Harris & Steve Ruddy (Liz Mills & Rachel Crossley to February 2019)

## S.E.Business Services

### 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.

## Council Investment

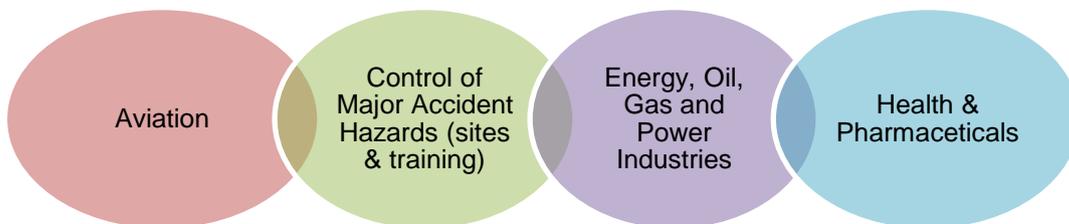
The council provided share capital of £100 and an initial working capital loan to enable the company to commence trade– all lending has been provided on an “arms-length” basis and has been fully repaid.

## Progress Report

The company has delivered profits in excess of those expected in the original Business Case and in excess of its approved Annual Business Plan for the year. These profits have been delivered as a result of contracts in the fire aviation contingency market for Heathrow Airport and more recently for John Lennon Airport in Liverpool. The company also delivers IT services to two private sector organisations operating in the health sector. The company has paid dividends since its first full year of trading.

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, 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.





Cabinet Approval	December 2013
Ownership	100%
Date of Incorporation	March 2014
	Commenced Trade in August 2014
Council Investment	£100 Share Capital Loans of £2.8m
Directors	Mette Le Jakobsen (Managing Director), Bernie Muir & Simon Pollock

## 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 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 from reductions in service delivery costs and income generated from trading activity from the supply of services to people with personal budgets and those that privately purchase. The business case demonstrated that the company would make a modest profit within the first five years of operation.

## Council Investment

The council provided share capital 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 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. In the first 18 months of operation the council increased the number of new referrals and this led to a deteriorating financial situation for the company and losses for the first two years of operation.

In light of this, the Adults Service (ASC) undertook a review of the contract and made appropriate amendments. This review concluded in October 2016 and recognised the importance of ensuring the continuation of the services provided to the residents of Surrey. This support enabled the company to put together a revised business plan which was approved by the Shareholder Board in December 2016. This revised plan, based upon the delivery of significant cost savings and prudent assumptions in terms of non-council business, signalled the start of the significant turn-around in the success of the company. Pre-tax profits of £397,000 were delivered in 2017/18 and pre-tax profit for the year ending 31<sup>st</sup> March 2019, based upon the draft and pre-audited accounts, is expected to be £968,000 (both figures are quoted prior to the actuarial gain or loss on the defined benefit pension scheme).

There have been a number of changes to the management team since the creation of the company and this inevitably impacted upon progress. The original Managing Director (MD) resigned in August 2016, and an interim was in place up until August 2017. Permanent recruitment followed but unfortunately resigned for family reasons. A new MD has been in place since November 2018. More recently however there is significantly more resilience, with a strong senior management team who have delivered a number of changes to improve profitability, internal controls and the governance environment.

The forward looking strategic business plan for 2019/20 and beyond recently approved by the Shareholder Board has been co-designed with the council's ASC senior team and has a renewed focus on delivering transformational shifts in service delivery. Surrey Choices will develop all of its current portfolio of services, with a primary focus on day service modernisation, the expansion and development of employment and vocational opportunities, flexible community based support and the expansion of the Shared Lives service.

## South Ridge Development LLP



Cabinet Approval	December 2017
Ownership	50%
Date of Incorporation	September 2018
Council Investment	No investment to date
Surrey County Council Directors	Peter Hopkins & Nick Cook

