

Enterprise M3 Board Meeting

24 May 2018

Enterprise M3 2017/18 Year-End Financial Position - Item 7b

The Enterprise M3 Board is asked to:

NOTE: The final out-turn 2017/18 position on both revenue and capital funds held by Enterprise M3.

1. Executive Summary

- 1.1. The purpose of this report is to summarise the final out-turn financial position and the movement of funds controlled by Enterprise M3 Board during 2017/18.
- 1.2. The EM3 Resources, Finance and Audit Committee (RFAC) reviewed and endorsed the end of year position, in April 2018, and recommended that a summary report be submitted to the Board.
- 1.3. As at 31 March 2018 Enterprise M3 held **£2.3 million revenue** and **£36.6 million capital funds** across a range of accounts which are listed in **Appendix 1**.

Revenue Funds

- 1.4. Overall revenue expenditure (£2.1m) exceeded overall income (£2.0m), the shortfall funded from retained reserves brought forward, predominantly one-off/legacy funds. This is in line with budget forecasts monitored by RFAC during the year.
- 1.5. Operational costs (£1.4m) exceeded the 17/18 budget by £83k (6%), reflecting increased activity. However, this was substantially matched by additional income, meaning that the overall net overspend was only £31k (2%) above budget.
- 1.6. EZ³ costs (£0.2m), were underspent by 51k (19%) largely due to the delay in the development of a business support programme and skills strategy. This is now planned for delivery in 2018/19. We made considerable advancement on enabling sites and the works at Basing View, estimated to unlock over £50m Business Rates Income Growth for the area.

Capital Funds

- 1.7. Grant income and loan repayments received in the year amounted to £50.1m. We spent 80% of the 17/18 LGF capital programme, leaving the capital fund temporarily higher (£19m) than at the start of the year. The balance is fully allocated to projects approved by the Board.

2. Audit and Publication

- 2.1. 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. They will be subject to external audit review as part of the Council's accounts. In addition, financial information set out in this report will be published in Enterprise M3's Annual Report, scheduled for publication in June 2018.

Revenue Funds

- 2.2. Enterprise M3's accounting structure has eight revenue accounts that support the delivery of the Strategic Economic Plan. **Appendix 2** provides an analysis of the 2017/18 revenue income and expenditure across all revenue funds.
- 2.3. Outgoings exceeded external funding by £104k. The shortfall is covered by funds from retained reserves brought forward. **The year began with £2,331k in overall reserves, and ended with £2,227k, thus using £104k from revenue reserve.**
- 2.4. This comprises transfers of funds from the one off SEEDA Legacy fund (£108k) and GEF Revenue Fund (£149k) and use of operational reserves (£146k) totalling £404k. However, interest earned on balances held by HCC and LGF/GEF loans totalled £300k, giving a net transfer from reserves of £104k.
- 2.5. The core activities of the LEP are managed through the Operational fund. **Appendix 3** provides details of the 2017/18 operational income and expenditure including comparison with 16/17 actual, and 17-18 budget figures, with commentary where variances are significant.

INCOME – Key observations

- 2.6. Overall operational income received in 2017/18 (£1.2m) was £52k (5%) higher than budgeted. This is mainly explained by additional funds secured and confirmed during the year, reflecting funding rounds/bids announced mid-year with expectations for 2017/18 set at nil.
- 2.7. EM3 successfully secured other income of £92k from various funding applications. Notably, Capacity Funding provided for the Local Energy Strategy of £40k, which was used to develop a Local Energy Strategy with our cross-border partners. Other income is less than in 2016/17 (£196k) because of one-off large contributions towards initial costs of the Enterprise Zone; the Farnborough International due diligence review; and for a DoT study in that year.
- 2.8. Match funding for salaries from other organisations is 29% (£24k) below expectations reflecting the difficult financial situation being faced by LAs in particular.
- 2.9. Government, LA, FE and HE contributions have remained at the same level for three years.

