

## **Business Case for setting up the Growth Service Management Company ("Growth Co")**

### **Executive Summary**

#### **1.1 Introduction**

This Business Case assesses the business and financial basis for the setting up of the Growth Service Management Company (Growth Co) which will act as a fund management and contracting vehicle to procure the private sector to deliver growth coaching, skills brokering and inward investment promotion as well as managing an allocated amount of Local Growth Fund finance which may be used as grant or equity investment in businesses in the area.

The Local Government Act 2003 restricts local authorities from making a profit from its services, although they are able to offset on costs. The Localism Act 2011 enables local authorities to undertake activities to make a profit but only if delivered within a company

This business case is supported by a Business Plan for the Growth Co, in Appendix 2.

#### **1.2 Core Purpose**

The CPCA was established in 2017 under a devolution deal with the Government. In order to achieve its purpose of ensuring Cambridgeshire and Peterborough is a leading place in the world to live, learn and work, the CPCA produced its 'Growth Ambition Statement' with a focus on growth as part of its 'Local Industrial Strategy'.

To deliver on this strategy, a comprehensive Growth Service has been designed to fuel growth in Business & Skills across all three of our sub-economies. The vehicle to accommodate this service will be a dedicated Legal Entity.

Under the CPCA's ownership and control, the purpose of the Company (Growth Co), will be to manage the Growth Service, its Delivery Fund and with it, procure the delivery of the Growth Service itself from the private sector.

#### **1.3 Strategic Objectives**

The Business Board does not have significant revenue funding at its disposal to finance the procurement of the Business Growth service, in addition to its Core LEP activities between 2020/21 and 2022/23. Hence, the aim of the Business Board is to free-up and leverage a proportion of its MTFP, to create a revenue fund to enable it to procure the Business Growth Service. To achieve this, the Business Board has devised a strategy to build a Growth Service Delivery Fund of £19.5m to deliver the Business Growth Service. Growth Co seeks:

- To deliver value for money

- To deliver against the CPCA's overall Vision and Values
- To contribute to CPCA's Corporate objectives
- To deliver sustainable and inclusive business growth

## 1.4 Financial Summary

1.4.1 The Business Growth Service is a three-year contract, spread over four financial years.

1.4.2 This table shows the projected funding and expenditure profile.

	Year 1	Year 2	Year 3	Year 4	Total
Funding	£7.3m	£7.35m	£8.84m	£3.41m	£26.92m
Expenditure	£2.99m	£10.19m	10.16m	3.33m	£26.69m

Table 1 – Projected income & expenditure

1.4.3 The Business Plan in Appendix 2 details.

- Cash flow

## 1.5 How will Growth Co be funded?

Growth Co will be financed as follows:

- 1.5.1 In early 2020, the Combined Authority was successful in its application to the Business Board for £5,407,000 capital investment from the LGF to be made into the Growth Co.
- 1.5.2 The shares in Growth Co held by the Combined Authority will be managed by the Combined Authority and the Combined Authority will exercise all shareholder voting rights. The value of the shares and any dividend will be ringfenced for the objectives of the Business Board as part of the Single Pot approach to the LGF.
- 1.5.3 Subsequently, the Combined Authority will apply for £7,248,556 of revenue funding from European Structural and Investment Funds ("**ESIF**") including both European Regional Development Fund at £5,204,000 ("**ERDF**") and European Social Fund ("**ESF**") programmes at £2,044,556, which it shall provide as grant to the Growth Co.
- 1.5.4 The Combined Authority shall itself allocate £2,265,000 of revenue funds from its own budget to be paid to the Growth Co. This comprises £738,000 from Growth Hub, £150,000 from CA Skills Implementation, £150,000 CA LIS Implementation and £927,000 from CA Enterprise Zone Receipts.
- 1.5.5 £3,000,000 of the funds will be used by the Growth Co to provide grants to fund growth coaching services delivered by third party coaches during the contract duration. This will be match funded by service users, so that the services

delivered by third party coaches will be funded 50% by the grants from the Growth Co and 50% from fees paid to the third-party coaches by the service users.

