



Driving prosperity in the M3 corridor

**Enterprise M3 Board Meeting**

**26 July 2018**

**Enterprise M3 Revenue Budget Update - Item 10**

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

**AGREE:** The recommendations of the Resources, Finance and Audit Committee for a budget overspend of £290k to ensure sufficient resources are available to meet EM3’s capacity requirements.

**1. Executive Summary**

- 1.1 The purpose of this report is to set out, as agreed by the Board in May, the forecast overspend against the 2018/19 operational budget. In addition, to identify those costs that are projected to continue beyond 2018/19; and to outline the related funding implications.
- 1.2 At the meeting in May 2018, the Board was supportive in principal of the additional staff costs and anticipated overspend in 2018/19. It was agreed that detailed work would be undertaken to determine all possible costs and that a paper would be taken to the Resources, Finance and Audit Committee (RFAC), and then brought to the Board in July, to enable the recruitment process to begin.
- 1.3 Since the 2018/19 operational budget was agreed in January 2018, additional costs have been identified covering unexpected staff losses; increased additional activity around project/contract management; and recognition by the Director and Board members of the need to ramp up activity in line with priorities and expectations arising from SEP refresh and Local Industrial Strategy (LIS) priorities. Government have informed us of the possible need to act promptly in response to the LEP Review, especially if LEPs are required to become incorporated. We have therefore built in provision to cover this possible additional work.
- 1.4 Board members recognised the need to utilise existing operational reserves to cover these costs, and also the need to increase resources to allow the team to capitalise on opportunities of drawing in additional income.
- 1.5 **Budget overspend:** The 2018/19 budget was approved by the Board in January 2018. The total operational expenditure budgeted (£2.2m) and forecast overspend (£0.3m) is summarised in Table 1. Some of these additional costs will continue in 2019/20 and beyond:

**TABLE 1**

Budget vs Forecast	18/19 Budget	18/19 Forecast	18/19 Forecast overspend (Table 3)		Ongoing Costs 19/20 + (Table 3)
	£k	£k	£k	%	£k
<b>Approved Operational Budget</b>	<b>2,174</b>	<b>2,464</b>	<b>290</b>	<b>13%</b>	<b>320</b>
<i>Of which: Staff costs</i>	<i>934</i>	<i>1,144</i>	<i>210</i>	<i>23%</i>	<i>180</i>

1.5.1 The total overspend represents 13% of the approved 2018/19 operational budget of £2.2m, and 23% of 2018/19 budgeted staff costs of £0.9m. In accordance with the EM3 Scheme of Delegation, approval of operational budget deviations of between 10% and 30% must be approved by RFAC, and deviations above 30% by the Board. However, due to the significance of the events and recruitment implications, it is important that the Board are aware of the position, and requirement for additional recruitment.

1.6 **Funding:** EM3 has sufficient reserves to finance the 2018/19 overspend, without breaching its reserves policy. However, continued expenditure should be financed from ongoing income.

1.6.1 Following RFAC's endorsement, in May 2018, the Board agreed a financial sustainability plan for Enterprise M3, including a reserves policy. The "Enterprise M3 Future Funding, Sustainability and Reserves Policy" paper - presented to Board members in May 2018 - demonstrated financial sustainability over the next three years through a combination of

- Building up interest from LGF/GEF loans;
- Increasing application fees and partner contributions; and
- Maintaining overall reserves at a prudent level of 50% of operational costs (£1.2m based on current spending).

This would provide over £2m additional funding to use on future operational activity to enable the LEP to reach the high expectations of both Board and Government. The Board recognised that this funding should be utilised to enable EM3 to substantially ramp up activity.

1.6.2 Table 2 shows how the additional costs, identified in Table 1 (detailed in Table 3), can be funded from reserves resources built up by implementing the financial sustainability plan:

**TABLE 2**

Reserve Balances	2018/19	2019/20	2020/21
	£k	£k	£k
Projected revenue resources on implementing financial sustainability plan *	2,434	2,778	3,795
Less Reserves Policy Minimum (50% of operational costs) *	(1,200)	(1,200)	(1,200)
Reserves available to use on additional operational activity *	1,234	1,578	2,595
Funding of additional costs - per Table 3			
18/19 overspend**	(290)	(290)	(290)
Ongoing costs - 19/20**		(320)	(320)
Ongoing costs - 20/21			(270)
<b>Remaining reserves available each year to use on additional operational activity</b>	<b>944</b>	<b>968</b>	<b>1,715</b>

\* Figures drawn from May 2018 Board paper: "Enterprise M3 Future Funding, Sustainability and Reserves Policy"

\*\*These figures are included to demonstrate how the reserve balances for each year, reported in the May 2018 Financial Sustainability Board paper, would be decreased by the cumulative additional spending detailed in Table 3.

