

**Enterprise M3 Board meeting**

**25 January 2018**

**2018/19 Outline Budget – Item 7**

**The Enterprise M3 Board is asked to:**

**AGREE** – The proposed outline budget for the 2018/19 financial year

**APPROVE** – Transfer of £135,000 from the Interest Reserve Account to fund one off projects and pilots

**APPROVE** – The increase the rates of Application Fee charged to 3% on all Growth Deal project grants awarded, as part of the actions required to secure future sustainability for the LEP.

**1. Executive Summary**

- 1.1. The purpose of this report is to provide the Board with Enterprise M3’s planned revenue budget for 2018/19. The budget is set to enable delivery of the Local Industrial Strategy (Strategic Economic Plan) objectives and the Local Growth Fund Programme.
- 1.2. Agreement on the outline budget will allow the extension of 9 EM3 staff fixed term contracts due to end in March 2018 and for work to start to prepare for the implementation of the revised structure.
- 1.3. This outline budget proposal was reviewed by the Resources, Finance and Audit Committee on 15 January 2017. The group’s recommendation is that it be approved by the Board.
- 1.4. On 17 January, Government announced that funding levels for LEPs will match current levels. In addition, the Industrial Strategy White Paper, published on 27 November 2017, showed strong support of LEPs, with a pledge to make additional financial resources available to LEPs that demonstrate ambitious levels of reform following the LEP review.
- 1.5. The overall Enterprise M3 budget is detailed in **Appendix 1**, summarised as follows:

	2018/19	2017/18
	£'000	£'000
<b>Income</b>	1,984	1,842
<b>Expenditure</b>	(2,424)	(2,064)
<b>Excess expenditure over income</b>	<b>(440)</b>	<b>(222)</b>

- 1.6. The shortfall is covered by funds from retained reserves brought forward. This includes using part of the transfers of funds from the SEEDA Legacy fund and GEF Revenue Fund, totalling £453k, to cover expenditure relating to the Growth Hub and GEF activity, which would otherwise require funding from both in year and retained operational funds.
- 1.7. We propose to fund some one-off activity from the interest receivable reserve. The total would be fully funded from interest expected to be earned during 18/19, thus not affecting brought forward retained reserves. The alternative would be to fund this from retained operational funds, but this would have the effect of leaving the fund with a significantly diminished balance to be carried forward to 19/20 (£180k).

- 1.8. **Enterprise M3 are seeking Board approval a transfer of £135k from the Interest Reserve account to the Operational Funding reserve** to fund the non-recurring costs of the one-off projects:
- £70k to develop the skills strategy and Skills Advisory Pilot scheme in 2018-19. This is in response to the emphasis from the Local Industrial Strategy/SEP refresh process and Board feedback, on the importance of increased careers and business involvement.
  - Upgrading of the EM3 website to ensure greater transparency, navigation, showcasing of EM3 activity and provision of information: £30k
  - Evaluation of LGF and GEF projects: £25k
  - LEP Incorporation consultancy: £10k. The Government's ongoing LEP review is expected to conclude that in moving to a separate legal entity status, LEPs would be able to strengthen their position to operate more effectively. We propose to initiate some work to identify options and actions required. We may be able to draw in pro bono support for this activity.
- 1.9. This will leave an increased closing balance of £680k at the end of the 18-19 financial year. The reserve could be used to cover any additional activities arising during 18-19, or to fund future shortfalls.
- 1.10. Staff costs have been budgeted based on the proposed structure following the Organisational Review process. The budget assumption is that the structure will be in place from April 2018, although the start date will be dependent on recruitment to new posts.
- 1.11. The cost of staffing in the Organisational Review paper of £1,064k, has been included in the staff budget (£1,094k; Appendix 1). The higher amount arises because the budget includes, maternity pay (£13k – after offsetting statutory maternity pay income); DWP funded skills resource (£7k – also reflected in income) and contribution towards a shared Rail Officer post (£10k).
- 1.12. Although the 18/19 budget proposal is fully funded, the continued use of one off/legacy funds to supplement ongoing funding is not sustainable. Critically, SEEDA funds will be almost completely depleted by the end of 2018-19; and GEF funds, will sustain just over one more years spend, at the current levels of use. The latter is particularly noteworthy, as it funds over 1/5th of annual staff cost.
- 1.13. Thus, to ensure financial sustainability **post 2020**, other income sources must be secured. A number of options have been explored, detailed in **Section 2** of this paper. From 1 April 2018 we are proposing to increase the rates of Application Fee charged from 1% to 3% on all Growth Deal projects awarded. In addition, we plan to increase partner contributions from 2019/20.
- 1.14. Board members are asked to
- **Agree** the budget for the 2018/19 financial year, as set out in Appendix 1 \*
  - **Approve** transfer of £135,000 from the Interest Reserve Account to fund the Skills Strategy and Pilots, and other one-off projects.
  - **Approve** the decision to increase the rates of Application Fee charged to 3% on all Growth Deal project grants awarded, as part of the actions required to secure future sustainability for the LEP.