- 1.5.6 One of the funds that the Growth Co will be charged with managing is the Small Business Capital Growth Investment Fund from the LGF. This is a pot of £12,000,000 which the Growth Co will use to provide grant to businesses and to make equity investments into businesses of between £150,000 and £250,000 in return for a commensurate amount of equity in those businesses. The Growth Co will exercise all shareholder rights for these shares acquired in equity investments, although the value and any dividend received will be ringfenced for Business Board objectives as with the equity investment into the Growth Co itself.

## **2.0 INTRODUCTION**

### **2.1 Purpose of the Business Case**

The purpose of the business case is to assess the case for setting up the Growth Co as a subsidiary of Angle Holdings Ltd and the CPCA.

### **2.2 Reasons for establishing a wholly owned company**

- 2.2.1 Single focused vehicle: The vehicle would have a single focus on delivering growth to the region. The proposed portfolio of growth support will better enable our academic ideas and inventions to be more rapidly commercialised and spun-out, whilst ensuring our most exciting entrepreneurs are supported to scale-up new services, products, and markets.
- 2.2.2 To ensure growth is inclusive, meaning delivering the benefits of economic growth to everyone across our economy. Currently, areas have high levels of disparity, with pockets of both urban and rural deprivation. The Local Industrial Strategy and its delivery is an opportunity to address the inequalities that are undermining economic growth. We will ensure that new growth in the future promotes an inclusive and diverse economy, with good jobs and greater earning power for all. We will ensure that all communities are able to benefit from the opportunities of economic growth and greater collaboration. An inclusive growth strategy which improves absolute standards of living is vital for the long-term economic sustainability of our economy; as such it represents a risk mitigation strategy as well as an opportunity.
- 2.2.3 Enabling the doubling of our economy in a way that increases inclusivity of place-based growth, improves productivity and facilitates better global market access for our businesses cannot be done through more of the same quality and quantity of business support. The volume of engagement with firms must be increased along with the intensity of support and the ambition of outcome

impacts. To support this, we need an approach to targeting firms and offering growth support to them, that is tailored to the very different needs of our three sub-economies and each individual customer.

2.2.4 A vehicle that is able to develop and deploy more efficiently and more effectively new and innovative forms of growth support to encourage individual business leaders, sectors, and places to join to build an economy-wide business support eco-system to enable one another.

2.2.5 Ability to sell for profit in the future: Having separate vehicles means that the CPCA has the flexibility to sell its ownership (wholly or partly), of any vehicle to a third party, hopefully for a profit, if it no longer wishes to engage in the activities or just realise the value that has been created within a vehicle.

### **3.0 OPTIONS APPRAISAL**

The Local Government Act 2003 restricts local authorities from making a profit from its services, although they are able to offset on costs. The Localism Act 2003 enables local authorities to undertake activities to make a profit but only if delivered within a company.

A brief summary of the options considered is provided in the table at Appendix A.

At the CA Board meeting on 27<sup>th</sup> November 2019, the Business Growth Service Outline Business Case was presented and as part of that, the incorporation of the Growth Co was approved.

### **4.0 STRUCTURE AND GOVERNANCE**

**4.1** Growth Co will initially be wholly owned by Angle Holdings Ltd. via an initial allocation of 100 shares of £1 each issued to Angle Holdings Ltd on incorporation. Once the conditions on the LGF investment are met, specifically that the EU funding has been confirmed, the Growth Co will issue 5.407m additional shares to the CPCA in return for the £5.407m LGF investment. At this point, the CPCA will become the majority shareholder and will operate control directly rather than through Angle Holdings Ltd. The Full Business Case will set out full details of the contractors and financial information.

**4.2** Consent to the appointment of directors of Growth Co is reserved to the Combined Authority. The Growth Co Board of Directors will be responsible for the strategic direction and success of the company. Growth Co will seek to enhance CPCA's reputation and brand for high standards. Growth Co will establish and maintain an effective service and financial performance management reporting system which will include reports to Angle Holding Ltd and the CPCA Board. Growth Co will be subject to any audit and inspection requirements of the CPCA.