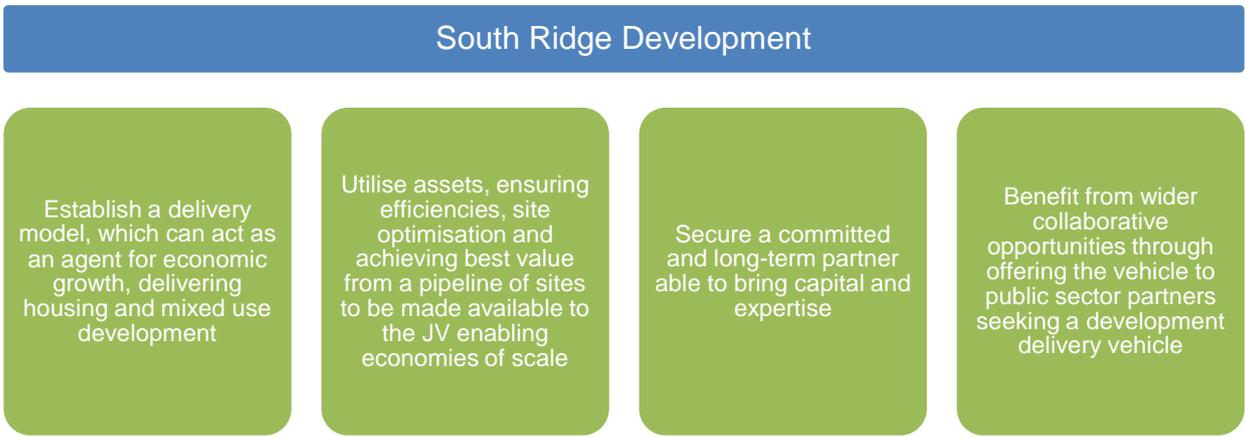
South Ridge Development

### Company Profile

South Ridge Development is the Joint Venture arrangement with Places for People to deliver housing and mixed use development on the council’s vacant sites. The Joint Venture is arranged as a Limited Liability Partnership (LLPs) which is a structure permissible in certain circumstances and is beneficial for the council as it is transparent for tax. The LLP was set up in September 2018 following Cabinet approval in December 2017.

### Business Case

Places for People were selected as the Council’s development partner following an extensive open-market procurement exercise. The JV will provide SCC with an ability to secure the following objectives-



## **Council Investment**

Development costs will be borne by the JV and recouped from the sale of residential units once developed. The JV's cash flow requirements will be provided by an initial working capital loan provided by Places for People. The council is able to provide development finance to the company and will do so if it is financially beneficial. Any loan provided will be required to be on an "arm's length" basis.

## **Progress Report**

The Shareholder Board approved the JV's first Annual Business Plan in April 2018, and in doing so provided the opportunity for the JV to produce options analysis for a first tranche of 14 sites. The Council has issued briefs for 9 of these sites so far, which initiates the scheme development process and production of options analysis for further approval by the Council before development can commence.



Cabinet Approval	July 2014
Ownership	16.67%
Date of Incorporation	October 2014
	Commenced trade in January 2015
Council Investment	£37,500 Share Capital
Return on Investment	The company has provided the following dividends- 2015: £81,300 2016: £83,800 2017: £80,200 2018: £93,040
Surrey County Council Director	Mike Green

## TRICS

### 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.

## **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 1<sup>st</sup> 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, three employees that TUPE transferred from the previous supplier and two further employees recruited to support its recent growth. The company is benefiting from increased memberships with user activity on the increase particularly from the residential development sector. The company is further expanding its reach into international markets, with a legal agreement to host data in New Zealand and Australia, which went live in September 2018. Further surveys in the region will be undertaken in 2019.

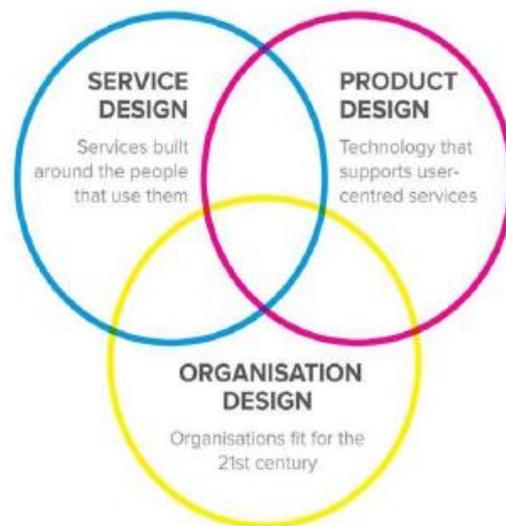
The company continues to deliver profits in excess of expectations and has distributed a dividend to its shareholders each year since its creation, thereby delivering a significant return on investment within a short timeframe.

