

Strategic Investment Board Annual Report

Financial Year 2019/20



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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 Strategic Investment Board (SIB) 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 SIB 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 SIB 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 report also gives an update on the companies for 2020/21 following the outbreak of the Covid-19 pandemic.



Tim Oliver
Leader of Surrey County Council

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 (SCC) 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 now taken by SIB 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 UK 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 STRATEGIC INVESTMENT BOARD

Governance

- SIB was created in June 2019 following the combining of the Shareholder Board and the Investment Board as noted in the 2018/19 report.
- The Board and its role are 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 are scheduled to take place on a monthly basis.

The Strategic Investment Board is comprised of four members of the Council’s Cabinet and is supported by senior 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 & Resources
- Cabinet Member for Community Protection

Advisors

- Chief Executive
- Executive Director of Resources (Section 151 Officer)
- Director of Law & Governance (Monitoring Officer)

The SIB is further supported by the Asset Strategy Board (ASB) and the Shareholder Investment Panel (SHIP). The roles of both ASB and SHIP are detailed on Page 7 of the report.

Strategic Investment Board & Decision-Making Process

The day-to-day operation of each company is the responsibility of the Directors (of each company) with the SIB 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 SIB on behalf of the Council, are required to approve or make decisions in relation to the following matters summarised in the table below.

| <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) |

| <u>Decision</u> | <u>Rationale</u> |
|--|---|
| 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 SHIP, an Officer led panel, chaired by the Director, Corporate Finance (Deputy s151), works within delegated authority limits set by the SIB. The Panel's remit is to review and challenge the subsidiary companies performance within year and, to manage the day to day approvals and workings of the subsidiary companies. This enables approvals to be given in a timely manner so that day to day operational effectiveness is not impacted by an elongated approval process. For items that fall outside of the approval limits afforded to SHIP, the items will be discussed and scrutinised before coming forward to the ASB.

The ASB is an informal Member led Board, supported by Officers, which reviews and considers submissions from both SHIP and the Capital Programme Panel (CPP). CPP's role is to oversee the Council's Capital Programme, considering asset plans; new projects and schemes and capital programme delivery. The Board will monitor the ongoing strategy for subsidiary companies and property which has been approved by SIB and Cabinet. Furthermore, the Board will challenge to ensure any submissions moving forward to SIB for approval are aligned to the strategies. Submissions received by ASB from CPP will move forward to Cabinet for approval.

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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.



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| Company | Ownership |
|-----------------------------|-----------|
| Halsey Garton Property Ltd | 100% |
| Hendeca Group Ltd | 100% |
| Surrey Choices Ltd | 100% |
| South Ridge Development LLP | 50% |
| TRICS Consortium Ltd | 16.70% |
| UK Municipal Bonds Agency | 3.40% |

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 (LLP) which is a structure permissible in certain circumstances and is beneficial for the Council as it is transparent for tax. The SIB provides oversight for LLPs in a similar way to companies limited by shares. Further information about LLPs is included in the glossary section.

Directors

Each company must have at least one person named as a Director – the Council itself cannot act in this capacity. The SHIP has delegated authority from the SIB for appointing (and removing) Directors to act on behalf of the Council. 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.

Since the last report the following Directors have been appointed-

| | |
|----------------------------------|--|
| Halsey Garton Property Companies | •Nicola O'Connor, Cllr Nick Darby (Pending appointment) |
| Hendeca Group | •Roger Childs & Janine Lewis |
| Surrey Choices | •Stefan Nahajski, Jane Earl, Rachel Wigley & Cllr Clare Curran |

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 SIB.

As Directors, their role is not to provide scrutiny, but to be accountable to the SIB, alongside other directors, for the performance of the company and for their own performance as a Director. The SIB 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 publicly 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 st March 2019) |
| Return on Investment | In 2019/20 the company did not propose a dividend (2018/19 £1.6m) and made interest payments to the Council of £14.2m (2018/19 £12.2m). The paid dividend in 2017/18 was £1.6m and in 2016/17 was £750,000. |
| Directors | Nicola O'Connor, Cllr Nick Darby (pending), (Cllr Edward Hawkins to November 2020) |

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.

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Halsey Garton Property

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 31st March 2020 to enable the company to purchase agreed investment assets.

The Council's strategy is to no longer invest outside of County borders. Therefore, the portfolio is currently static with no current plans to purchase or dispose of any of the 17 assets held.

Progress Report

The company purchased its first asset in November 2015. The company now owns investment assets with a value of £267m (£302m, 2018/19) – 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 did not propose a dividend in 2019/20 following the outbreak of the Covid-19 pandemic in the final quarter of the year. There was no certainty of the impact on the business' activities at that time, so a prudent view was taken to retain profits in the company for the short-term. The company continues to manage the impact of deferred payment terms from tenants and CVA's within the portfolio. At the time of writing, rent collections were at 85% of invoiced rent. The company's property advisers have stated this is an above average performance when compared to similar portfolios. The company is forecasted to be profitable for the year 2020/21 however, due to the on-going impact of the pandemic and with the portfolio holding a 40% weighting in the retail sector, no dividend is anticipated to be paid from the 2020/21 trading year.

