



Council Overview and Scrutiny Committee
23 April 2015

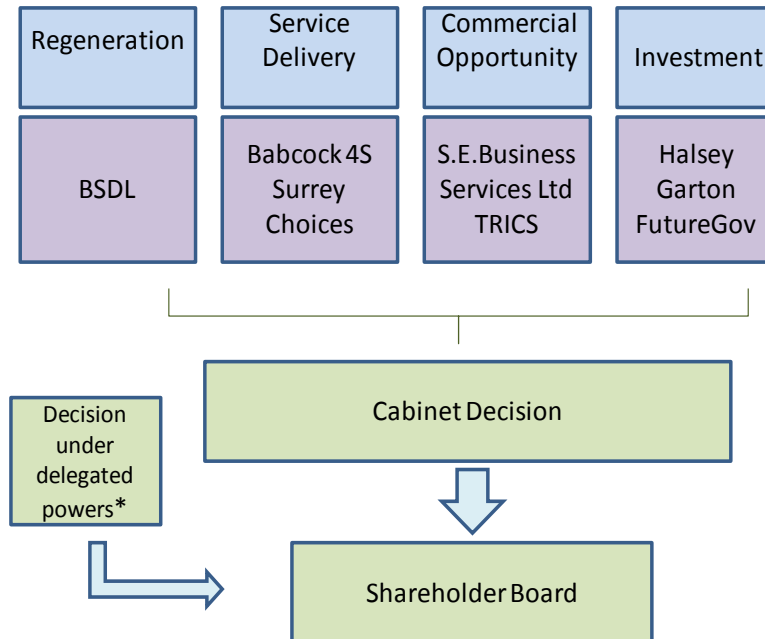
Shareholder Board

Purpose of the report: Scrutiny of the Shareholder Board

To provide an update to Members on the role of the Shareholder Board and its decision-making in relation to companies in which the council has a shareholding.

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. This strategy set out the Council's approach to continuing to deliver public value in an environment of diminishing financial resources by evaluating different delivery models including the development of the Council's approach to trading.
2. The Council is able to make use of powers granted by section 95 of the Local Government Act 2003 and the Local Government Best Value Authorities (Power to Trade) (England) Order 2009. The powers provided by the Localism Act 2011 broadened the scope of activities upon which the Council can trade. The Cabinet report in March 2013 recognised that the Council had already taken advantage of these powers in the creation of the joint venture company with Babcock International Group PLC to provide school support services.
3. The New Models of Delivery Programme was put in place to enable and assist services in identifying and assessing opportunities. The primary objective of this approach is to deliver public value for Surrey residents and businesses with any profits generated for the Council through trading being available to support the delivery of the Council's medium term financial plan and enhancing financial resilience. The Committee has received regular reports outlining the Council's "5D" approach to innovation. This approach introduces consistency to the appraisal of commercial opportunities and ensures strategic oversight across the Council.
4. The Investment Strategy agreed by Cabinet in July 2013 was also developed in response to the requirement for the Council to maintain its financial resilience in the longer term. This strategy set out the governance arrangements to consider individual investment opportunities and to provide advice to Cabinet on investment decisions. 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.
5. The decision to create a company or to invest in shares is taken by Cabinet and once established, the Council's Shareholder Board has responsibility for exercising "shareholder control". This control is exercised over all companies owned by the Council, and in relation to any shares held by the Council, whether

these have been created or are held for trading, investment or other purpose. For example, the Council's shareholding interest in the Joint Venture Company Bandstand Square Developments Ltd (BSDL) was established in order to facilitate the regeneration of Woking town centre in partnership with Woking Borough Council and a private developer.



** Future investment activity may also be determined under delegated decision-making*

6. The Shareholder Board safeguards the Council's interest as shareholder and takes decisions in matters that require the approval of the Council as owner of the company. Decisions in relation to the day to day operation of companies are taken by the directors of each company. 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). The Terms of Reference for the Shareholder Board are attached to this report as Annex 1.
7. The Shareholder Board meet at least quarterly and receive detailed and comprehensive information and briefings to support their decision-making. The extent of the role of the Shareholder Board in decision-making will depend upon the Council's shareholding and upon terms included in a company's articles of association, or in the other contractual documents such as a Shareholders Agreement in relation to Joint-Venture companies. Annex 2 provides a list of companies in which the Council owns shares, together with some brief details of purpose, date of incorporation and their accounting year-end date.
8. The Council Overview and Scrutiny Committee have a scrutiny function in the relation to the decision-making of the Shareholder Board and in respect of the performance of the Companies for which the Council is the majority shareholder. The Committee may wish to review any significant decisions taken by the Board, but in doing so will need to take into account matters of confidentiality and recognise that some information will be commercially sensitive in nature. Annex 3 to this report provides a summary of the matters considered by the Shareholder Board, including information regarding the key points discussed and the decisions made.

- 9. The trading results of the companies that are wholly owned by the Council will be consolidated and reported on a Group accounting basis for the first time for the financial year ending 31st March 2015. The Council will therefore receive an annual report on its trading activities, which it will continue to receive on an annual basis thereafter.
- 10. The Group Accounts will additionally include the results of other companies that are determined to be in the “controlling influence” of the Council. The determination of controlling influence is made in consideration of a number of factors which include; the percentage shareholding, the number of representative directors on the board compared to those of other shareholders and the decision-making that is reserved for the shareholder. On this basis and subject to confirmation with the Council’s external auditor, the Council will also be consolidating the results of Bandstand Square Developments Ltd (BSDL).
- 11. The Shareholder Board reviews the financial performance of companies bearing in mind contextual factors such as the purpose of the company and the agreed business plan. The Annual Statement of Accounts of each company falling under the remit of the Shareholder Board are appended to this report as Annex 4. Some companies, such as Surrey Choices Ltd, have not yet concluded their first year or part-year of trading and therefore have not yet produced an Annual Statement of Accounts at the time of this report. This is highlighted in the final column of the matrix provided as Annex 2.
- 12. The Shareholder Board also considers the Council’s Group position, ensuring that the relationship between the Council and its companies are on an “arms-length” basis. For example, the Council must recover the full cost of any accommodation, goods, services and employees 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.

Recommendation

That the Committee continues to support the Council’s approach to innovation, trading and investment in order to improve the Council’s financial resilience over the longer-term and notes the role of the Shareholder Board and associated governance arrangements.

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- Annex 1: Shareholder Board Terms of Reference
- Annex 2: Surrey County Council Shareholdings
- Annex 3: Summary of meetings and decisions of the Shareholder Board
- Annex 4: Annual Statement of Accounts

Sources/background papers:

- 1. Strengthening the Council’s Approach to Innovation: Models of Delivery (Cabinet March 2013)
- 2. Investment Strategy (Cabinet July 2013)