## FUTUREGOV

Cabinet Approval	December 2013
Ownership	13.7%
Date of Purchase of Shares	January 2014
Council Investment	£125,000 Share Capital £125,000 Loan Notes
Surrey County Council Director	Susan Smyth attends the board meetings of the company as an observer & advisor.

### Company Profile

FutureGov Ltd provides innovative digital design consultancy and design solutions to Local Authorities and other public sector organisations. Over the last 10 years the company has developed an integrated design approach to service delivery based upon the needs and expectations of residents in a way that saves money and is driven by cutting edge technical technology.



### Business Case & Council Investment

The investment in FutureGov was undertaken in 2014 to strengthen a partnership that had already delivered innovative products within the social care market. 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 significant growth in sales revenue and profits since the date of investment. These recent achievements are the result of a focus on consultancy services and design. The company is recognised as a key player in the digital design and transformation public sector market and frequently successfully competes against the big consultancy firms.

The company has invested in a number of key hires to support its growth including an experienced non-executive director who has encouraged the company to seek bigger contracts which has resulted in some significant success. In October 2018 FutureGov successfully acquired Uscreates, a company providing design consultancy services for clients primarily in the health and well-being sector. The Shareholder Board gave their consent to the acquisition on the basis of the following rationale-

- provides enhanced delivery capacity for larger scale projects
- provides access to a broader range of public sector clients and procurement frameworks
- strengthens and compliments existing skill-sets with a strong cultural fit
- enables savings on back-office and premises costs from economies of scale.

The acquisition has been successfully integrated into the business and has contributed to the achievement of further growth and scale.

In June 2019 SCC's shares in FutureGov were acquired by Panoply Holdings, an AIM listed group of companies specialising in information technology and innovation consulting. The sale, which was approved by Cabinet in May 2019, delivered a substantial profit on the Council's original investment".



## MUNICIPAL BONDS AGENCY

Cabinet Approval	Decision taken under delegated approval in September 2015.
Ownership	3.4%
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 (LGA), raised equity funds from 56 councils to provide for operating costs and capital against risks.

### Business Case & Council Investment

The agency aims to provide access to all local authorities to raise external borrowing provided that they meet the criteria set, and at the time of SCC's investment, preferential terms were expected to be provided to those councils that are also shareholders in the company. It is uncertain whether this commitment will stand in the future.

### Progress Report

The Municipal Bond Agency distributed a framework agreement which set out the terms upon which local authorities will be able to borrow from them. Authorities were 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. This requirement created some significant concerns for local authorities particularly at a time of ongoing financial uncertainty. This, together with the continued low interest rate environment and short-term borrowing strategies adopted by a number of local authorities, has meant that the first bond issue has not been achieved in accordance with originally anticipated timeframes. The LGA continues to financially support the agency.

## GLOSSARY

### **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. A 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. The council provides loans to enable Halsey Garton Property to buy investment assets.

## GLOSSARY

### **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.

### **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. For example a Joint Venture may also be a Limited Liability Partnership or may be used to describe an arrangement between public bodies.

## GLOSSARY

### **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 different form of company and 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.

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-examples are companies that are limited by guarantee.

### **Limited Liability Partnership (LLP)**

A Limited Liability Partnership is an alternative legal structure that is similar to a traditional partnership (e.g. as used by a firm of solicitors) but it limits financial risk whilst still being able to benefit from flexibility of structure, tax, profit distribution and the rights and duties of the partners. A partner of an LLP is called a member and is similar to a degree to a shareholder. A partnership agreement will usually be put in place to set out the rights, responsibilities and liabilities of each member and will specify the way in which the LLP will be managed.

LLPs do not have to pay Corporation Tax – it is “transparent” for tax. This means that each member is taxed in accordance with its own tax status. This is beneficial for the Council as it means that Corporation Tax is not payable on its share of net profits. A LLP however can only be set-up by a council in certain circumstances and cannot be established where the purpose of the LLP is purely to trade or deliver an income.

An LLP is permissible for the creation of the “JV” with Places for People since this entity is being established for the purpose of creating a model to deliver benefits to residents from the development of housing and mixed used schemes utilising the council’s vacant sites. As this is an activity that the council can undertake in its own right (rather than requiring a company to be set-up) a LLP is an appropriate structure.