4.3 The directors will consist of an Independent Chairperson, the Deputy Chief Officer of the Business Board and the Chief Finance Officer for the Combined Authority. The Independent Chairperson would bring the specialist knowledge while removing the risk of conflict and will be recruited following an open and transparent recruitment process. No less than 3 directors will be sufficient for quoracy of Board decisions.

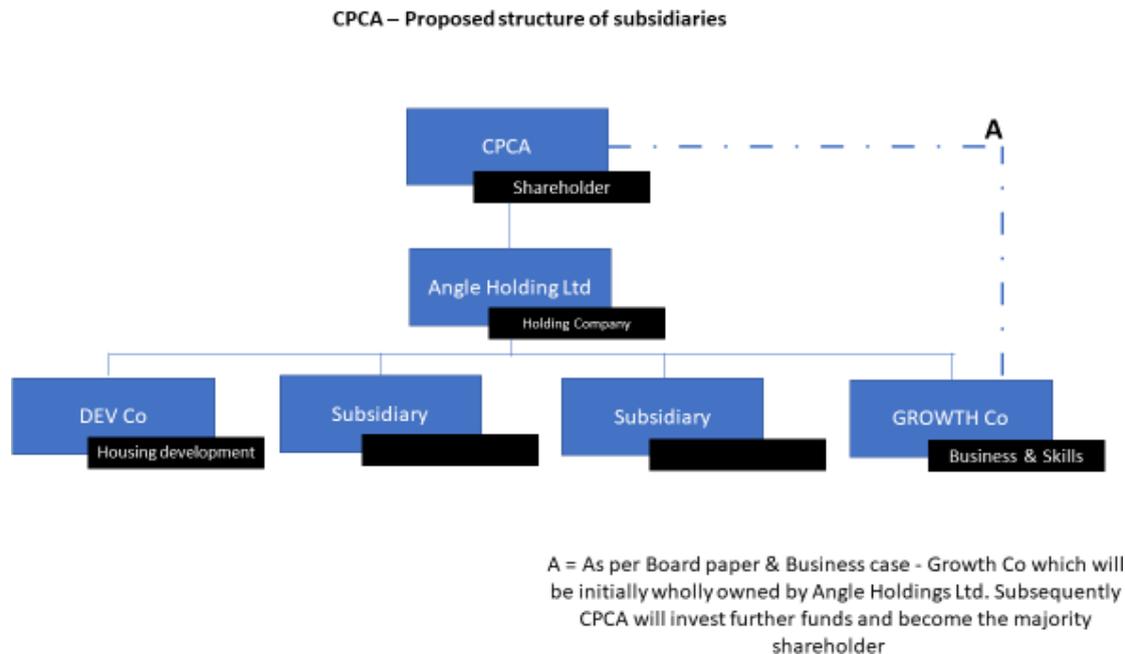


Figure 1 – CPCA and how the subsidiaries sit below it

## 5.0 FINANCIAL CASE

### 5.1 Set Up Costs

5.1.1 There will be initial set up costs, prior to incorporation and the date when the Growth Co commences trading, potentially September 2020. It is proposed that the CPCA funds the work which includes but may not be limited to Incorporation (£1,300), Article of Association for growth Co (£7,000), Shareholder Agreement for Growth Co (£10,250) and report on duties of directors, indemnity agreements and presentation to the directors (1,500). This totals appx £20,050. Costs already included and accounted for in the Pinsent Masons legal costs which are being met by CPCA budgets within the 20/21 MTFP. The costs are divided across two budget lines and they are skills strategy implementation and LIS Implementation

### 5.2 Operating costs

This table below details the proposed operating costs of the Growth Co.

