

**GOVERNANCE AND AUDIT COMMITTEE TRADING
ACTIVITIES SUB - COMMITTEE**

Monday, 23rd November, 2015

2.30 pm

**Council Chamber, Sessions House, County Hall,
Maidstone**





AGENDA

GOVERNANCE AND AUDIT COMMITTEE TRADING ACTIVITIES SUB - COMMITTEE

Monday, 23 November 2015 at 2.30 pm
Council Chamber, Sessions House,
County Hall, Maidstone

Ask for: **Andrew Tait**
Telephone: **03000 416749**

Tea/Coffee will be available 15 minutes before the meeting

Membership (3)

Conservative (2): Mr R L H Long, TD (Chairman) and Mr R J Parry (Vice-Chairman)

UKIP (1): Mr M Baldock

UNRESTRICTED ITEMS

(During these items the meeting is likely to be open to the public)

Webcasting Notice

Please note: this meeting may be filmed for live or subsequent broadcast via the Council's internet site – at the start of the meeting the Chairman will confirm if all or part of the meeting is being filmed.

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Item

- 1 Membership
To note the appointment of Mr M Baldock in place of Mr H Birkby.
- 2 Substitutes
- 3 Declarations of Interest by Members for items on the agenda
- 4 Minutes - 9 March 2015 (Pages 5 - 8)

- 5 Facing the Challenge - Property Future Service Delivery Model (Pages 9 - 18)
- 6 Other Items which the Chairman decides are Urgent

EXEMPT ITEMS

(At the time of preparing the agenda there were no exempt items. During any such items which may arise the meeting is likely NOT to be open to the public)

Peter Sass
Head of Democratic Services
03000 416647

Friday, 13 November 2015

Please note that any background documents referred to in the accompanying papers maybe inspected by arrangement with the officer responsible for preparing the relevant report.

Governance and Audit Committee Trading Activities Sub - Committee Terms of Reference

*Membership: 3
2 Conservative, 1 UKIP*

The Governance and Audit Committee established this sub committee in September 2008 to specifically focus upon Kent County Council's (KCC) Trading Activities.

Overarching Purpose

The purpose of the Governance and Audit Committee Trading Activities Sub - Committee is to:

1. Ensure that there are effective governance arrangements in place for Kent County Council's limited companies and trading vehicles (as defined in the Protocol relating to companies in which KCC has an interest); and
2. Provide oversight of KCC's companies and other trading vehicles to ensure that these are run properly and transparently.

Objectives of the Sub-Committee

On behalf of the Governance and Audit Committee, the Trading Activities Sub - Committee will ensure the following outcomes:

1. Companies and other trading vehicles established by the Council have robust, transparent and fully accountable audit and governance arrangements in place and comply with the protocol relating to companies in which KCC has an interest;
2. The best interests of the Council are safeguarded within the governance and management structures of companies and other trading vehicles established by the Council;
3. Public accountability to residents and businesses in Kent is maintained as openly as possible (subject to commercial confidentiality) in the exercise of the sub committee's function for oversight and performance management of companies and trading activities established by the Council;
4. Matters that the sub committee considers to be of concern relating to the companies and other trading vehicles established by the Council that would affect the interests of the Council, are referred to the Governance and Audit Committee for their consideration; and
5. The Council has visibility of and can protect its interests in arrangements entered into by the Council's companies and other

trading vehicles where these have the potential to affect the risk profile or financial affairs of the Council.

Responsibilities

1. Monitor and review the financial performance, reporting and governance arrangements of all companies and other trading vehicles owned in whole or in part or controlled by KCC;
2. Monitor and review adherence to the appropriate legal, regulatory and accounting frameworks governing local authority trading activities.
3. Monitor and review trading and commercial activities being undertaken by the Council to ensure that they have the right structure;
4. Receive and review the annual statutory financial accounts of any KCC limited companies and financial statements for other trading vehicles and to consider corrective action where appropriate;
5. Review the dividend policies adopted by KCC companies; and
6. Oversee the establishment of new limited companies, subsidiary companies and other trading vehicles through an examination of the decision making process followed (business case, financial and legal advice) before the company commences trading and make governance related recommendations to the Governance and Audit Committee and responsible Cabinet Member where appropriate.

Reporting

The minutes of the Governance and Audit Committee Trading Activities Sub - Committee will be reported to the Governance and Audit Committee after each meeting.

Frequency

Bi-annually

GOVERNANCE AND AUDIT COMMITTEE TRADING ACTIVITIES SUB - COMMITTEE

MINUTES of a meeting of the Governance and Audit Committee Trading Activities Sub - Committee held in the Darent Room, Sessions House, County Hall, Maidstone on Monday, 9 March 2015.

PRESENT: Mr R L H Long, TD (Chairman), Mr R J Parry (Vice-Chairman) and Mr H Birkby

ALSO PRESENT: Mr D Smyth

IN ATTENDANCE: Mr A Wood (Corporate Director Finance and Procurement), Mr R Patterson (Head of Internal Audit), Miss E Feakins (Chief Accountant), Ms B Gibbs (Accountant) and Mr A Tait (Democratic Services Officer)

UNRESTRICTED ITEMS

1. Minutes - 20 November 2014
(Item 3)

RESOLVED that the Minutes of the meeting held on 20 November 2015 are correctly recorded and that they be signed by the Chairman.

2. Statutory Accounts for the companies in which KCC has an interest
(Item 4)

(1) The Chief Accountant introduced the report by confirming that she had undertaken a liquidity review of the various accounts. Whilst two of them showed a slight deficit, none of them gave grounds for concern. She agreed that future reports on the accounts would identify the Directors' roles within KCC.