\* The delegated authority to manage day-to-day spending on this budget within the overall income and expenditure parameters is set out in the Scheme of Delegation. (Section 5)

## **2. Future sustainability**

2.1. Enterprise M3 faces budget pressures, which will only increase, in order to fund the capacity required to meet the expanding and challenging objectives of Government and of the Local Industrial Strategy (Strategic Economic Plan).

2.2. Budget pressures include:

- Meeting the shortfall between funding and expenditure, as the reserve funds are depleted.
- Meeting the increased costs associated with “managing the organisation” in particular any additional activities arising from the LEP Review and a possible move to incorporation.
- Increasing costs of Accountable Body around legal and finance activity. The resource and financial cost of setting up an OJEU process is considerable.
- Suitable accommodation – We are steadily outgrowing our space provided by HCC at no cost and the Organisational review has highlighted a need for more co-location. We have started to explore options but this could be costly – other LEPs paying between £30-50k
- Expectations that we ramp up delivery on international work, work with sectors and skills.
- Need to invest upfront in resource to develop grand projects to feed into a deal for greater investment that may or may not materialise – very different approach to past where bid for a known share of funds.

2.3. We have considered a number of options to secure adequate funding from 2020.

### **Increase in Government Funding**

2.4. On 17 January, Government announced that core funding levels for LEPs will match current levels of £500k. Funding has been awarded for a year. This figure has remained unchanged since 2013/14. There is the possibility of additional funding for ambitious LEPs. Details are awaited.

### **Increase in partner contributions**

2.5. Currently 17% of EM3 funding comes from Local Authorities, Further and Higher Education establishments – either directly through contributions, or by supplying resources. We will seek to increase this funding from 2019/20. This may be difficult with these organisations who are under considerable financial pressure. However if each LA were to provide a further £10k this would bring in an additional £160k. Furthermore, contributions from more HE establishments who benefit from EM3 activity could bring in additional funds (potentially bringing in additional funding of £40k), and by expanding the use of partner funded staff resources (adding specialised capacity to the team). In the past LAs have provided funded secondment posts but this has now substantially reduced which has impacted on our budget.

### **Use of EU Funds and other project funds**

2.6. EM3 are exploring how to draw in more EU funds into the LEP. EM3 is part of a consortium bidding for EU funds to support business activity and further work is ongoing to identify other opportunities. However, on the whole these opportunities allow EM3 to bring in more resources to expand existing activities, such as international work, but don't contribute to gaps in core operational needs. EM3 will also look to identify projects in line with SEP, where the LEP can draw in management fees. Additionally, EM3 will look to seek additional funds from Innovation South partners to fund the ongoing work for this cross – boundary activity being led and funded by EM3. It is expected that the final call for EU funds will be made in

March 2018 with final projects approved within the year. Our expectation is that work to wind down activity will start in 2019 and our current ERDF Project Officer appointment is due to end in March 2019. What is not known is whether LEPs will have a role in any new replacement fund.

### **Increase in Application Fee rates charged**

- 2.7. This is currently charged at 1% on the awarded LGF funding, budgeted at £333k, based on total LGF awards expected to be made in 2018-19. This does not sufficiently cover the costs incurred by Enterprise M3 in managing an application from inception to award, and subsequent management. Although this represents the core and majority of staff activity, current fees cover less than 1/3<sup>rd</sup> of staff cost (18/19 budget £1,094k). In addition to the costs of programme managers and the wider support team, there are further costs to cover. These include due diligence, budgeted at £100k in 18-19, as well as legal, consultancy and other running costs.
- 2.8. We are looking into how Local Growth Deals are funded across the LEP Network. One neighbouring LEP currently charges an application fee of between 2% and 3%. Another LEP funds its revenue activities by top-slicing their Local Growth Deal.
- 2.9. The charge to successful applicants anticipated in 2018-19 varies between £12k and £130k, the latter on a £13m project. The average charge is about £50k on a £5m project. Increasing to 3% would increase the average fee to £150k. The fee increase will not be to the applicant's significant financial detriment, as it is incorporated in their LGF bid total.
- 2.10. **Enterprise M3 are seeking Board approval** to increase the rates of Application Fee charged to 3% on all Growth Deal project grants awarded, as part of the actions required to secure future sustainability for the LEP.

### **Use of Interest Receivable Reserve**

- 2.11. The Interest Revenue Reserve is forecast to stand at £680k by the end of 2018/19. This reserve accumulates all interest earned on Enterprise M3 capital funds. Although interest rates are expected to rise in the next few years, the aim of EM3 is not to retain a high capital balance, and thus these funds should not be relied upon to finance ongoing revenue expenditure. However, it could be used to finance non-recurring expenditure, and exceptionally as a short-term measure for longer term activity.

