enterprise M3

Driving prosperity in the M3 corridor

Enterprise M3 Board Meeting

27 July 2017

Capital to Revenue Transfer – Item 6

Members are asked to:

Agree that £3m of capital funds should be transferred to revenue funding.

Agree to delegate the final decision on the source and final value of the transfer to the Enterprise M3 Director (up to a maximum value of £3m).

Note the proposal at this stage that the £3m capital funding transferred is taken from the Growing Enterprise Fund.

Note that final agreement on how funding will be utilised will be subject to Board approval and the same processes as operate as now for LGF/GEF funds.

1. Background

1.1. Enterprise M3 holds a total pot of programme expenditure of approximately £55m in year. It receives revenue funding of approximately £1m per year to manage this programme, and delivery its other outcome. In addition, it holds £2m revenue fund reserves, from a balance which is expected to continue to steadily decrease.

1.2. This, coupled with uncertainly of future revenue income streams, brings additional pressures on the challenges faced by Enterprise M3 to deliver an ambitious and aspirational programme to support the area's economy.

1.3. This lack of revenue funding is an issue for a number of projects across the Local Growth Fund programme. In particular, raising concerns that a number of new transport projects in the Local Growth Fund programme may be affected. It is also critical for the future of our Growth Hub if future Government funding is not forthcoming.

1.4. Additionally the lack of revenue confines our interventions to only those that require a capital injection when in fact feedback from the SEP refresh exercise is highlighting what is needed is revenue expenditure around sector development, skills and career improvement and a scale up business support programme.

1.5. Our Accountable Body, Hampshire County Council (HCC), have proposed a lump-sum transfer be made between Enterprise M3's capital balances to its revenue funds, in order to fund the required revenue activity over the next five years.

1.6. The proposal to recommend the principal of transferring £3m of capital funding to revenue funding was taken to the Programme Management Group (PMG) on 13 July 2017.

1.7. PMG strongly endorsed approval of the recommendations.

1.8. They raised the following points, all of which are now addressed in this report:

- Clarification of the opportunity cost of deflecting the funds away from its capital allocation.

- Further detail on the process of identifying new revenue funded projects.

- The need to ring-fence the additional funds, in order to monitor their progress and impact.

2. Details of the Project

2.1. In order to transfer the funds from Capital to Revenue, HCC, as our Accountable Body would divert some of the Local Growth Deal Fund (LGF) or Growing Enterprise Fund (GEF) to fund other capital projects within the Council, and re-divert some revenue funding to Enterprise M3. As Enterprise M3 is part of HCC and not a separate legal entity, the transfer would be a paper exercise.

2.2. HCC has identified capital projects up to £3m which could benefit from a Capital/Revenue transfer with Enterprise M3 funds.

2.3. The Council must be satisfied that there are no prohibitive restrictions associated with the capital grants involved, preventing use of the funds on other capital activity. Although the GEF and Growth Hub capital allocation must be spent on capital activity, there is no stipulation that the needs to be used on GEF projects or the Growth Hub directly. LGF monies have some restrictions.

2.4. Once converted, the revenue funds may still be used to fund capital activity, should the need arise.

2.5. The principals of the proposal have been discussed with EY, HCC's External Auditor. No initial concerns were raised, however, as a routine measure, EY have referred the matter to their technical team, and will report back before the transfer is agreed.

3. Capital funds to be redirected

3.1. Current Capital Funds forecast to be available to the end of 2017/18 are as follows, although we expect these figures to change as the year goes on as detailed in the other papers to the Board:

CAPITAL FUND	At 31 March 2018
	£'000
Local Growth Deal	2,800
Growing Enterprise Fund	7,545
TOTAL	10,345

3.2. These funds are ones which have not yet been allocated against specific projects. The GEF has been open since October 2016, and has not yet attracted any new suitable projects. Due to this, and the lack of prohibitive restrictions associated with the grant, it is currently proposed that £3m of GEF funds would be re-directed to revenue.

3.3. Thus the Opportunity Cost on the transferred amount is the loss of interest on funds remaining in our account (currently at a rate of 0.25%, representing a maximum of £7.5k p.a.), and a reduced ability to respond to new suitable bids, should they arise.

3.4. At this stage of the review, total additional activity requiring revenue funding identified by Enterprise M3 which would benefit from re-diversion of capital to revenue funds exceeds £3m. More work will be carried out to further identify the detail and relative priority of sought revenue funding.

4. **Governance, Specification and Monitoring**

4.1. Board approval will be sought on the broad policy areas to be funded through this revenue stream with policy aligned to our revised Strategic Economic Plan. This will include an estimated apportionment of funds between policy areas and proposals on how expressions will be brought forward. This paper captures the main themes but further work is needed to develop these ideas further.