Company Renaming

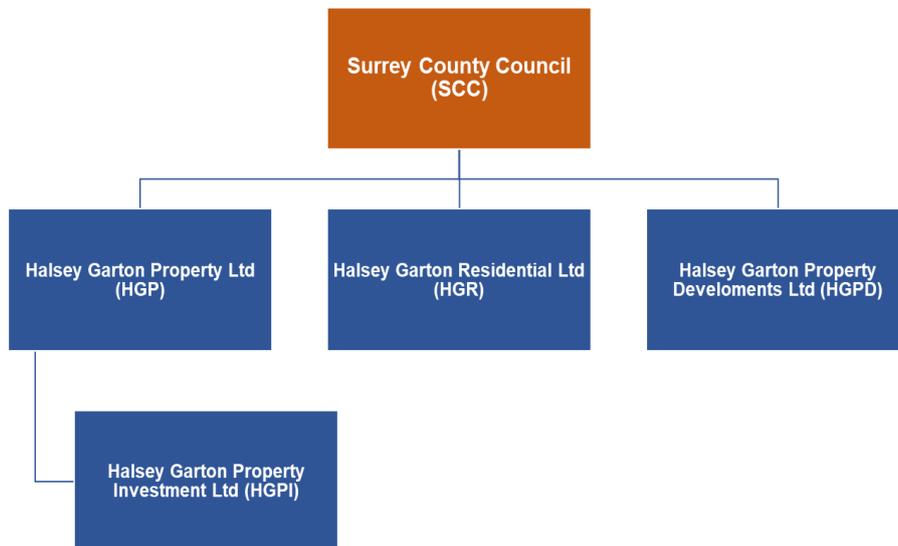
A decision was made to change the name of Halsey Garton Developments Ltd (HGD) to Surrey First Ltd (SF). The name was acquired after it became available following the completion of the striking off of the former company held under this name.

Company Restructure

As part of SCC's 2018/19 audit Grant Thornton LLP, SCC's auditors, had challenged the decision to treat the revaluation losses of the properties as an unrealised loss. Further legal and professional accounting advice was sought and confirmed that the decision and treatment of the losses by the Directors of Halsey Garton Property Ltd (HGP) had been appropriate.

However, as there is a risk that a loss could become realised at some point in the future, a decision was made to review the Halsey Garton company structure. Under the old structure, a realised loss on a property could trap potential dividends from the other two companies within the Group Company. As such, a decision was made for SCC to purchase the shareholding in Halsey Garton Residential Ltd (HGR) and SF from HGP. This enables any dividends generated from these companies from future trading to be passed to the Council in 'real time'.

Revised Company Structure





| | |
|-----------------------|--|
| 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 2019/20 £400,000 |
| Directors | Jeff Harris, Steve Ruddy, Roger Childs, Janine Lewis |

Company Profile

Hendeca commenced trade in December 2013 following Cabinet approval as part of the New Models of Delivery strategy in March 2013. The company was known as S.E.Business Ltd, changing names to Hendeca Group Ltd during the year. 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. 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

In 2019/20 the company delivered pre-tax profits of £466k just below those expected in the approved Annual Business Plan. These profits have been delivered in the main as a result of the contracts in the fire aviation contingency market. The company also delivers IT services to two private sector organisations operating in the health sector. However, the non-renewal of a 3rd IT contract led to the adverse result versus the Annual Business Plan. The company has paid dividends since its first full year of trading.

Moving forward into 2020/21, faced with the challenges of the current pandemic crisis, and the effects on our markets, Hendeca have understood and reported that substantial changes are needed in the focus of the business, and that an investment in staffing resource is essential if they are to maintain revenues and increase profit in the longer term. With that in mind, Hendeca have already recruited a commercial board member who has helped begin the process of identifying the company’s critical success factors. A business plan has been formulated, with the boards contribution and buy-in, to develop a more structured range of products, develop a sales and marketing plan, design processes and procedures around our services to provide a quality, consistent approach for customers, and to work hard to increase sustainable profits.

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 | Clare Curran (Chair), Mette Le Jakobsen (Managing Director), Rachel Wigley, Jane Earl, Stefan Nahajski (NEDs) |

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. The loans were extended in 2019/20 and are now planned to be repaid over the next 9 years, with the initial instalment being received by SCC in 2020/21.

Progress Report

The company delivers services to the Council under a commissioning contract; this is currently primarily a block arrangement meaning that the risk of any volume increase rests with the company rather than with the Council, however the Short Breaks and Shared Lives services are now paid for on a spot basis. In the first 18 months of operation the Council increased the number of new referrals and this led to 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. A revised business plan, which was approved by the Shareholder Board in December 2016. This was based upon the delivery of significant cost savings and prudent assumptions in terms of non-Council business and signalled the start of the significant turn-around in the success of the company. Pre-tax profits of £397k were delivered in 2017/18, £734k in 2018/19 and £658k for the year to 31 March 2020 (all 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 current MD, Mette Le Jakobsen, has now been in post since November 2018 and has made a significant and positive impact, building resilience with a strong senior management team and a strengthened company board which now includes two independent Non-Executive Directors. Over the past two years the company has delivered a number of changes to improve profitability, service modernisation, corporate governance, as well as staff, commissioner and other stakeholder relationships and communications.