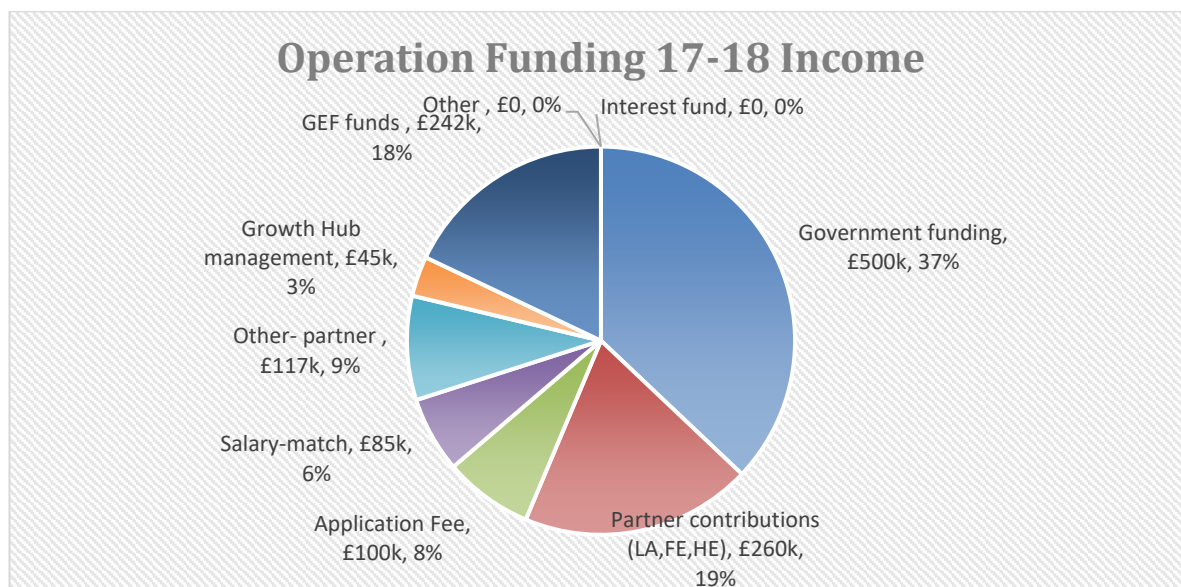
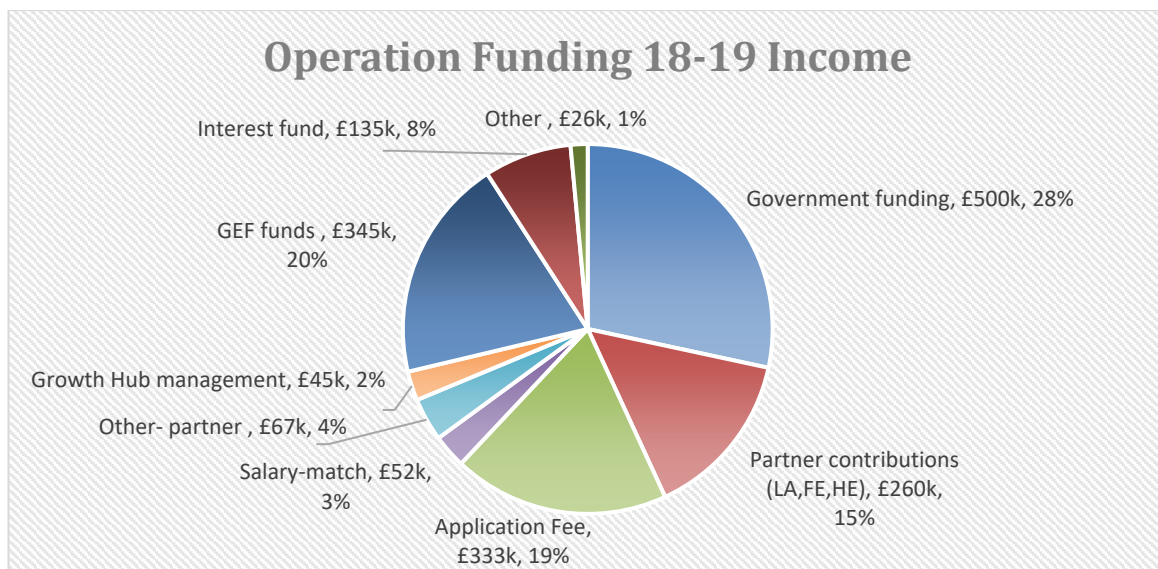
### **Use of the Capital to Revenue Reserve**

- 2.12. During 2017-18, we established a Capital to Revenue Transfer reserve, to support the costs associated with scheme design and development, and one-off projects, where no alternative funding is available. £1,500k has been allocated in 2017/18 from the original £3m fund with a balance of approximately £1,500k expected to be available during 2018-19. Most of these funds are issued on the basis that monies will be returned to EM3, for redistribution, once the projects are running. In other cases, the reserve will fund one-off non-recoverable revenue spending. Due to the nature and aims of this fund, it is not appropriate for use to sustain ongoing revenue costs.
- 2.13. We will continue to investigate options and benefits to ensure financial sustainability post 2020.