Column1	Column5	Column6	Column7	Column8	Column9	Column10	Column11	Column12	Column13
	20/21		21/22		22/23		23/24		Comments
	Inflation	102%		104%		106%		108%	
<b>CPCA Seconded/Recharged Staff</b>									
<b>Role</b>	<b>FTE</b>	<b>£ Cost</b>							
Director	0.5	£28,107	0.5	£57,315	0.5	£58,418	0.5	£29,760	
Chair of Board	1	£5,738	1	£11,700	1	£11,925	1	£6,075	
Company Secretary	1	£3,188	1	£6,500	1	£6,625	1	£3,375	
Managing Director	1	£3,188	1	£6,500	1	£6,625	1	£3,375	
LGF Management	0.2	£10,209	0.2	£20,819	0.2	£21,219	0.2	£10,810	
Skills Management	0.2	£9,465	0.2	£19,302	0.2	£19,673	0.2	£10,022	
Finance Manager	0.2	£6,341	0.2	£12,930	0.2	£13,179	0.2	£6,714	
		<b>£66,236</b>		<b>£135,067</b>		<b>£137,665</b>		<b>£70,132</b>	
<b>Growth Company Staff</b>									
<b>Role</b>	<b>FTE</b>	<b>£ Cost</b>							
Programme Manager - ESF	1	£38,034	1	£77,560	1	£79,052	1	£40,272	
Programme Manager - ERDF	1	£38,034	1	£77,560	1	£79,052	1	£40,272	
Project Co-ordinator- ESF	1	£16,582	1	£33,815	1	£34,465	1	£17,558	
Project Co-ordinator - ERDF	1	£16,582	1	£33,815	1	£34,465	1	£17,558	
		<b>£109,233</b>		<b>£222,749</b>		<b>£227,033</b>		<b>£115,658</b>	
<b>Combined Staffing Costs</b>		<b>£175,468</b>		<b>£357,817</b>		<b>£364,698</b>		<b>£185,790</b>	
<b>Operational Overheads for CPCA Staff only = 20% of</b>		<b>£13,247</b>		<b>£27,013</b>		<b>£27,533</b>		<b>£14,026</b>	

**Table 2 – Proposed operating costs of the Growth Co**

This table details the proposed costs including overhead recharge from Growth Co to CPCA

Title	FY 20/21	FY 21/22	FY 22/23	FY 23/24	Totals	Column1
<b>Insurance</b>	£ 1,000	£ 2,000	£ 2,000	£ 1,000	£ 6,000	
<b>Audit</b>	£ 10,000	£ 20,000	£ 20,000	£ 10,000	£ 60,000	2 levels required for ESF funding so costs may be higher. Local & EU Audit
<b>Banking</b>	£ 1,000	£ 2,000	£ 2,000	£ 1,000	£ 6,000	
<b>Legal</b>	£ 2,500	£ 5,000	£ 5,000	£ 2,500	£ 15,000	
<b>Central Overheads</b>	£ 13,247.10	£ 27,013.49	£ 27,532.98	£ 14,026.34	£ 81,820	20% overhead charge for CPCA staff
<b>Totals</b>	<b>£ 27,747</b>	<b>£ 56,013</b>	<b>£ 56,533</b>	<b>£ 28,526</b>	<b>£ 168,820</b>	

**Table 3 – Proposed costs including overheads recharged by CPCA**

Please note that the Growth Co staff and many of the other costs within the operating costs in the tables above will be incurred by the CPCA in any event, whether or not Growth Co is set up. Those costs are effectively being allocated away from the CPCA overhead and into Growth Co as a cost.

## 5.4 Support Functions

Support functions will be provided through a Service Level Agreement (SLA) with the CPCA. The following support functions will be provided to the Growth Co:

- HR support, including recruitment and training,
- Payroll,
- Finance- transactional finance functions and financial controller activities,
- IT- provision of IT equipment and services (including helpdesk support),
- Insurance provision (buildings, vehicles, employers and public liability), and
- Legal support (as and when required).

This will be reviewed annually to ensure the level of support is sufficient for the Growth Co to operate functionally.