EXPENDITURE– Key observations

- 2.10. Overall operational activity expenditure in 2017/18 (£1.4m) exceeded budgeted by £83k (6%) and was £458k (46%) higher than the previous year.
- 2.11. Research, studies and consultancy costs (£415k) represent the highest increase: 87% (£193k) above budget, and 3½ times (£322k) higher than in 2016/17. This reflects the significant ramping up of activity to deliver a variety of projects including the SEP/LIS development, science and innovation audit and subsequent launch of Innovation South, and development of the Local Energy Strategy plans.
- 2.12. General running costs and staff expenses and training were 80% (£46k) higher than budgeted due to a combination of taking on more staff and additionally more activity and joint working with partners across the area leading to higher travel, phone and IT costs. Also, there have been additional costs associated with board and team recruitment. However, at £103k in total, the costs represent 7% of total expenditure, and thus within acceptable parameters.
- 2.13. Enterprise Zone expenditure (£199k) was underspent by 51k (19%).
- £60k underspend was due to the strategic reprofiling of the development of a business support and skills programme, and external marketing/communication campaign, all now planned for delivery in 2018/19.

- Technical support was overspent by £27k due to the additional Due Diligence and State Aid advice required to advance the enabling sites and the works at Basing View.
- Detailed variances are highlighted and further explained in **Appendix 4**.

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. Enterprise M3 holds two capital funds, funded from Government grants with a key condition that spend must be capital in nature.
- 3.2. The majority of capital funding held by Enterprise M3 relates to the **Local Growth Fund**, into which grant funding is received annually. The opening balance for the year of £9.2m was supplemented by additional grant funding of £45.7m and repayments of loans of £1.7m. Over twenty-five projects were funded during the course of the year with payments totalling £30.2m. This funding is in addition to match funding provided by scheme promoters. The remaining balance of £26.4m is already fully allocated to projects approved by the Board.
- 3.3. Enterprise M3 also holds the **Growing Enterprise Fund**, originally established with a one-off Government grant with an expectation that it operates as a 'revolving' fund with funding support primarily provided in the form of repayable loans. The opening balance for the year of £8.2m was supplemented by repayments of £3.2m. Payments totalling £1.2m were made during the year leaving a balance to carry forward of £10.2million. Of this balance, £4.6m is either contractually committed subject to contract to projects by the Board. The remainder of the balance is unallocated and will be allocated as part of the current call for projects deliverable in 2018/19.

4. 2018/19 Budget

- 4.1. The Board agreed the 2018/19 budget in January 2018. Together with the Finances, Resources and Audit Committee we continue to monitor income and expenditure on an ongoing basis, and adjust forecasts accordingly. Currently due to a number of unforeseen staffing circumstances. We anticipate that staff expenditure will exceed the agreed budget. However, we will mitigate some of these additional cost through reduction of other overhead budget costs, without reducing outcomes.
- 4.2. An update paper will be reported to the next Board meeting.

Aleks Bennett
EM3 Finance Manager
24th May 2018

Enterprise M3 17-18 Capital and Revenue reserve funds

As at 31 March 2018 Enterprise M3 held £2 million revenue and £37 million capital funds across a range of accounts:

Enterprise M3 Funds	1 April 2017	Income	Expenditure	31 March 2018
REVENUE	£'000	£'000	£'000	£'000
Operational Fund	496	1,138	(1,284)	350
GEF	936	22	(171)	787
Growth Hub	0	395	(395)	0
SEEDA	263	0	(108)	155
European	0	47	(47)	0
Interest	636	300	(120)	816
Staff Redundancy	0	120	0	120
Enterprise Zone	0	199	(199)	0
TOTAL REVENUE FUNDS (App2)	2,331	2,220	(2,324)	2,228
CAPITAL				
Local Growth Fund	9,200	47,400	(30,200)	26,400
Growing Enterprise Fund	8,200	3,200	(1,200)	10,200
TOTAL CAPITAL FUNDS	17,400	50,600	(31,400)	36,600
TOTAL FUNDS	19,731	52,820	(33,724)	38,828

Enterprise M3 17-18 Capital and Revenue reserve funds

This Appendix provides an analysis of the 2017/18 revenue income and expenditure across all revenue funds¹:

