



**Council Overview and Scrutiny Committee
12 September 2013**

Investment & Trading

Purpose of the report: Scrutiny of Services and Budgets

The Committee has requested an overview of trading and investment strategies across the Council.

Summary of issue

1. Following the Medium Term Financial Plan (MTFP) (2013-18) budget report in February 2013, Surrey County Council agreed the need;
 - to take steps to ensure that the Council maintains its financial resilience and protects its long term financial position
 - to explore and develop alternative sources of funding that reduce its reliance on Government grants and Council tax increases in the future
 - for provision in the MTFP (2013-18) to meet the costs of initiatives that will deliver savings and enhance income in the longer term.
2. This strategy is the Council's response to that challenge, and builds on the Cabinet decision of 26th March 2013 to support innovative models of service delivery, including trading ('Strengthening the Council's Approach to Innovation: Models of Delivery'). The strategy is in its infancy - less than three months into implementation - so this report sets out the direction of travel and objectives for the next two years.

Strategy overview

3. The primary objective of this strategy is to deliver public value for Surrey residents and businesses; any profits generated for the Council through trading will be available to support the delivery of the Council's medium term financial plan, for example; to support service delivery within the authority, invest in new commercial ventures via the trading company and to help keep Council Tax increases as low as possible in the future.
4. The Council has a range of legal powers which enable it to pursue a strategy of commercial trading. There are some restrictions on these powers, for example the Council could not charge someone for services that it has a duty to provide to them without charge and it can only trade outside the public sector through a separate legal entity, usually a Local Authority Trading Company (LATC), The Council could set up one or numerous LATCs. Each

one will be a new legal entity, but with the ability to trade commercially in the market, limited by shares and wholly owned by Surrey County Council.

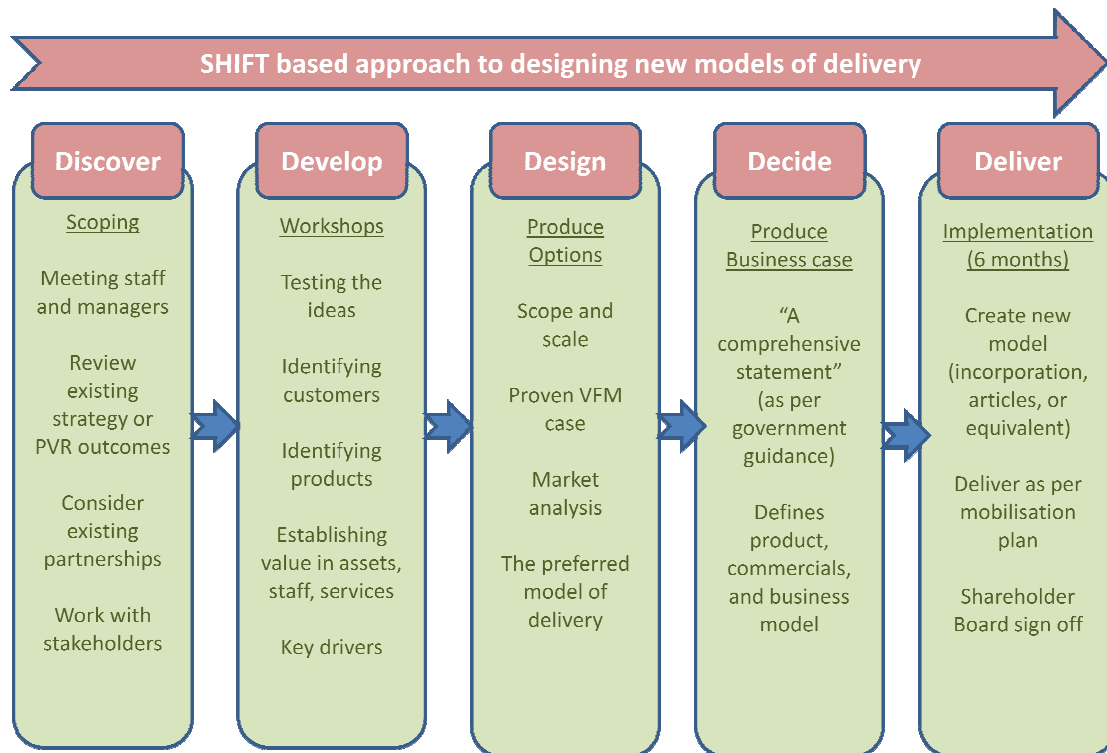
5. Over the next two years the Council's trading strategy will:

1. Follow the SHIFT approach to innovation to generate ideas and identify opportunities that:

- Are customer focused
- Could trade our services/products
- Extract value from our assets

6. The approach below has been developed following Surrey's SHIFT approach to innovation; it sets out a pathway and supports services considering opportunities to identify new models of delivery, potentially to trade. The approach is designed to challenge services and drive creativity but also to introduce formal gateways for decision-making, within Directorates and services to prioritise ideas and resources, and to Cabinet to approve business cases.

SHIFT approach (see Appendix 1) to new models of delivery, including trading:



This process is underway across Council services in Environment & Infrastructure, Adults Social Care, the Chief Executive's Office and Children, Schools & Families.

2. Ensure there is a consistent approach to evaluating commercial ideas, establishing appropriate models of delivery, and creating trading companies

7. The SHIFT process above will introduce consistency to the appraisal of commercial opportunities and ensure a strategic oversight across the Council.