## **3. LEP Operational Fund**

- 3.1. The core activities of the LEP are managed through the Operation fund.
- 3.2. Appendix 2 provides details including comparison with 17-18 budget and the forecast actual figures, with commentary where variances are significant.

3.3. **LEP Operational Fund income.** The following charts demonstrates the proportional categories of Operational Fund income sources in the 2018/19 (£1,762k) and 2017/18 (£1,349k) budgets:



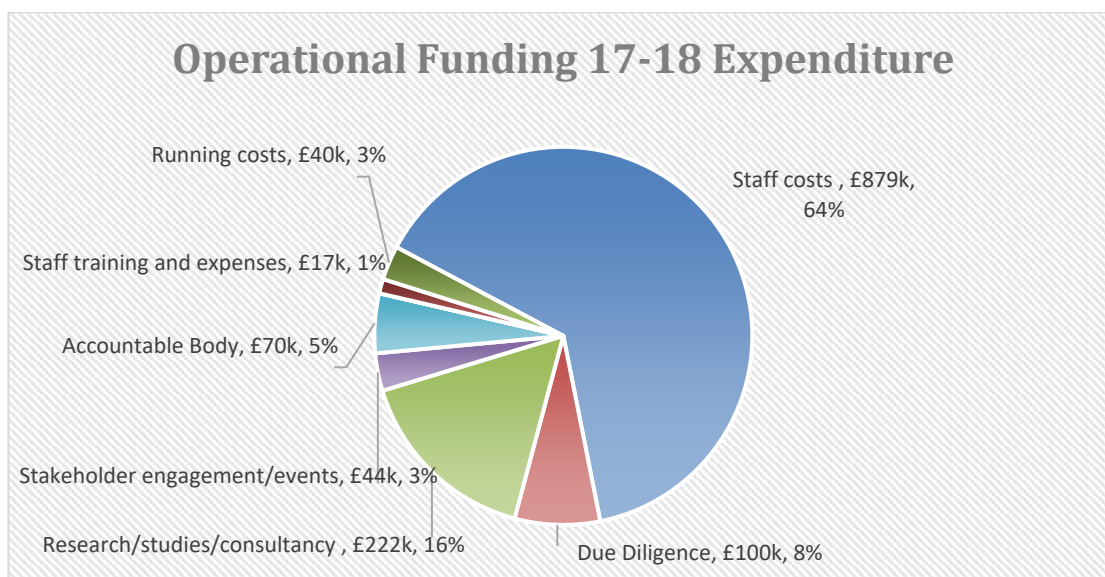
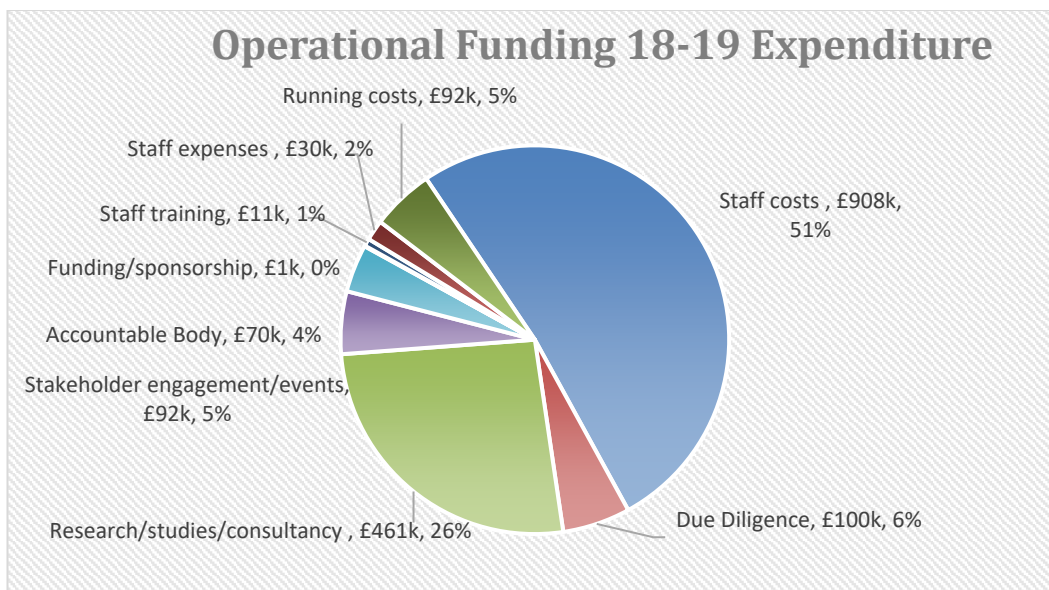
3.4. Overall operational income budgeted in 2018/19 is forecast to increase by £415k, mainly explained by the increase in application fees, and due to the funding of £135k from the interest reserve.