17-18 Revenue Funds	1 Operational Funding (App 3)	2 GEF Funding (App 3)	3 Growth Hub	4 SEEDA	5 European funding	6 Interest	7 Staff redundancy	8 EZ ³ (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 2017	496	936	0	263	0	636	0	0	2,331	0	2,331
INCOME 17-18											
Government funding	500		287					38	825		825
Partner contributions - LA, FE, HE	260								260		260
Other	224								224	(45)	179
Interest receivable on LEP balances						300			300		300
Match funding:											0
- LEP partners -Staff costs	39	22							61		61
- ESF/ERDF - Staff costs					47				47		47
- Other	115								115		115
Transfers between reserves:											
- SEEDA to Growth Hub *			108						108	(108)	0
- Interest to Staff redundancy **							120		120	(120)	0
HCC Loan / BR Growth								161	161		161
TOTAL INCOME	1,138	22	395	0	47	300	120	199	2,220	(273)	1,947

Enterprise M3 17-18 Capital and Revenue reserve funds

	1	2	3	4	5	6	7	8			
17-18 Revenue Funds	Operational Funding (App 3)	GEF Funding (App 3)	Growth Hub	SEEDA	European funding	Interest	Staff redundancy	EZ ³ (App 4)	GROSS TOTAL	Inter account transfers	TOTAL (External)
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
EXPENDITURE 17-18											
Staff costs	(635)	(135)			(47)				(817)		(817)
Due Diligence	(72)	(5)							(77)		(77)
Research, studies and consultancy	(415)								(415)		(415)
Stakeholder engagement and events	(37)	(3)							(41)		(41)
Accountable Body	(25)	(25)							(50)		(50)
Staff expenses and training	(29)	(1)							(30)		(30)
Running costs	(71)	(2)							(73)		(73)
Growth Hub costs			(350)						(350)		(350)
Growth hub management fee			(45)						(45)	45	0
Enterprise Zone costs								(199)	(199)		(199)
Transfers between reserves:											
- SEEDA to Growth Hub *				(108)					(108)	108	0
- Interest to Staff redundancy **						(120)			(120)	120	0
TOTAL EXPENDITURE	(1,284)	(171)	(395)	(108)	(47)	(120)	0	(199)	(2,324)	273	(2,051)
Revenue reserve balance at 31 March 2018	350	787	0	155	0	816	120	0	2,228	0	2,228

Enterprise M3 17-18 Capital and Revenue reserve funds

¹ 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 and LGF/GEF loans awarded
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

16-17 ACTUAL	17-18 Operational Funding and GEF Revenue Fund	17-18 BUDGET	17-18 ACTUAL	Variance from budget		Comment
£'000		£'000	£'000	£'000	%	
1,366	Balance at 31 March 2017	1,432	1,432			
	INCOME 17-18					
500	Government funding	500	500	0	0%	£250k core funding, and £250k capacity funding. Same level confirmed for next two years
	Partner contributions:					
180	<i>Local Authorities</i>	180	180	0	0%	14 LA District/Borough Councils (£10k each) and 2 County Councils (£20k each).
30	<i>Further Education colleges</i>	30	30	0	0%	6 Further Education colleges at £5k each.
50	<i>Higher Education Universities</i>	50	50	0	0%	5 Higher Education universities at £10k each.
0	Salary match funding	85	61	(24)	-29%	Funding by partners for EM3 staff posts. Variance from budget reflects financial constraints faced by LAs. This income was set off against expenditure in 16-17, at similar level to the 17-18 income budget.
0	Other- match funding	117	115	(2)	-2%	£88k relates to funding agreed with LAs, LEPs and HE bodies funding the science and innovation audit. £16k relates to Internationalisation project; £12k from BDBC for Western Basingstoke Project.
	Other:					
62	<i>Application Fee</i>	100	87	(13)	-13%	Fees charged to applicants on delivering Growth Fund 3 funding. Variance from budget reflects delay in delivering some sustainable transport schemes.
45	<i>Growth Hub management fee</i>	45	45	0	0%	Agreed contribution from Growth Hub to Operational Fund.
196	<i>Other</i>	0	92	92	100%	Income and funds secured and confirmed during the year, reflecting funding rounds/bids announced mid-year with expectations for 2017/18 set at nil. Notably, Capacity Funding provided for the Local Energy Strategy of £40k.
1,063	TOTAL INCOME	1,108	1,160	52	5%	Variation from budget represents 5% of income