## 2. Projected overspend

**TABLE 3**

Ref	STAFF BUDGET OVERSPEND	2018 /19	Ongoing costs 19/20	Ongoing costs 20/21 +	Comment
		£k	£k	£k	
A	Increased Resource Costs	138	43	43	Additional costs of hiring high quality resources and expertise to develop responses to Local Industrial Strategy – digital, sector, international and skills in particular.
B	Head of Enterprise & Innovation	36	0	0	Sick leave cover for 6 months
C	Admin - Finance - Contracting	42	62	62	Need identified following increase in procurement, contracting and admin activity arising from calls for expressions of interest and resulting from ramping up activity in line with priorities and expectations arising from Government LEP review, SEP refresh and LIS priorities.
D	Expertise LEP review/LIS guidance	50	75	75	Amount set aside to respond to challenges arising from LEP review and response to LIS guidance. Expected announcement for both by end of July 2018
	<b>TOTAL ADDITIONAL STAFFING COSTS</b>	<b>265</b>	<b>180</b>	<b>180</b>	
E	Less net amounts covered from other budgets	(55)			Includes £40k Housing Expertise budget covered by interim Operations AD (2018/19 only)
	<b>NET FORECAST STAFFING OVERSPEND</b>	<b>210</b>	<b>180</b>	<b>180</b>	
F	Local Industrial Strategy support	50	50	0	To provide required metrics to develop and support LIS. This cost is not expected to continue beyond 2019/20
G	Office property relocation and rental fees	30	90	90	Anticipated expansion/relocation/set-up and rental fees. Currently accommodation within HCC is not charged. Aiming to relocate to new premises in Q4 18/19
	<b>TOTAL ANTICIPATED BUDGET OVERSPEND</b>	<b>290</b>	<b>320</b>	<b>270</b>	

- 2.1 Table 3 sets out the breakdown of the proposed costs making up the overspend, with explanatory comments.
- 2.2 Table 3 ref A: The additional costs are mainly due to the increased costs (£138k) of employing highly skilled staff in order to incorporate the new organisational structure quickly. Additionally, this enables us to meet the expanding and challenging objectives of Government, the Local Industrial Strategy (LIS) and ensure we are in the best possible position to successfully bid for emerging significant funding streams.
- 2.3 Table 3 ref B - D: Remaining unbudgeted staff costs total £128k. This includes cover for staff on long-term sick leave. Further, the additional activity has identified the need for further staffing support, including expertise required arising from awaited LEP review and LIS guidance; an administrative officer; and an officer to provide assistance covering finance, contracting and other areas.
- 2.4 Table 3 ref E: Some costs will be mitigated through a reduction of other overhead budget costs. This includes the provision of Housing Expertise by the Operations AD (£40k underspend).
- 2.5 We are also exploring drawing in resources from partner organisations and business. We have already been helped by LAs, Surrey CC and Hampshire CC, who have provided staff to assist with Enterprise Zone, Growth Hub and Farnborough Airshow business event activity. We have also had support from two work experience graduates over the summer.

- 2.6 In total, it is anticipated that the Net Forecast Staffing Overspend is **£210k** relating to **staff resources** that will be required in 2018/19; with **£180k pa continuing** into future years.
- 2.7 Table 3 ref F - G: In addition to the staff related overspend, other overhead unbudgeted costs total £80k. This relates to commissioning a piece of work to provide required Impact/Research/Data Collection to support funding applications (£50k for 2018/19, with a further c£50k in 2019/20); and the anticipated cost of expansion/relocating to new office premises to accommodate the expanding team (£30k 2018/19; and £90k for full year going forward). Staff are currently located across the EM3 area, employing a mixture of hot-desks at HCC's head-office and other partner premises, and homeworking – all at no cost to EM3. As the re-organised structure is put in place, it is increasingly difficult to accommodate the team effectively. Thus, we are looking to relocate to dedicated premises central to the EM3 area by the end of the financial year. 2018/19 costs include partial year rent plus set up costs (furniture/IT etc.). 2019/20 onwards is based on full year costs, for 22 people at an average rent for serviced offices in the area. The total is in line with the average of neighbouring LEPs' accommodation costs. We will explore options, consider available space with our partners, and bring an options paper to RFAC for consideration.
- 2.8 We will continue to monitor the financial implications of the EM3's re-organisation and responses to Government LEP review, SEP refresh and LIS priorities. At the request of the Resources, Finance and Audit Committee, we will carry out an in-depth review of the progress of the financial sustainability plan towards the end of 2019/20, when the organisation re-structure has had a period of time to embed.

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

**AGREE:** The recommendations of the Resources, Finance and Audit Committee for a budget overspend of £290k to ensure sufficient resources are available to meet EM3's capacity requirements.

**Aleks Bennett**

**EM3 Finance Manager**

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