3.5. Other observations:

- Government, LA, FE and HE contributions remain at the same level as in 2017-18. There is proportionally less reliance on these, with a more significant portion of funding being met from Application Fees.
- GEF revenue fund contribution has increased by £100k, mainly in response to the new posts arising from the Organisational Review, which will cover GEF fund activity.
- Other partner costs have decreased, due to the reduction in number of staff seconded and fully funded by partners.

3.6. These and other variances are highlighted and further explained in Appendix 2.

3.7. **LEP Operational Funding expenditure:** The following chart demonstrates the proportional categories of LEP Operational Funding expenditure in the 2018-19 budget (£1,764K) and 2017/18 (£1,372k) budgets:



3.8. Overall operational fund budgeted expenditure has increased by £392k, thus slightly less than income. As in previous years, staff costs comprise the largest proportion, although the largest increase is in budgeted research, studies and consultancy costs (£239k increase).

3.9. This reflects the Organisational Review paper which looks to accommodate the increased capacity required to deliver, via a combination of in-house and external expertise, the refreshed Local Industrial Strategy (Strategic Economic Plan) objectives, the Local Growth Fund Programme (which directly contributed to revenue funding via Application Fees), and respond to/benefit from the Government's initiative to reward ambitious LEPs.

3.10. Other observations:

- Stakeholder engagements and events have doubled to £92k, to include provision to hold an annual conference.

- Staff training, expenses and general running costs, in total up by £72k, due to the increase in staff levels during 2017/18 and planned changes in 2018/19. Increased capacity leads to increase activity, increasing associated costs.
- These and other variances are highlighted and further explained in Appendix 2.
- Research, studies and consultancies remain around the same level as in the previous year with a focus on skills, housing and business engagement.

4. **Other Reserves: Appendix 3** details income and expenditure activity in EM3 reserves other than the Operation Fund.

5. **Ongoing monitoring**

5.1. The Resources, Finances and Audit Committee (RFAC), operational since October 2017, will continue to play a key role in overseeing the budget, and keeping the Board informed. This includes monitoring 2018/19 income and expenditure on an ongoing basis, adjusting forecasts accordingly, challenging spend and championing future sustainability through increased income and expenditure savings.

5.2. It is proposed that the budget is managed within the following approval levels. This is in line with the Scheme of Delegation reviewed by PMG and RFAC in January 2018. The scheme will be presented to the Board for approval before the 2018/19 financial year, and the implications of any changes incorporated in the monitoring process.

Area of Responsibility	EM3 Board	RFAC	Executive Director
<b>Revenue budget approvals:</b>			
Approval of Operational Budget (including Operational, GEF revenue, SEEDA, Interest and overall EZ <sup>3</sup> revenue funds)	x		
Day-to-day management of Operational Budget, including EZ <sup>3</sup> , (within +/- 10% of overall approved income and expenditure budgets)			x
Approval of Operational Budget deviations of 10% - 30% of overall income and expenditure budgets		x	
Approval of Operational Budget deviations of > 30% of overall income and expenditure budgets	x		
Approval of virements between individual income and expenditure categories ≤£250k			x
Approval of virements between individual income and expenditure categories >£250k		x	

**Aleks Bennett**

**EM3 Finance Manager 18<sup>th</sup> January 2018**

## Enterprise M3 18-19 Revenue Budget – OVERALL

This Appendix provides an analysis of the income and expenditure anticipated across all revenue funds<sup>1</sup>:

18-19 Revenue	1 Operational Funding (App 3)	2 GEF Funding (App 4)	3 Growth Hub (App 4)	4 SEEDA (App 4)	5 European funding (App 4)	6 Interest (App 4)	7 Staff redundancy (App 4)	8 EZ <sup>3</sup> (App 4)	GROSS TOTAL	Inter account transfers	TOTAL (External)
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Revenue reserve balance at 31 March 2018 - from 17-18 Forecast	416	716	0	155	0	666	120	0	2,073	0	2,073
<b>INCOME 18-19</b>											
Government funding	500		287						787		787
Partner contributions - LA, FE, HE	260								260		260
Interest receivable on LEP balances						150			150		150
Match funding:											
- LEP partners - Staff costs	52								52		52
- ESF/ERDF - Staff costs					26				26		26
- ESF/ERDF - other					34				34		34
- Other	67								67		67
Application fees	333								333		333
Transfers between reserves:											
- Transfer from GEF funds to Operation Fund cover GEF activity	345								345	(345)	(0)
- SEEDA to Growth Hub			108						108	(108)	0
- Interest to cover one off projects	135								135	(135)	0
Other - Growth Hub management fee	45								45	(45)	0
Other	26								26		26
EZ <sup>3</sup> : HCC Loan / Business Rates Growth								250	250		250
<b>TOTAL INCOME</b>	<b>1,762</b>	<b>0</b>	<b>395</b>	<b>0</b>	<b>60</b>	<b>150</b>	<b>0</b>	<b>250</b>	<b>2,617</b>	<b>(633)</b>	<b>1,984</b>



