



Report title: Combined Authority Trading Companies

To: Audit and Governance Committee

Meeting Date: 24 September 2021

From: Robert Parkin
Monitoring Officer

Key decision: No

Recommendations: The Audit and Governance Committee is recommended to:

a) Comment upon, recommend any changes, and agree the terms of reference of the Committee in relation to the Combined Authority trading companies

Voting arrangements: a simple majority of all Members.

1. Purpose

- 1.1 This report provides the Committee with a draft terms of reference in relation to the review and assessment of the Combined Authority's trading companies in line with the statutory powers invested in the Committee.

2. Background

- 2.1 The Audit and Governance Committee's terms of reference describe its role as to:
- Review and scrutinise the authority's financial affairs
 - Review and assess the authority's risk management, internal control and corporate governance arrangements
 - Review and assess the economy, efficiency and effectiveness with which resources have been used in discharging the authority's functions; and
 - a) make reports and recommendations to the Combined Authority in relation to reviews; and
 - b) implement the obligation to ensure high standards of conduct amongst

Members.

- 2.2 The Combined Authority currently has six trading companies registered with Companies House. These are:

Angle Holdings Limited

Incorporated in September 2019, Angle Holdings was originally set up to be a holding company for all CPCA companies. It is, however, presently the holding company for Angle Developments (East) Limited and the Cambridgeshire and Peterborough Business Growth Service.

Angle Developments (East) Limited

Angle Developments (East) Limited is a housing development company incorporated in September 2019 and is owned in the main by Angle Holdings. It was incorporated with the intention of delivering affordable housing schemes and forming joint ventures with local developers in order to contribute to the housing element of the 2017 devolution deal for Cambridgeshire and Peterborough.

Cambridgeshire & Peterborough Business Growth Service Limited

Incorporated in August 2020 the Cambridgeshire & Peterborough Business Growth Company consists of three major services. These are:

The Business Growth Service: targeting places and companies that will have the most impact on our goal to shift to a more inclusive growth dynamic across sub-economies;

The Inward Investment Service: for a new all-economy foreign direct investment and capital investment promotion service for the promotion of employment space and employment property development opportunities to investors and companies from the UK and overseas; and,

The Skills Service: a digital and physical service connecting business with skills providers and talent, including targeted support to double the number of apprenticeships over five years.

Ownership of the Business Growth Service will shortly transfer to the Combined Authority.

One CAM Limited

One CAM Limited was incorporated in September 2020 and was established as a special purpose vehicle (SPV), as a necessary and best-practice step for delivering the infrastructure intended as part of the CAM.

Peterborough HE Property Company Limited

Incorporated in June 2020 the Peterborough HE Property Company Limited (Propco1) is a special purpose vehicle to deliver the new University on the embankment site in Peterborough. The Propco1 is the SPV for phase 1 of the programme and comprise of the Combined Authority, Peterborough City Council and the academic delivery partner, Anglia Ruskin University.

Peterborough R&D Company Limited

Incorporated In November 2020 for the construction of a Research & Development building which will deliver an Advanced Manufacturing Innovation Eco-System for Peterborough. The company is a joint venture between the CPCA and Photocentric Limited.

3. Terms of Reference

- 3.1 Decisions relating to the Combined Authority trading companies go to the Combined Authority Board, and the Combined Authority Board acts as shareholder. In this role, it carries out a range of roles around oversight, and review. Arrangements are in place in all shareholder agreements for reserved matters to be considered by the Combined Authority Board. Given this process of decision-making and as decisions relating to the companies go to the Combined Authority Board, the Audit & Governance Committee is invited to consider the proposed terms of reference, below, which are aimed at ensuring effective governance by way of bringing a robust and independent approach to the trading companies.
- 3.2 There have been two high profile failings in relation to Local Authority Trading Companies in recent times (Nottingham City Council and London Borough of Croydon) and the findings from these two cases naturally has prompted other local authority bodies such as the Combined Authority to reflect on whether it has confidence in the oversight and audit arrangements in place to ensure that it interest in the good governance of its subsidiaries, and its relationship to them, is promoted.
- 3.3 Considerations around whether the Combined Authority clearly understands the potential financial impacts of the activities and performance of its subsidiary companies are also raised as a result of these two failings. Therefore, there needs to be a robust and ongoing control and due diligence applied to the Combined Authority's investment in these subsidiaries and that includes a clear and defined role for the two statutory Committees of the Combined Authority.
- 3.4 The proposed terms of reference, below, have been considered by the authority's internal auditors who have made comment and suggested amendment, where appropriate. It should be noted the individual trading companies are not directly accountable to the Committee:

Terms of Reference for the Cambridgeshire & Peterborough Combined Authority Audit and Governance Committee in Relation to the Review and Assessment of the Authority's Trading Companies

- a) To ensure that all existing, and any future, trading companies established by the Combined Authority have robust, transparent governance arrangements in place
- b) To assist the Combined Authority in fulfilling its oversight responsibilities in relation to reviewing and monitoring activity
- c) Promote an expectation of high-quality financial information being provided by the trading companies through appropriate review and challenge.
- d) Ensure internal controls and risk management relating to the Combined Authority's trading companies are effective

- e) Commission the Combined Authority's internal audit function to undertake discrete activity relating to the Authority's trading companies, if appropriate.
- f) Ensure the processes for compliance with laws, regulations and codes of practice are in place for the Combined Authority, and also to promote an expectation of the same within the trading companies
- g) Provide assurance that the Combined Authority trading companies are operating in an effective control environment
- h) Ensure the adequacy of arrangements for the management of whistleblowing, complaints, freedom of information requests and compliance within and in relation to the trading companies
- i) Relative to (h) above ensure appropriate, proportionate and independent investigations are undertaken with appropriate follow-up action

4. Significant Implications

4.1 The two high profile failings in relation to Local Authority Trading Companies, referred to in 3.2 above, have potential relevance to the Combined Authority and these are highlighted below:

- The London Borough of Croydon's investments in its subsidiaries involved complex commercial transactions based on business cases taken to cabinet where they received very little challenge, including questioning:
 - The impact of each scheme on the long-term financial position of the council
 - Increased borrowing to schemes within a *Revolving Fund* with little regard to whether previous borrowing to the scheme had delivered intended benefits
 - Whether third parties' financial positions remained sound before providing further borrowing
 - Updated risk assessment to reflect changing market conditions
- Little evidence of members challenging breaches of its own prudential indicators (as part of its Treasury Management Strategy). With the lack of challenge indicating that specialist training for members is needed
- A subsidiary company had not registered as a Shared Ownership Provider indicating a lack of understanding of regulatory requirements
- Breaching of the original business case that the company should not be more than 50% financed by the Council
- Continued delay by a subsidiary being self-financing and repaying loans - to determine whether the council could afford to continue its investments
- Loan covenants not being met by subsidiaries e.g. requiring audited accounts within 90 days of the year end, interest payments due but not paid, loan repayments not received by the due date
- Increasing complexity of the group structures, the interaction between subsidiaries and the longer-term financial impact on the Council not being clearly understood
- A subsidiary being dissolved by compulsory strike off for failure to comply with filing accounts
- The Authority failing to establish adequate arrangements to govern its interests in subsidiaries

- 4.2 Links to the reports of the failings at Nottingham City Council and the London Borough of Croydon can be found here:

[Non-Statutory Review: Nottingham City Council](#)

[Non-Statutory Review: London Borough of Croydon](#)

5. Financial Implications

- 5.1 There are no significant financial implications to this activity.

6. Legal Implications

- 6.1 There are no significant legal implications, beyond those referred to in the body of the report.