## GLOSSARY

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

SCC has entered into a shareholder agreement for TRICS Consortium Ltd and in relation to the investment in FutureGov Ltd (in this instance it is called an Investment Agreement but is essentially the same thing).

## GLOSSARY

### **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

### **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 since they can be used by multi-national corporations to move profits to countries with lower taxes. The UK has adopted principles of “arm’s 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.

**SURREY COUNTY COUNCIL****STRATEGIC INVESTMENT BOARD****DATE: 25 JUNE 2019****REPORT OF: MR TIM OLIVER, LEADER OF THE COUNCIL****LEAD OFFICER: LEIGH WHITEHOUSE, EXECUTIVE DIRECTOR OF RESOURCES****COMMUNITY COUNCIL****VISION  
OUTCOME:****SUBJECT: RANGER HOUSE, STATION APPROACH, GUILDFORD****SUMMARY OF ISSUE:**

Guildford Station is set to be redeveloped by Network Rail (NRIL).

Ranger House currently has the benefit of 71 spaces in the Station Car Park. Under the terms of the lease if NRIL requires this area as part of the redevelopment, it is only obliged to provide 48 spaces in an alternate location.

Surrey County Council (SCC) would then need to source 23 parking spaces in the local vicinity, in order to meet its lease obligations to the tenants of Ranger House.

Separately, it has become apparent that the proposed NRIL development plans encroach on a protected Station Piazza area in front of Ranger House.

SCC have reached agreement whereby it will amend the Station Piazza covenant to allow this building encroachment, in favour of retaining the full allocation of 71 car parking spaces on the same terms as the current lease.

**RECOMMENDATIONS:**

It is recommended that:

1. Approval is given to the agreement with NRIL, under which SCC will vary the Station Piazza covenant and receive the benefit of 71 parking spaces on the same terms as the current lease.
2. Solicitors document the agreement, with SCC's legal costs being covered by NRIL.

**REASON FOR RECOMMENDATIONS:**

Taking into account the extent of the wider Station redevelopment, the additional effect to Ranger House of NRIL building on the encroached Station Piazza area is not deemed significant.

In the short term the agreement avoids SCC having to lease 23 spaces at an alternate location in order to satisfy tenant lease obligations. In the medium/long term SCC will benefit from the full allocation of 71 spaces within the Station Multi-Storey Car Park. This will have meaningful value to Ranger House.

## **DETAILS:**

### **Background**

1. Ranger House, Guildford is a multi-let office building located adjacent to Guildford Railway Station. It was purchased by SCC in 2013.
2. There is a Car Park Lease dated 1990 between SCC and Network Rail Infrastructure Limited (NRIL) under which 71 spaces in the wider Station Car Park are leased to SCC at a peppercorn rent for a term of term of 999 years.
3. All 71 spaces are let to the tenants of Ranger House under the terms of their occupational leases.

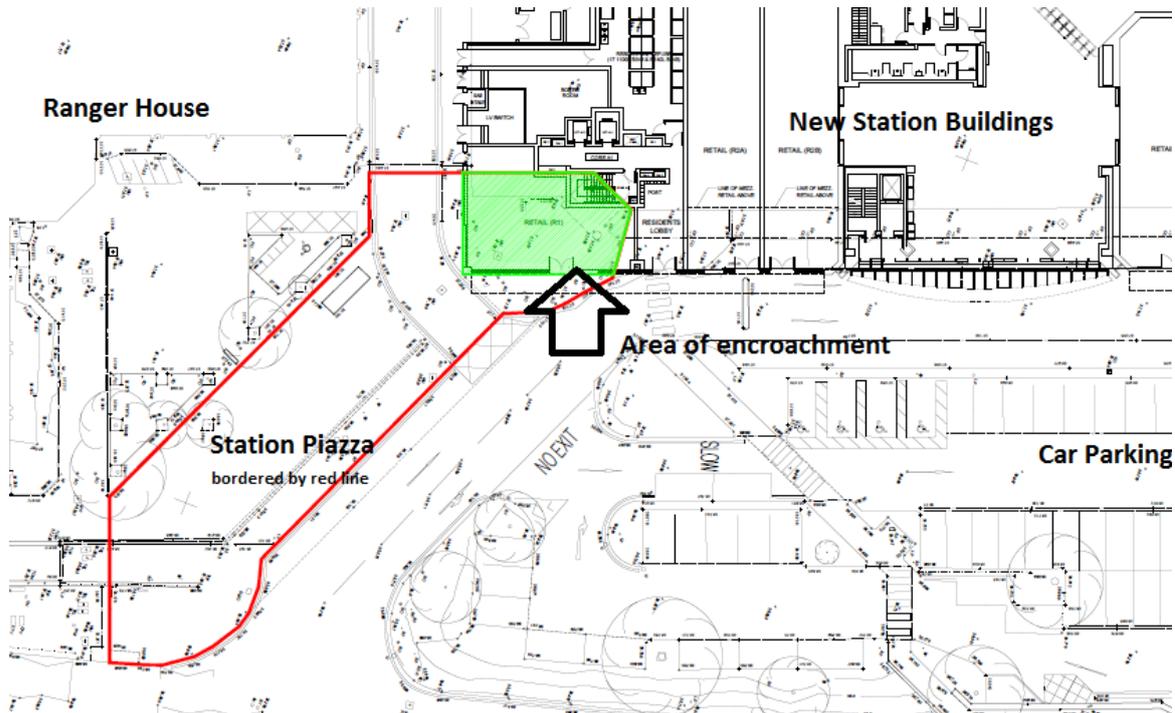
### **Guildford Station Redevelopment and Car Parking**