## Enterprise M3 18-19 Revenue Budget – OVERALL

	1	2	3	4	5	6	7	8			
18-19 Revenue	Operational Funding (App 3)	GEF Funding (App 4)	Growth Hub (App 4)	SEEDA (App 4)	European funding (App 4)	Interest (App 4)	Staff redundancy (App 4)	EZ <sup>3</sup> (App 4)	GROSS TOTAL	Inter account transfers	TOTAL (External)
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>EXPENDITURE 18-19</b>											
Staff costs	(908)				(26)			(160)	(1,094)		(1,094)
Due Diligence	(100)								(100)		(100)
Research, studies and consultancy	(461)								(461)		(461)
Stakeholder engagement and events	(92)								(92)		(92)
Accountable Body	(70)								(70)		(70)
Funding/Sponsorship	(1)								(1)		(1)
Staff training	(11)								(11)		(11)
Staff expenses	(30)								(30)		(30)
Running costs	(92)				(34)			(90)	(216)		(216)
Growth Hub costs			(350)						(350)		(350)
Growth Hub management fee			(45)						(45)	45	0
Transfers between reserves:											
- Transfer from GEF funds to Operation Fund cover GEF activity		(345)							(345)	345	0
- SEEDA to Growth Hub				(108)					(108)	108	0
- Interest to cover one off projects						(135)			(135)	135	0
<b>TOTAL EXPENDITURE</b>	<b>(1,764)</b>	<b>(345)</b>	<b>(395)</b>	<b>(108)</b>	<b>(60)</b>	<b>(135)</b>	<b>0</b>	<b>(250)</b>	<b>(3,057)</b>	<b>633</b>	<b>(2,424)</b>
Revenue reserve balance at 31 March 2019	414	371	0	47	0	681	120	(0)	1,633	0	1,633

## Enterprise M3 18-19 Revenue Budget – OVERALL

<sup>1</sup> The Enterprise M3 accounting structure has eight revenue accounts that support the delivery of the Strategic Economic Plan.

1. The Operational Fund the day to day expenditure of the LEP
2. The GEF fund is a legacy fund available to fund the day to day expenditure of the LEP
3. The Growth Hub reserve covers all income and expenditure relating to the Growth hub
4. The European reserve covers all expenditure related to the ESF and ERDF Technical Assistance programmes
5. The SEEDA legacy reserve is a ring-fenced to support business support activities in line with government guidance
6. The interest reserve accumulates all interest earned on Enterprise M3 capital funds
7. The staff redundancy reserve covers any staffing liabilities in the event of the LEP being wound down
8. The Enterprise Zone income and expenditure, funded by a loan against future Business Rates growth.

## Enterprise M3 18-19 Operational and GEF funds Income and Expenditure

INCOME	18-19 TOTAL BUDGET	17-18 FORECAST	Variance against 18-19 budget		17-18 BUDGET	Variance against 18-19 budget		Comment
	£'000	£'000	£'000	%	£'000	£'000	%	
Revenue Reserve Balance at 31 March	416	496			496			
<b>INCOME 18-19</b>								
Government funding	500	500	0	0%	500	0	0%	Funding confirmed by Government 17 January 2017.
Partner contributions:								
<i>Local Authorities</i>	180	180	0	0%	180	0	0%	Matching 2017-18 levels
<i>Further Education colleges</i>	30	30	0	0%	30	0	0%	As 17-18: Contribution from Further Education establishments - £5k from 6 FE establishments
<i>Higher Education Universities</i>	50	50	0	0%	50	0	0%	18-19 covered by existing agreement of £10k from 5 universities.
Salary match funding	52	85	(33)	-39%	85	(34)	-39%	Full or partial funding by partners for EM3 staff posts Covers Head of Programmes (HCC); Skills (DWP); Internationalisation Project Manager (SCC and HCC) Reduction from 17-18 reflects decrease in HCC funding of Head of Programmes post, and cessation of support for Internationalisation activity to support Task and Finish Group
Other- partner funding	67	117	(50)	-43%	117	(51)	-43%	Prior year included £88k contribution towards the Science and Innovation audit. Income in 18-19 includes: - Internationalisation funding from HCC and SCC for CRM and HCC for EGI/MINT. - Heathrow Airport contributions for EM3 management contribution attending HSPG, transport Sub group meetings, and responding to requests. - Western Basingstoke Capacity Funding
Transfer from Interest funds to cover one off studies	135	0	135	n/a	0	135	n/a	To fund one-off projects as follows: - Skills strategy and pilots: £70k - Website review: £30k - Evaluation of LGF and GEF projects: £25k (£100k over three years) - Incorporation consultancy: £10k
Transfer from GEF funds to cover GEF activity	345	242	103	43%	242	103	43%	Increase mainly due to additional staff posts. This leaves about £370k in GEF funds, which will cover just over one year's funding at a similar level

