

Enterprise M3 Board meeting

25 May 2017

Enterprise M3 2016/17 Financial Position – Item 12

The Enterprise M3 board is asked to:

NOTE – The 2016/17 year end position across all revenue and capital funds held by Enterprise M3

1. Executive Summary

- 1.1 The purpose of this report is to summarise the movement in funds under the control of the Enterprise M3 Local Enterprise Partnership (LEP) Board during 2016/17. The report has been produced in conjunction with Sue Lapham from our Accountable Body. As at 31 March 2017 Enterprise M3 held £2.3million revenue and £17.4million capital funds across a range of accounts.
- 1.2 The report also incorporates commentary on variances between the original core operational funding budget and the outturn position and highlights any issues which may impact on the 2017/18 financial year. A separate report sets out the proposed 2017/18 budget.
- 1.3 The Enterprise M3 LEP is not a separate legal entity and in accordance with Enterprise M3's Accountability Framework and the Memorandum of Understanding between Enterprise M3 and Hampshire County Council as the Accountable Body their funds are separately identified within the County Council's overall accounts. As such they will be subject to external audit review by Ernst & Young as part of their audit of the County Council's overall accounts. In addition, financial information as set out in this report will be published in Enterprise M3's Annual Report, scheduled for publication in June 2017.

2. Revenue Funds 2016/17

Operational Funding

- 2.1 Core running costs for Enterprise M3 were supported as in previous years by a Government Core Funding grant of £500,000 and Partner Contributions from Local Authorities, Higher and Further Education establishments of £260,000. Enterprise M3 is able to spend this funding in the way it determines best meets its needs.
- 2.2 In addition, £274,000 of one-off income was received during 2016/17 in support of specific projects and programmes including application fees from successful bidders to the Local Growth Fund programme and contributions towards initial costs of the Enterprise Zone.

- 2.3 Costs incurred in managing and delivering the Growing Enterprise Fund (GEF) programme were offset by £249,000 from the GEF revenue fund. In addition, core management and administration costs associated with managing the Growth Hub were supported by a £45,000 transfer from the SEEDA Legacy fund. While it is appropriate to match these funding sources to these activities it is worth noting that both the revenue GEF and SEEDA Legacy funds are reducing balances with no further injections of funding expected. At current rates these funds will be fully utilised in just over four years and future planning will need to consider alternative funding arrangements for these activities in the longer term.
- 2.4 Including amounts transferred from other Enterprise M3 revenue funds total funding for Enterprise M3's core activities in 2016/17 was £1.328million.
- 2.5 Total costs for the year were £1.043million of which 63% related to staffing costs including travel, 26% to due diligence work, specialist advice and research, 4% to stakeholder engagement and the balance (7%) to general running costs including support from the Accountable Body (legal services, finance, procurement, HR).
- 2.6 Work on EU funded Technical Assistance commenced towards the end of the financial year. Costs to date are included in the main operational funds together with a prudent estimate of the associated grant funding but from 2017/18 these projects will be reported separately. It is also worth noting from work done after financial year end that the grant funding is now expected to be higher than the provision and a higher figure has been used in developing the 2017/18 budget proposed in a separate report to this meeting.
- 2.7 The original budget for the year targeted a modest surplus of income over expenditure of £24,000. The final position shows a significantly higher surplus of £284,000 (an improvement of £260,000).
- 2.8 Many of the reasons for this improved position have already been reported to the Board via the quarterly Finance reports and include:
- Additional income secured during the year (such as application fees, partner contributions towards Enterprise Zone costs and recoverable due diligence costs)
 - Higher staffing costs following the creation of Enterprise Zone Director and Communications and Marketing Officer posts but more than offset by significantly reduced costs for due diligence, expert support and research although some of these costs will be incurred in 2017/18 e.g. elements of the Strategic Economic Plan refresh.
- 2.9 Appendix 1 summarises the position for operational funds during the year (excluding opening and closing balances).

Other revenue funds

- 2.10 The **Growing Enterprise Fund (GEF)** continues to be used in line with the original Government expectations of supporting the delivery of GEF capital projects. The opening balance of £1.154million was supplemented by £31,000 interest transferred from the GEF capital fund. During 2016/17 a total of £249k was spent on staffing & due diligence relating to the management of the GEF capital programme with a corresponding reduction in the balance at year end to £936,000.