## **5.5 Property and Assets**

Growth Co will operate from the Mayor's Office, 72 Market Street, Ely, Cambridgeshire. CB7 4LS and a reasonable rent will be charged by the CPCA to Growth Co for space it occupies. To be flexible, office accommodation arrangements will be reviewed annually.

## **5.6 Policies and Procedures**

Policies and procedures will be aligned to those in the CPCA and Angle Holdings Ltd.

## **5.7 Information Sharing**

An information sharing protocol will be developed during implementation.

## **5.8 Data Protection**

Growth Co will comply with the relevant legislation and guidance concerning Data Protection including The General Data Protection Regulation (EU) 2016/679 (GDPR). Growth Co will adopt suitable policies and procedures to ensure data is adequately safeguarded.

## **5.9 Freedom of Information**

Growth Co will be subject to requests for the disclosure of information under the Freedom of Information Act 2000 (FOI) in its own right. As such, Growth Co will maintain a record management system that complies with the relevant guidance concerning the maintenance and management of records.

Growth Co will liaise with CPCA as appropriate to ensure consistency in answering FOI requests and provide such information to CPCA as it may require to answer requests it has received.

KEY FEATURES	FINANCIAL	LEGAL	TAX
<p><b>Company Limited by Shares</b></p> <p>Creation of a wholly owned company with the CPCA holding all the shares with full commercial freedom to trade</p>	<p>Financial returns limited by commercial capability</p>	<p>Governance through Articles of Association and Shareholder Agreement</p> <p>CPCA appoints Directors</p> <p>Liability limited to value of shares</p> <p>Procurement required for above EC threshold contracts</p>	<p>Subject to corporation tax</p> <p>Important to understand the nature of property activities undertaken to model precise tax impacts</p> <p>Will need to register for VAT</p>
<p><b>Company Limited by Guarantee</b></p> <p>Creation of a charitable company for the development and management of property</p>	<p>Will not generate surpluses</p>	<p>Governance through Articles of Association and Member Agreement</p> <p>CPCA appoints trustees</p> <p>Trustees run the company in pursuit of its objects (duty is to the Charity not the CPCA)</p> <p>Typically non-profit making entity</p> <p>Procurement required for above EC threshold contracts</p> <p>Difficult to attract equity funding</p>	<p>Subject to Corporation Tax</p> <p>Important to understand the nature of property activities undertaken to model precise impacts</p> <p>Will need to register for VAT</p>

KEY FEATURES	FINANCIAL	LEGAL	TAX
<p>Limited Liability Partnership</p> <p>CPCA enters into partnership with a third party</p> <p>Provides greater flexibility but with the safeguard of limited liability</p>	<p>Profits or losses are allocated directly in relation to the proportion of capital invested by each partner</p>	<p>Transparent entity generating profits for its partners</p> <p>Requires multiple parties coming together</p> <p>Limited Liability Partnership Act 2000 applies</p> <p>Procurement required for above EC threshold contracts</p>	<p>Tax transparent- income and gains allocated directly to members- provides Corporation tax benefit to CPCA</p> <p>Specialist partnership SDLT rules apply- minimal/nil SDLT rules apply on transfer of assets from CPCA to LLP but beware of clawback rules</p> <p>LLP can register for VAT in its own right</p>
<p>Joint Venture</p> <p>Establishment of JV owned with partners</p> <p>Ownership split dependent on risk assessment</p> <p>Element of profit share</p> <p>Benefit from partner's expertise</p>	<p>Cost reduction can be significant (typically 10-20%) and investment if mature partner</p>	<p>Governance through Articles of Association and Shareholders' Agreement</p> <p>Council and partner appoint Directors</p> <p>Profit making entity</p> <p>Liability limited to value of shares</p> <p>Addition of further shareholders is straightforward</p> <p>Procurement require for above EC threshold contracts</p>	<p>Choice of vehicle will determine Corporation Tax</p> <p>Timing of transfers eg pre or post planning will impact tax liability</p> <p>JV vehicle likely to have to register for VAT</p>