

SURREY COUNTY COUNCIL**CABINET****DATE: 29 JULY 2015****REPORT OF: MR DAVID HODGE, LEADER OF THE COUNCIL****LEAD OFFICER: JULIE FISHER, DEPUTY CHIEF EXECUTIVE****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 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:

1. the first Annual Report of the Shareholder Board (Annex A) is endorsed and that Cabinet present the report to Council at its meeting in October, and
2. the Cabinet continue to support the Council's strategic approach to innovation and evaluating new models of delivery, ensuring that this innovation is supported by best practice governance arrangements.

REASON FOR RECOMMENDATIONS:

To inform the Council about the activities of the Shareholder Board.. Continued innovation will enable the Council to continue to respond to the challenges it faces and will contribute to enhancing its financial resilience in the longer term. 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.

<u>DETAILS:</u>

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 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. The approach ensures consistency to the appraisal of trading and commercial opportunities, and that all relevant options are considered.
3. The Council is able to make use of legal powers provided by a number of Acts including the Localism Act 2011 which together have broadened the range and scope of activities available to the Council. The report to Cabinet 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 and since then a number of further opportunities have resulted in new ventures..
4. The Council may create a company or invest in shares for a wide range of purposes. For example, the Council's shareholding interest in the Joint Venture Company Bandstand Square Developments Ltd was established in order to facilitate the regeneration of Woking town centre in partnership with Woking Borough Council and a private developer. Similarly, 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 its Investment Strategy.
5. The Shareholder Board 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 signing off the business plan and financial dividend forecast (annually); and
 - reviewing the financial and overall performance of the trading company
6. 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.

7. 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).
8. 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.
9. The Shareholder Board reviews the financial performance of companies. In reviewing financial performance, the Board bears in mind contextual factors such as the purpose of the company, the agreed business plan, and the length of time it takes to create a successful company.
10. The Annual Report of the Shareholder Board is attached as ANNEX A to this report and provides further background information about the workings of the board together with information about the Council's companies and the progress made to date.

CONSULTATION:

11. A range of stakeholders were consulted on the establishment of the Shareholder Board and the strategies that underpin the establishment of council owned trading companies.

RISK MANAGEMENT AND IMPLICATIONS:

12. 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 and Value for Money Implications

13. The decision to create a company or to invest in shares is taken by Cabinet upon the basis of a business case which articulates the financial implications for the council. Proposals are made with realistic expectations regarding the investment required and the length of time it will take to establish a successful company. The innovation strategy (New Models of Delivery) and Investment Strategy both recognise that the financial benefits and contribution to the Council's resilience will be delivered in the longer term.
14. The Shareholder Board is responsible for reviewing the financial performance of companies and taking decisions on an individual company by company basis 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

15. There are no new financial implications arising from this report. The Shareholder Board ensures effective governance over the Council's companies and shareholding interests in order to enhance the financial resilience of the Council over the longer term. The board are supported by officers of the Council, who seek additional specialist technical external advice when required.

Legal Implications – Monitoring Officer

16. 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

17. There are no direct equalities implications arising from this report.

WHAT HAPPENS NEXT:

The first annual report of the Shareholder Board will be present to Council at its October meeting.

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.

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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