4.2. In a similar way to capital funded projects, it is proposed that a business case (proportionate to the size of funding sought) will be developed and presented to the PMG and Board for approval in due course.

4.3. Specifications for tendering would be set to ensure funds are allocated in accordance with Enterprise M3 expectations.

4.4. Where appropriate, match funding will be a funding requirement.

4.5. Funds allocated would be monitored to track progress and impact, with regular reporting to PMG.

4.6. Where possible funds would be issued on a loan basis, with a view to recycle once returned.

5. Areas to benefit

5.1. We have identified the areas where additional revenue activity would aid progress delivery of the SEP, considered the effect of diversion from capital funds, and outlined why no alternative funding is available.

5.2. It is possible that further areas of activity will be identified as the SEP refresh concludes and these will be reported to the PMG and Board as they are identified in the coming months. In order to achieve maximum benefit with this additional revenue funding, activity will be prioritised according to strategic fit with the SEP.

5.3. Further work is to be carried out to identify opportunities to collaborate with other relevant activity/organisations to match Enterprise M3's requirements and maximize the impact of the funding.

6. **Transport and Highways**

<u>Funding to take forward current schemes</u>:

6.1. The transport schemes which Enterprise M3 is taking forward represent a major capital investment. However, to be in a position to deliver these schemes, requires upfront investment by local authorities. This puts a significant strain on limited revenue funding and can mean that approved schemes can be delayed, or potential schemes are not in a state of readiness to take advantage of external funding opportunities that may arise.

6.2. Although preliminary costs can be capitalised when a scheme reaches delivery stage, revenue pressures on local authorities means they are unable to commit the revenue spend where there is some uncertainly in the delivery timescale.

6.3. If Enterprise M3 were to fund the initial revenue cost, in the vast majority of cases, schemes will be delivered, hence the costs will be retrospectively capitalised, and revenue funds recycled to ensure other schemes can be brought forward in a similar manner.

Funding to develop a pipeline of future schemes:

6.4. Local authorities have expressed concerns over the lack of revenue funding to support scheme development, resulting from the risk that schemes may not be delivered. This will lead to a poor pipeline of future schemes. Evidence supports that investment in scheme development at any early stage, increases the incidents of securing external funding. The converse is also true.

6.5. Neither Hampshire nor Surrey County Councils were able to submit bids to the recent Department for Transport's National Productivity Investment Fund invitation, due to the tight delivery timescales and the level of detail required in the submission. This meant that it was only already well developed schemes that were likely to be successful, of which there were none in our area at the time. Having revenue funds available to invest in developing a robust pipeline of strategic schemes, would increase the chances of Enterprise M3, with partner local authorities, responding successfully to such funding opportunities in future.

6.6. To respond to the Transport and Highways opportunities presented above, it is estimated that an additional revenue allocation of £2m is required. Approximately £1m to carry out detailed design, the majority of which would be returned to Enterprise M3 when a scheme goes ahead, and £1m for pipeline development to enable the Enterprise M3 area to be in a strong position to secure other sources of funding such as the recent National Productivity Investment Fund.

7. Enterprise and innovation – The Growth Hub

7.1. As set out in the Green Paper, 'Building our Industrial Strategy', one of the 10 pillars identified by Government as important to drive forward the UK economy is supporting businesses to start and grow. Specifically, the Government has recognised that although the UK has an excellent record in creating businesses, many of them face barriers to scaling up successfully.

7.2. Enterprise M3 through its Growth Hub is required by Government to develop a strategic approach to local business growth to enable ambitious businesses to maximise their growth potential and scale-up. We must build a network of strategic partners, including universities, business schools, business bodies, associations, and the private sector to build peer-to-peer business networks specifically for fast-growing firms, linking them to the right services to make that scale-up process successful and provide sustained impact. To achieve this we need access to revenue funds to support development of the programme.

7.3. Although not an exhaustive list, these funds could be used to increase the pool of Growth Champions; create an investment community to make finance more accessible; to stimulate the adoption of digital processes; to develop a targeted mentoring programme; to enable improved access to leadership and management skills; the provision of marketing and communications, including focused events, to make sure businesses are made aware of the network of support available and how to access it.

7.4. Further, to ensure that the programme is successful and is delivering the right outcomes across the Enterprise M3 economy, funds will be required to commission an independent monitoring and evaluation of the programme.

7.5. Early indications suggest that this programme would cost in the region of £1m over three years although we would expect that Government would contribute towards the costs of this.