The forward looking five-year strategic business plan for 2019/20 and beyond, approved by the Shareholder Board in 2019 has been co-designed with the Council's ASC senior team. It has a renewed focus on delivering transformational shifts in service delivery and was jointly reviewed and re-indorsed in June 2020. 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 respite, as well as the expansion of the Shared Lives service.

The profit before tax forecast for 2020/21 is likely to be comparable to that of prior year. However, the company is currently working closely with the senior ASC team to generate challenging efficiencies for the Council, through improved management of day services over the next two financial years.

South Ridge Development LLP



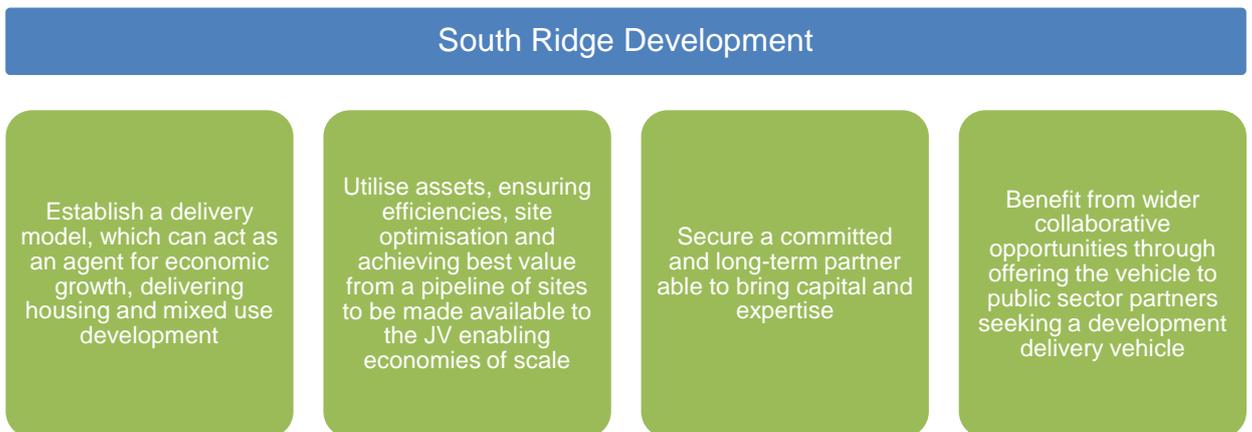
| | |
|---------------------------------|-------------------------------|
| Cabinet Approval | December 2017 |
| Ownership | 50% |
| Date of Incorporation | September 2018 |
| Council Investment | No investment to date |
| Surrey County Council Directors | Peter Hopkins & Diane Wilding |

Company Profile

South Ridge Development is the Joint Venture (JV) arrangement with Places for People to deliver housing and mixed-use development on the Council’s vacant sites. The JV is arranged as a Limited Liability Partnership (LLP) 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

Following the approval of the JV's first Annual Business Plan in April 2018, Indicative Site Development Plans (ISPDs) for the first four sites (Batch One) were submitted to the Council by the JV in early 2019/20. These were subsequently approved, with the intention of the JV delivering more detailed Site Development Plans (SDPs) for Batch One to the Council by early 2020. However the JV suffered a number of set backs during the year and was unable to deliver viable SDPs for Batch One by the end of 2019/20. The JV has continued to refine the SDPs in an attempt to bring viable SDPs for approvals during 2020/21. Viable plans have not been delivered and as a result the relationship is being reviewed in order to find the most beneficial path forward.



| | |
|--------------------------------|---|
| 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 |
| | 2019: £98,667 |
| 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 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 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, 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. 2019 saw a further increase in members of 4% on 2018, membership numbers have risen each year since inception.

TRICS has now become a truly International company, with its Australasian Database being released in September 2018. The second phase of this region's database has already commenced, with the improved TRICS Surveys to be undertaken in the region in 2020, it is hoped that the system will be upgraded to enable these surveys to be hosted before the end of 2020.

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.



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 UK Municipal Bond Agency's (UKMBA) 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

UKMBA 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. The requirement to provide the guarantee has since been removed, however the approval of a credit check remains.

Continued low interest rates and short-term borrowing strategies adopted by a number of local authorities, has meant that only a single bond issue to Lancashire County Council has been issued to this point.

UKMBA are still confident of being able to beat the low rates available via PWLB, and there is no guarantee of the PWLB rates remaining at the current levels. 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 publicly 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 Hendeca Group 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 SHIP 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.

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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 Hendeca Group in the provision of IT managed services previously supplied to the customer by another provider.

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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.

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