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

16-17 ACTUAL	17-18 Operational Funding and GEF Revenue Fund	17-18 BUDGET	17-18 ACTUAL	Variance from budget		Comment
£'000		£'000	£'000	£'000	%	
	EXPENDITURE 17-18					
(735)	Total Staff costs	(879)	(770)	109	-12%	As in previous years, staff costs comprise the largest proportion of expenditure. Although staff levels increased during the year, actual costs were below those budgeted due to delays in recruitment of senior staff as internal re-organisation plans were shaped.
(58)	Due Diligence	(100)	(77)	23	-23%	Underspend reflects delay in delivering some sustainable transport schemes, and cost efficiencies
(93)	Research, studies and consultancy	(222)	(415)	(193)	87%	Includes the SEP/LIS development, science and innovation audit and subsequent launch of Innovation South, and development of the Local Energy Strategy plans.
(39)	Stakeholder engagement and events	(44)	(41)	3	-7%	
(35)	Accountable Body	(70)	(50)	20	-28%	Original budget included an SLA with HCC for programme management, which was not activated – as fully delivered by EM3 staff.
(8)	Staff expenses and training	(17)	(30)	(13)	74%	Overspend reflects overall increased staff and associated activity across area.
(29)	Running costs	(40)	(73)	(33)	82%	Overspend reflects overall increased activity. Includes unbudgeted external consultant and recruitment costs to lay the foundation to strengthen our internal organisation, both at Board and operational team level.
(997)	TOTAL EXPENDITURE	(1,372)	(1,455)	(83)	6%	Variation from budget represents 6% of expenditure
66	NET (over)/under spend	(264)	(295)	(31)		NET variation from budget represents 2% of budgeted expenditure and 3% of budgeted income

EM3 Enterprise Zone

This Appendix details income and expenditure activity of the Enterprise Zone:

17-18 EZ ³ Income and Expenditure	17-18 BUDGET	17-18 ACTUAL	Variance from budget		Comment
	£'000		£'000	£'000	
INCOME 17-18					
Government funding	0	38	38	100%	BEIS capacity funding secured for EZ ³ , secured after setting budget
HCC loan	250	161	(86)	-34%	Funded by loan from HCC as required, secured on future Business Rates Income Growth within EZ ³ .
TOTAL INCOME	250	199	(51)	-19%	
EXPENDITURE 17-18					
Staff costs	(90)	(102)	(12)	13%	Staff costs for the EZ Director, project manager, as well as project management support provided by EM3 staff, including finance, procurement, communication and admin. Some these EM3 staff costs were not in the original budget and relate to the initial set-up the enterprise zone so are not anticipated at this level in future.
Technical Support	(10)	(39)	(29)	290%	Bought-in, Legal and Property expertise, including due-diligence. Includes £27k for Due Diligence (Power Upgrade and Discovery building), and £7k for State Aid advice and workshop.
Marketing	(100)	(58)	42	-42%	Under budget mainly due to savings against budget for promotional video (£14k), and delay in commissioning External MarComms support until 2018/19 (£20k).
Business Support Programme	(35)	0	35	-100%	To develop a high level digitally focussed business support programme for businesses looking to locate or located on the EZ. This will now be carried out in 2018-19
Skills Development Strategy	(5)	0	5	-100%	To develop a skills investment fund to support the plan and other activity, e.g. enhanced apprenticeships (bespoke/technical), digital skills. This will now be carried out in 2018-19
Contingency	(10)	0	10	-100%	Budget applied to Technical Support (see above)
TOTAL EXPENDITURE	(250)	(199)	51	-19%	
NET (over)/under spend	0	0			