7.6. The Enterprise M3 Growth Hub is currently funded through a combination of Government (BEIS) funding and SEEDA Legacy funding. Future certain funding is insufficient to sustain the level of activity currently provided by the Growth Hub. Annual costs required to fund current activity amount to just under £400k. The Government has yet to confirm funding beyond the 2017/18 financial year, and SEEDA legacy fund, at £155k, cannot support the funding required beyond 2017/18. We expect Government to announce the continuation of growth hub funding in November 2017 in which case we will not need to draw on these transferred funds. However should Government funding not be forthcoming it is very likely we want to invest in a future business support programme.

7.7. In addition to the revenue funding provided, the Government has allocated £100k per year capital funding, for the six years to 2020/21. The LEP envisages that £300k of this would be better spent if re-diverted to revenue activities, particularly if long term funding from Government is not secured. We would seek to make this part of these transfer arrangements. A detailed paper on future Growth Hub options will be presented to the Enterprise M3 Board in September 2017.

8. **Skills and Employment**

8.1. Enterprise M3's skills strategy and the current Strategic Economic Plan identifies the need for skills activity that requires both capital and revenue funding.

8.2. The Refresh of the SEP is highlighting that skills/talent are a critical issue for the success of the area. Many of the issues and suggested ideas are around revenue activities. Skills provision, careers interventions and digital skills are all interventions that will require revenue investment.

8.3. To date, Enterprise M3's activity on skills has largely been constrained by the fact that the majority of funding is capital and we have focussed on the creation of STEM centres. A Careers and Enterprise Company currently delivers careers, advice and guidance activity across two districts in the Enterprise M3 area (Rushmoor and Waverley) and additional revenue funding of £125k would allow for this programme to be delivered across the entirety of the area (in conjunction to match-funding from partners).

8.4. Interventions being identified as part of the SEP refresh process are also largely those requiring revenue funds as well as capital and it is proposed that an amount of revenue funding will be required to deliver this activity. At this stage we are unable to identify the scale of the requirement.

8.5. The likelihood is we would be looking for funding to support individuals who can work with others to make better use of the funding already in the system as well as careers interventions. We also know that inward investors are frequently looking for specialised skills provision to be available allowing us to retrain our existing workforce. An early estimate of £500k has been made for these activities.

9. Current Revenue Funds

9.1. Current Revenue Funds forecast to be available to the end of 2017/18 are as follows**:**

REVENUE FUND	At 31 March 2018	Use of fund to resource identified additional activity
	£'000	
LEP Operational Fund	**453**	The Operational account funds the day to day expenditure of the LEP, and fluctuates depending on timing of activity
GEF	**716**	The GEF revenue account is ring-fenced to fund the day to day expenditure relating to GEF capital
SEEDA	**155**	SEEDA legacy monies will be used to fund the Growth Hub
Interest	**665**	Interest received on LGF and GEF capital funds held by HCC and on loans issued to fund LEP projects. A proportion of this funding is held by Enterprise M3 in 'reserve' to protect against the risk of reduced Government funding. Subject to confirmation from Government on future funding, opportunities to use this funding to deliver activity will be explored.
Staff redundancy reserve	**120**	Fund ring-fenced to cover staffing liabilities in the event if enterprise M3 being wound down
TOTAL	**2,109**	

9.2. The table above demonstrates where current revenue funds will be spent. Only the SEEDA legacy fund can be used to fund additional activity identified above but we have already allocated this as a match against growth hub money for the next 2 years.

10. Next Steps

10.1. Cabinet approval for the transfer will be sought in October 2017. At the same time, approval will be sought to provide the HCC Section 151 officer with delegated authority to carry out a similar transfer in future.

10.2. For governance purposes, Enterprise M3 is seeking Board approval to the principle of the capital revenue transfer. It is proposed that the final sign-off of the amount (up to a maximum of £3m) and source (GEF or LGF) will be delegated to the Enterprise M3 Director and PMG's agreement to this approach is sought.

10.3. The principals of the proposal have been discussed with EY, HCC's External Auditor. No initial concerns were raised, however, as a routine measure, EY have referred the matter to their technical team, and will report back before the transfer is agreed.

10.4. Following agreement of the principle of this transfer, Enterprise M3 will develop and seek Board approval for the broad policy areas to be funded through this revenue stream with policy aligned to our revised Strategic Economic Plan.

10.5. We will identify the specifications of expectations, and subsequently develop business cases for the specific areas of activity, proportionate to the value of the project. These will be presented to the PMG and the Board for discussion and approval in due course.

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27 July 2017