- 2.11 The **Growth Hub** revenue account has incurred £350,000 of costs through the contract to develop and run the Growth Hub. These costs are largely offset by £287,000 of Government revenue grant awarded for this purpose. In previous years the grant covered the full annual contractual commitment of £350,000 but in 2016/17 the balance has been met from funding transferred from the SEEDA Legacy fund. It has been the Government's intention that Growth Hubs should become more self-financing but there is a growing realisation of how difficult this is proving to be and further revenue grant funding has not yet been confirmed beyond 2017/18.
- 2.12 The **SEEDA legacy fund** comprises one-off funding which Enterprise M3 has determined to use in support of Growth Hub activity including providing a cushion to manage the transition to self-funding. A total of £108,000 was used in this way in 2016/17 (£64,000 direct costs to the Growth Hub and £45,000 Growth Hub management and other overheads within the core fund) leaving a balance of £364,000.
- 2.13 The **Interest Account** holds interest paid by HCC as Accountable Body on EM3 funds held during the year and it is proposed that all other interest payable (predominantly from repayment of GEF or other loans) should be held here. The account is intended to act as a "reserve" to provide a degree of security against unforeseen events. The Accountable Body would expect EM3 to retain at least enough provision within this account to cover the costs of winding up the LEP in the unlikely event that this were to be required. Current estimates relating to potential redundancy liabilities can be covered from the balance held of £636k. A review of the policy governing the operation of this account will be brought to the Enterprise M3 Finances, Resources and Audit Committee during 2017/18. Aleks Bennett, Enterprise M3's new Finance Manager will be bringing a detailed proposal for the remit of this new group to the Board in July 2017.
- 2.14 Appendix 2 summarises the movements during 2016/17 across all EM3's funds.

3. Capital

- 3.1 Capital involves the creation or improvement of capital assets and the scale and nature of capital projects means they can extend over more than one financial year.
- 3.2 The majority of capital funding held by Enterprise M3 relates to the **Local Growth Fund**. This is grant funding received annually from the Government for investment in support of Enterprise M3's strategic economic objectives and the only condition on use of the grant is that spend must be capital in nature.
- 3.3 The opening balance for the year of £6.6million was supplemented by additional grant funding of £40.8million and repayments of £2.1million. Over twenty projects supporting a range of transport, skills and other economic development investments were funded during the course of the year with payments totalling £40.3million. This funding is in addition to match funding provided by scheme promoters. The remaining balance of £9.2million is already fully allocated to projects approved by the Board.
- 3.4 Enterprise M3 also holds the **Growing Enterprise Fund**. This was originally established with a one-off Government grant but now operates as a 'revolving' fund with funding support primarily provided to scheme promoters in the form of repayable loans. Again, the condition attached to the original grant specified that spending must be capital in nature.

3.5 Repayments of £2.8million were received during the year to add to the opening balance of £8.5million. Payments totalling £3.1million were made during the year leaving a balance to carry forward of £8.2million. Of this balance, £2.5million is contractually committed to approved projects and further project applications seeking a total of £4million are undergoing due diligence. The remainder of the balance is unallocated and Round 5 of the Growing Enterprise Fund remains open.

4. 2017/18

4.1 The Enterprise Zone and EU funded Technical Assistance will be reported as separate funds from 1 April 2017 in addition to the funds covered in this report.

4.2 The scrutiny role of the Finances, Resources and Audit Committee will add value to the management of Enterprise M3's finances in the coming year.

Kathy Slack/Sue Lapham

25 May 2017

ENTERPRISE M3 OPERATIONAL FUNDS 2016/17

Appendix 1

Activity	Original budget £'000	Final outturn £'000	Variance £'000
INCOME & TRANSFERS			
Core Funding grant	500	500	0
Partner contributions	260	260	0
Other one-off income	165	274	109
SUB-TOTAL INCOME	925	1,034	109
Transfers from other funds	318	294	(24)
TOTAL FUNDS	1,243	1,328	85
EXPENDITURE			
Staff	557	654	97
Expert support including due diligence	217	166	(51)
Research, studies & consultancy	234	104	(130)
Stakeholder engagement, events & sponsorship	69	45	(24)
Accountable Body support	64	35	(29)
General expenses & other running costs	78	39	(39)
TOTAL EXPENDITURE	1,219	1,043	(176)
SURPLUS/(DEFICIT) FOR YEAR	24	285	261

ENTERPRISE M3 SUMMARY OF FUND MOVEMENTS 2016/17

Appendix 2

	Core Funding	Growing Enterprise	Growth Hub	SEEDA Legacy	Interest Account	Total Revenue	Growing Enterprise Fund	Local Growth Fund	Total Capital
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Opening balance 1/4/16	212	1,154	0	372	277	2,015	8,457	6,640	15,097
Government Grants	500		287			787		40,812	40,812
Other	534				359	893	2,829	2,140	4,969
Sub-total	1,246	1,154		372	636	3,695	11,286	49,592	60,878
Transfers between funds	293	(218)	63	(108)		31	(31)		(31)
Expenditure & Loans	(1,043)		(350)			(1,393)	(3,103)	(40,382)	(43,485)
Closing balance 31/3/17	496	936	0	264	636	2,332	8,152	9,210	17,362