(2) The Sub-Committee considered each of the accounts in the order they appeared in the agenda papers.

(3) The Sub-Committee noted that no professional valuation had been obtained for the Aylesham and District Community Workshop Trust since 2005. It therefore agreed to ask the Corporate Director of Finance and Procurement to write to the Trust to advise that it should undertake a professional valuation of its most significant properties.

(4) The Sub-Committee asked the Corporate Director of Finance and Procurement to write to the Business Support Kent Community Interest Company to seek further details of the Administrative Expenses and the Bad Debt figures contained in its accounts.

(5) The Corporate Director of Finance and Procurement advised that, whilst the individual Commercial Services accounts gave no cause for concern, more effective scrutiny would be achieved through a consolidated analysis of the entire Commercial

Services operation. He undertook that such a report would be produced annually starting with the financial year 2014/15.

(6) The Sub-Committee noted all of the other individual accounts for assurance.

(7) RESOLVED that subject to paragraphs (3), (4) and (5) above, the latest available Statutory Accounts for those companies in which KCC has an interest be noted for assurance.

3. East Kent Opportunities LLP

(Item 5)

(1) The Sub-Committee received an annual report on East Kent Opportunities LLP.

(2) RESOLVED that the contents of the report be noted for assurance, together with East Kent Opportunities LLP's Annual report and Financial Statements for 2013/14 as appended to the report.

By: Gary Cooke
Cabinet Member Cabinet Member for Corporate & Democratic
Services

Rebecca Spore
Director of Infrastructure

To: Governance and Audit Committee
Trading Activities Sub Group
23rd November 2015

Subject: Facing the Challenge – Property Future Service Delivery Model

Classification: Unrestricted

Past Pathway of Paper:

Policy and Resources Cabinet Committee (January 2015)

Policy and Resources Cabinet Committee (July 2014)

Cabinet Committee (October 2015)

Summary

This report sets out the background, rationale and governance arrangements for the establishment of a Local Authority Trading Company (LATC) to deliver the Council's Property services.

Recommendation

- (a) The Committee is recommended to approve the governance arrangements as detailed in this report and the exempt annex.

1. Background

1.1 Property (P&IS) was considered as part of the 'Facing the Challenge (FtC): Delivering Better Outcomes' phase 1 review process. A key part of this activity included market engagement alongside challenging key assumptions as to current service delivery. The Council operates a Corporate Landlord model with the property service delivering Strategic Asset Management, involving the active management of the KCC estate (asset reviews, acquisitions, disposals, lease management, etc.); and Asset Agency Services which involves Property acting as a manager or agent of a supply chain to design, build, modify and operate individual assets.

1.2 P&IS in response to the FtC review process, convened its own Property Transformation Group (PTG), including staff from across the service, and

commissioned external advisors, Cornerstone, to support its journey and provide external challenge. Market engagement was also undertaken by the Facing the Challenge Team to provide an independent market review.

- 1.3 The detailed analysis of the current delivery model and options appraisal identified that P&IS concentrated around two core services:
- Strategic Asset Management, which involves the active management of the KCC estate (asset reviews, acquisitions, disposals, lease management etc.). The KCC estate is managed in two portfolios, an operational portfolio and a disposals portfolio. A small external supply chain of professional services are used to support this element of the business; and
 - Asset Agency Service which involves P&IS acting as a manager or agent of a supply chain to design, build, modify and operate individual assets. This part of the business uses two major supply chains, a design and construction supply chain and an FM supply chain (which will be largely sourced through the Total FM contract).
- 1.4 Following the consideration of options it was concluded that the option which offered the greatest opportunity to meet the Council's objectives was Option 4: Externalise and establish a Local Authority Trading Company that is 100% owned by KCC.
- 1.5 The rationale for the establishment of LATC was considered by the Commissioning Advisory Board, the Policy and Resources Cabinet Committee and Cabinet. All endorsed the establishment of a LATC as the preferred option and to proceed with the establishment of the company.
- 1.6 The full report, including financial implications and proposed governance arrangements are set out in the exempt report.

2 Governance and Controls

- 2.1 The governance and controls of the proposed property LATC has been the subject of review and scrutiny by the Policy and Resources committee on 2 separate occasions and separately Cabinet committee. They have been prepared by KCC legal services with the support and involvement of KCC audit applying the learning and lessons from Commercial Services. The Commercial Services revised protocol has been applied.
- 2.2 The Property LATC will be a Company Limited by shares and wholly owned by KCC with a separate KCC shareholders board. The detailed governance and controls fully accord to the KCC protocol relating to companies in which KCC has an interest.
- 2.3 Due to the commercially confidential nature of the Property LATC the detailed governance and controls are outlined in the exempt Annex 1
- 2.4 The Property LATC are buying back all the current support services provided by KCC, importantly the Finance and Audit functions and KCC will be reviewing controls and progress of the Property LATC on a quarterly basis for the initial 12 month period and as appropriate beyond that first year of operation.

3 TUPE, Pensions and HR Policies

3.1 Staff will TUPE transfer into the LATC with their existing terms, conditions and service protected and there will be a closed pension arrangement for existing KCC staff and a new scheme for new staff.

4 Conclusion

4.1 The proposal for the future delivery of Kent County Council (KCC) property services has been considered as part of a structured review and analysis appraisal to meet the requirements of the MTFP. The governance and controls fully apply the lessons and learning gained from Commercial services and adheres fully to the KCC companies' protocol.

5 Recommendations

The Trading Activities Sub-Group is recommended to:-

(b) approve the governance arrangements as detailed in this report and the exempt annex.

Contact details

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Relevant Director:

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

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