4. NRIL will commence the large scale redevelopment of Guildford Railway Station in the coming months. The scheme will deliver a new station building, 438 new homes, office space and a station plaza containing retail and public realm.
5. As part of the development, NRIL require the land upon which SCC's Car Parking spaces are currently located.
6. The wording of the Car Park Lease allows that in this situation, NRIL are to provide suitable alternate accommodation for just 48 car parking spaces. They are not obliged to provide the full 71 spaces and SCC would in effect lose use of 23 car parking spaces.
7. In order to meet the lease obligations to the tenants of Ranger House, SCC would be required to source and lease 23 alternate car parking spaces in the local vicinity. SCC were aware of this risk on purchase of Ranger House.
8. An initial search has found that spaces in the nearby Farnham Road Multi Story Car Park can be leased at a cost of £1,964 per annum, which would be a total liability to SCC in the region of £40,000 (on the assumption that a reduced rate could be achieved for this number of spaces).

### **Station Piazza Covenant**

9. A Station Piazza covenant exists between the owners of Ranger House and NRIL, which is designed to protect the area leading to the station and in front of Ranger House from being built upon.
10. It has recently come to light that NRIL's current development plans encroach over a small element of this protected Station Piazza (as shown on below Plan). To avoid being in breach of this covenant NRIL would either have to scale back this part of their building or reach agreement with SCC for the covenant to be amended.
11. Legal advice from DJB is that SCC can resist an application to amend the covenant and prevent NRIL from building on this area. However, NRIL would have the option of taking the matter to Lands Tribunal at which they could potentially make a successful argument for the covenant to be modified or discharged.

12. Based on this legal advice, it can be considered that SCC have the opportunity to benefit from the situation, but it is not an outright ransom strip.



#### **Agreement with NRIL**

13. In return for varying the Station Piazza covenant and allowing the building encroachment, NRIL offered to provide SCC with the full 71 car parking spaces within the wider station site up until 2023, when the Station development will complete and a number of SCC's occupational leases expire. After 2023 the allocation of parking spaces to Ranger House would again reduce to 48.
14. Although SCC would not have to source addition parking spaces in the short term, it was felt that this did not reflect the level of benefit that NRIL would receive from the situation.
15. Agreement has subsequently been reached with NRIL whereby Ranger House will continue to have the full 71 parking spaces, on the same terms as the original lease (980 years remaining) in return for SCC amending the Station Piazza clause to allow the building encroachment.
16. The 71 spaces will be provided in the current car park, close to Ranger House whilst the works are undertaken. On completion, the spaces will be provided in the newly constructed Station Multi-Story Car Park.
17. The agreement with NRIL is recommended for approval.

#### **Contact Officer:**

Nicholas Fowles 07976 629674 [nicholas.fowles@surreycc.gov.uk](mailto:nicholas.fowles@surreycc.gov.uk)

#### **Annexes:**

NA

**Sources/background papers:**

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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