Enterprise M3 18-19 Operational and GEF funds Income and Expenditure

INCOME	18-19 TOTAL BUDGET	17-18 FORECAST	Variance against 18-19 budget		17-18 BUDGET	Variance against 18-19 budget		Comment
	£'000	£'000	£'000	%	£'000	£'000	%	
Other:								
<i>Application Fee</i>	333	100	233	233%	100	233	233%	Application fee of 1% fee to be levied on LGF projects expected to be approved in 18-19. <b>The figure is based on Local Growth Fund 3 projects forecast to progress in the year, and is therefore subject to risk.</b> 1% has been included for the current year. We are seeking approval from the Board to increase this to 3% in order to secure future sustainability for the LEP.
<i>Growth Hub management fee</i>	45	45	0	0%	45	0	0%	Growth Hub management fee
<i>Other</i>	26	130	(104)	-80%	0	26	n/a	Careers and Enterprise Company funding - Income £6.25k 50% of cost matched by C&E Co. Current contract ends in August 18: 18/19 Cost £12.5k;  - Annual conference: Cost £40k (Income from ticket sales £5k and subsidies £15k = Total £20k)  Prior year higher as it included: Careers and Enterprise Company funding of £60k, and BEIS Capacity Funding for the Local Energy Strategy: £40k
<b>TOTAL INCOME</b>	<b>1,762</b>	<b>1,479</b>			<b>1,350</b>			

## Enterprise M3 18-19 Operational and GEF funds Income and Expenditure

EXPENDITURE	18-19 TOTAL BUDGET	17-18 FORECAST	Variance against 18-19 budget		17-18 BUDGET	Variance against 18-19 budget		Comment
	£'000	£'000	£'000	%	£'000	£'000	%	
<b>EXPENDITURE 18-19</b>								
Total Staff costs	(908)	(790)	(118)	15%	(879)	(29)	3%	Based on re-structure following Organisational Review. Costings assume structure is in place from the start of the year. Prior year figures are lower due to staggered recruitment and unfilled vacancies.
Due Diligence	(100)	(100)	1	-1%	(100)	1	-1%	Due diligence fees anticipated in 18-19 for 11 projects
Research, studies and consultancy	(461)	(472)	10	-2%	(222)	(240)	108%	Approximately £166k of the increase from forecast 17-18, reflects the consultancy support required for additional activity associated with organisational review - Business Engagement/Communications/Marketing/PR support and cost of running Careers and Enterprise Company funding Other areas for consultancy support include; work to develop Local Industrial Strategy, and implementation of international support systems.
Stakeholder engagement and events	(92)	(50)	(42)	85%	(44)	(48)	109%	Includes support for following events: Annual conference; Venture Fest South; AGM; Industrial Strategy/SEP event/s; Farnborough International Air show; Skills/business round table; Rural Events - Scale Up event; Space Sector Event; Farnborough Airport Exhibition Centre Opening; and Transport events.
Accountable Body	(70)	(55)	(15)	28%	(70)	0	0%	Funding to Accountable body for support to LEP for procurement, legal and finance and HR support.
Funding/Sponsorship	(1)	0	(1)	n/a	0	(1)	n/a	Apprenticeship Graduation sponsorship
Staff training	(11)	(4)	(7)	n/a	0	(11)	n/a	Previously merged with staff expenses. Additional training expected 18-19 - budgeted at approximately £0.5k per staff member. To support reorganisation.
Staff expenses	(30)	(20)	(10)	50%	(17)	(13)	76%	Based on 17-18, approx. £2.5k per month. Increase from last year due to increase in number of staff and greater engagement with partners/business requiring travel.
Running costs	(92)	(47)	(44)	94%	(40)	(52)	129%	Increase from prior year primarily due to increased activity resulting from increased staff capacity and recruitment of Chair/Board members; and Chair payments. Includes Publicity and printing, subscriptions, recruitment costs.
<b>TOTAL EXPENDITURE</b>	<b>(1,764)</b>	<b>(1,537)</b>			<b>(1,372)</b>			
<b>NET (over)/under spend</b>	<b>(2)</b>	<b>(58)</b>			<b>(22)</b>			
<b>Balance at 31 March</b>	<b>414</b>	<b>438</b>			<b>474</b>			