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Both the Options Appraisal and Business Cases mark formal decision gateways at Cabinet. Any potential trading proposals must demonstrate:

- Value for money for the Council and Surrey public;
 - Enhance and/or maintain quality services to customers;
 - Additional income for the Council that can be used to provide financial support for the delivery of functions and services;
 - The most appropriate model for delivery;
 - An equality impact assessment has been conducted; and
 - Relevant consultation and/or engagement is planned or has been undertaken.
8. In addition, the Business Case for the creation of any trading company will be supported by a Business Plan which will be developed to include the following aspects:
- The objectives of the business
 - The investment and other resources required to achieve those objectives
 - Any risks the business might face including how to mitigate against those risks
 - The expected financial results of the business, together with any relevant outcomes the business is expected to achieve.

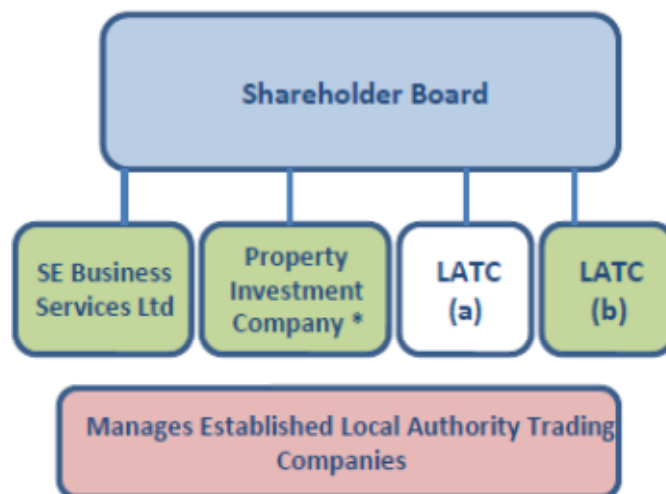
Some examples of trading activities undertaken by other Local Authorities and the routes to developing them are illustrated in Appendix 2.

3. Put in place effective governance arrangements for all trading activities

9. The Council will [initially] retain 100% shareholding in its LATCs. The Council will exercise its shareholding powers through a Shareholder Board, which will report to full Council annually on its trading activity.
10. The Leader of the Council will Chair the Shareholder Board. Other members will include up to 3 appointed Cabinet Members, and the Chief Executive of the Council. The Section 151 Officer and Monitoring Officer will be advisers to the Board and membership will be reviewed annually.
11. The Shareholder Board will:
- Appoint and remove LATC Directors
 - Approve annual Business Plans, including dividend payments
 - Monitor and evaluate financial performance
 - Approve any allotment of further shares in the LATC (to third party shareholders)
 - Agree and monitor levels of material expenditure or financial debt
 - Endorse any amendments to LATC Business Plans
 - Report to full Council and produce an annual report on all trading activity
 - Be subject to the Corporate Overview and Scrutiny Committee process regarding its trading activity
 - Review risks associated with trading activity
12. All decisions regarding the day to day operation of each LATC, its business developments and commercial opportunities and the development and implementation of its internal procedures, would rest with the Directors of each LATC. Where Council services are commissioned from an LATC,

Select Committees would be able to scrutinise overall value for money and LATC performance of the contract.

Shareholder Board structure:



13. The “Property Investment Company” is highlighted by an *asterisk on the diagram above as it is “subject to Cabinet approval (see Appendix 3).
14. The Shareholder Board meets for the first time in September 2013 and will be considering wider Member involvement and ongoing engagement with the scrutiny process.

4. Develop skills and competencies among staff internally, focusing in particular on business development

15. A key component of exploring new models of delivery with the Council’s services is establishing whether the necessary skills and competencies exist in teams and if not how to develop or acquire those skills as part of developing options appraisals and business plans. This combines elements of organisational development such as business plans, culture and leadership, and specific business and commercial competencies not familiar in non-trading environments, such as sales and marketing.
16. Services across the Council from finance, procurement, legal, and business improvement, combining a variety of experience from the public and private sectors, are working together to support services and teams to undertake this skills and competencies assessment.

5. Deliver portfolio of Council trading activities by 2017

17. This strategy will deliver a sustainable and profitable portfolio of LATCs by 2017. The creation of each LATC will be agreed by Cabinet and monitored by the Shareholder Board to ensure that the portfolio adds value to the Council brand and promotes and supports the Council’s values as a core part of any trading offer. Surrey’s ambition for its commercial activities is to become a systems leader, with a specific focus on new models of delivery that ensure public value and organisational endurance through unprecedented local government funding reductions.
18. The Cabinet report “Strengthening the Council’s Approach to Innovation: Models of Delivery” (26th March 2013) delegated authority to the Strategic Director for Change and Efficiency (now Business Services), in consultation with the Leader of the Council and Cabinet Member for Change and

Efficiency (now Business Services), to set up a trading company to capitalise on opportunities available for the delivery of 'business services' to private sector organisations. This Council's first LATC, SE Business Services, has now been formally established and has reached preferred bidder status to provide IT services, including data hosting, helpdesk and application support to a private sector client.

Recommendations

This strategy provides a framework for trading and investment in innovative solutions and opportunities that enable the council to maintain its financial resilience and increase income whilst providing effective services. Decisions made to implement the strategy will be in accordance with the governance arrangements described.

It is recommended that the Committee supports the strategy and receives further updates in 2014 summarising progress and outlining potential trading models and investment opportunities emerging from discussions with services.

Next steps

Each Directorate and Service will be supported to explore new models of delivery and, consistent with the Council's governance arrangements, viable trading companies will become operational during 2014.

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Sources/background papers:

Appendix 1: SHIFT approach to new models of delivery, including trading:

Appendix 2: LGA Enterprising Councils report 2012

Appendix 3: Investment Strategy

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