## Other Enterprise M3 Revenue Funds

1. This Appendix details income and expenditure activity in EM3 reserves other than the Operation Fund.

1.1. The following table shows the movements in EM3 reserves over three years:

	At 1 April 2016	INCOME 16/17	EXPENDITURE 16/17	At 31 March 2017	INCOME 17/18	EXPENDITURE 17/18	Forecast at 31 March 2018	INCOME 18/19	EXPENDITURE 18/19	Forecast at 31 March 2019
FUND	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
LEP Operational Fund	212	1,032	(747)	496	1,457	(1,537)	416	1,762	(1,764)	414
GEF	1,154	31	(249)	936	22	(242)	716	0	(345)	371
Growth Hub	0	395	(395)	0	395	(395)	0	395	(395)	0
SEEDA	371	0	(108)	263	0	(108)	155	0	(108)	47
European	0	47	(47)	0	47	(47)	0	60	(60)	0
Interest	277	359	0	636	150	(120)	666	150	(135)	681
Staff Redundancy	0	0	0	0	120	0	120	0	0	120
Enterprise Zone	0	0	0	0	250	(250)	0	250	(250)	0
	<b>2,014</b>	<b>1,864</b>	<b>(1,546)</b>	<b>2,331</b>	<b>2,441</b>	<b>(2,699)</b>	<b>2,073</b>	<b>2,617</b>	<b>(3,057)</b>	<b>1,633</b>

1.2. The table demonstrates the year-on year increase in expenditure, with a proportionally lower increase in income, leading to a reduction in overall reserves. Particularly notable is the depletion in one-off and legacy funds, as they have been used to fund operational activity.

## 2. GEF Fund reserve

2.1. The GEF reserve is a legacy fund, provided to fund the operational activities of discharging the GEF deals. It is used to cover operational funds within the operational budget. 2018-19 budget includes the following:

2.2. GEF funds remaining at the end of 2018-19 (£371k), will sustain just over one more years spend, at the current levels of use. The is particularly noteworthy, as it funds over 1/5th of annual staff cost.

## Other Enterprise M3 Revenue Funds

### 3. Growth Hub reserve account / SEEDA legacy

3.1. On 17 January 2018, Government announced that they will continue to fund Growth Hubs at current levels for the next two years, before being reviewed, providing sufficient funding to further develop Growth Hubs and to meet the principles set out in the original agreement with Government.

3.2. This award is broken down into the following areas of delivery annually:

Enterprise M3 Growth Hub management (LEP)	£45k
Coordination and Intelligence Hub (GH)	£121k
Business Engagement (GH)	£121k
<b>TOTAL</b>	<b>£287k</b>

3.3. Enterprise M3 currently pays £350k for the delivery of Enterprise M3 Growth Hub, and £45k to cover the Growth Hub management costs of EM3, leaving a shortfall of £108k. SEEDA Legacy funding can be used for business support activity in agreement with government, and this was agreed at the point of contracting with the current provider.

3.4. It is proposed that £108k is once again transferred from the SEEDA legacy account into the Growth Hub account to allow continued delivery. After the transfer £47k will remain on the SEEDA legacy account, which will be used in the following year. A separate Board provides feedback from the independent evaluation of the Growth Hub to enable the Board to consider the options for either extending or retendering the Growth Hub contract.

### 4. European Reserve

4.1. The European reserve shows all transactions matched by the ERDF and ESF funding streams. At the end of each financial year, the balances are transferred into the operational revenue reserve. Separating the transactions in year provides transparency.

## Other Enterprise M3 Revenue Funds

### 5. Interest Reserve account

- 5.1. Enterprise M3 accumulates interest on all funds held by Hampshire County Council. A pre-agreed interest rate, equivalent to the Bank of England's base rate, is applied to Enterprise M3 funds monthly and paid to the LEP at the financial year end. The current rate of interest is 0.5%, and the budget assumes this rate for the full year. This reserve is expected to stand at £670k in March 2018. A further £150k is expected to be received in 18-19.
- 5.2. **Enterprise M3 are seeking Board approval a transfer of £135k from the Interest Reserve account to the Operational Funding reserve** to fund the non-recurring costs of the following one-off projects.
- 5.3. This will leave an increased closing balance of £680k at March 2019, which can be used to cover any additional activities or shortfalls.

### 6. Staff Redundancy Reserve

- 6.1. The staff redundancy reserve was set up in 2017-18 to cover staffing liabilities in the event of the LEP being wound down. We will review the need to provide a further amount to cover the increased liabilities arising for the new structure. If required, as with the existing reserve, approval would be sought for a transfer from the Interest Reserve account.

### 7. Enterprise Zone

- 7.1. The Enterprise Zone income and expenditure, funded by a loan against future Business Rates growth, is identified separately. This covers the business support programme, marketing, technical support; and staff costs for the EZ Director, project manager, as well as project management support provided by EM3 staff, including finance, procurement, communication and admin.
- 7.2. A loan of £500k was agreed with our Accountable Body in 2017-18, expected to cover the first two years of expenditure. Current estimation is that this will be evenly split over this period.