

Enterprise M3 Board meeting

28 March 2019

EM3 2019/20 Revenue Budget - Item 9

The Enterprise M3 Board is asked to:

APPROVE – The proposed revenue budget for the 2019/20 financial year.

NOTE – The expected 2018/19 out-turn position (Para 2.2)

NOTE – The expenditure for planned activities for 2019/20 in support of the business plan, including taking forward elements of our Local Industrial Strategy (Para 2.3-2.4)

NOTE – The three-year forecast and impact on reserves (Section 4)

1. Executive Summary

- 1.1. The purpose of this report is to provide the Board with Enterprise M3's (EM3) revenue budget for 2019/20. The budget is set to enable delivery of the Strategic Economic Plan (SEP) objectives, the Local Industrial Strategy (LIS) and the Local Growth Fund (LGF) Programme and take forward recommendations arising from the LEP review.
- 1.2. On 31st January 2019, the Board endorsed the outline budget for the 2019/20 financial year, subject to a full detailed budget being brought to the March Board meeting. Subsequently, we have been developing our Delivery Plan and Business Plan (Board Agenda Item10), have more detailed information relating to spending plans and income, considered organisational changes, and thus are able to propose a more comprehensive budget.
- 1.3. We have now had confirmation from Government that we will receive £700k core funding in 2019/20 subject to the outcome of Annual Performance Reviews and implementation of the LEP review. In addition, DfE have provided a one-off fund of £75k towards Skills Advisory Panel activity. We have carried out some initial work on our organisational requirements for the year ahead and built in additional costs to expand our emphasis on developing sectors, Clean Growth, inward investment and trade activities. Additionally, we have reviewed our office requirements and assessed location costs.
- 1.4. We agreed the 2018/19 budget in January 2018, expecting to draw **£440k** from existing reserves. However, a combination of additional expenditure being offset by additional Government funding, extra interest and some cost saving measures means we now expect to end the financial year with a surplus of **£154k**. We are grateful to the Board for supporting us earlier in the year in agreeing investment in the team to cope with extra responsibilities.
- 1.5. In 2019/20 and the following years, our costs will rise as we respond to Board and Government expectations and challenges of LEPs. We anticipate 2019/20 expenditure (£3.5m) will exceed income (£3.2m), and we therefore need to draw on retained reserves, by **£319k**. We have made forward plans to accommodate the increases in costs with measures such as increasing application fees and issuing more interest-bearing loans. We have a plan to reduce our reserves, but are mindful that until the comprehensive spending review is confirmed, continued funding of LEPs is uncertain.

1.6. Resources, Finance and Audit Committee (RFAC) reviewed the detailed budget on 6th March 2019. The group's recommendation is that it be approved by the Board. This report summaries the key constituents of the budget and the matters discussed by RFAC.

2. 2018/19 FORECAST OUT-TURN and 2019/20 BUDGET

2.1. EM3's budget across all revenue funds is summarised below in **Table 1**, with a more detailed table in Appendix 1, alongside the 2018/19 budget and forecast year end position:

Table 1: EM3 Revenue Income and Expenditure	2018/19 Budget	2018/19 Forecast*	2019/20 Budget (Appendix 1)
	A	B	C
	£'000	£'000	£'000
INCOME	1,984	2,767	3,203
<i>Operational Fund Income (Section 3/Table 2)</i>	<i>1,762</i>	<i>1,937</i>	<i>3,052</i>
<i>Other income</i>	<i>855</i>	<i>1,348</i>	<i>886</i>
<i>Inter-account transfers</i>	<i>(633)</i>	<i>(518)</i>	<i>(735)</i>
TOTAL INCOME	1,984	2,767	3,203
EXPENDITURE	(2,424)	(2,613)	(3,522)
<i>Operational Fund Expenditure (Section 3/Table 2)</i>	<i>(1,764)</i>	<i>(1,908)</i>	<i>(2,656)</i>
<i>Other Expenditure</i>	<i>(1,293)</i>	<i>(1,223)</i>	<i>(1,601)</i>
<i>Inter-account transfers</i>	<i>633</i>	<i>518</i>	<i>735</i>
TOTAL EXPENDITURE	(2,424)	(2,613)	(3,522)
(Excess) expenditure over income	(440)	154	(319)
TOTAL REVENUE RESERVES (D)	1,634	2,384	2,065

* Forecast at February 2019

2.2. **2018/19 FORECAST OUT-TURN (Table 1: Columns A&B):** At February 2019, we are forecasting **£154k** surplus to the end of the year, compared to an initial budgeted overspend of **£440k**, thus a net increase of almost **£600k**. This is largely due to additional Government funding and additional interest, although some additional spending partially negates the increase. Explained further:

- Our forecast 2018/19 income of **£2.8m** is expected to exceed our budget £2m by **£800k**. This is mainly due to additional government funding (£200k) and additional interest (£480k) which arose due to the unforeseen increase in Bank of England base rate, capital programme alterations, and interest on loans negotiated since budget was set.
- Our forecast 2018/19 expenditure of **£2.6m** is expected to exceed our budget of **£2.4m** by **£200k**. We have overspent in areas such as additional resources (£230k) as we have built up our revised organisational structure, additional due diligence arising from new bids (£86k); and costs of LIS development/LEP review implementation (£25k). We have underspent in some areas, such as skills strategy development (£70k), which we have reprofiled into 2019/20 to work alongside the LIS development; and Housing Expertise consultancy (£75k) where we have drawn on seconded staff expertise instead of drawing in consultancy support.

- 2.3. **2019/20 BUDGET (Table 1: Column C):** Overall, expenditure (**£3.5m**) is budgeted to exceed income (**£3.2m**), and we therefore need to draw on retained reserves, by **£319k**. This reflects activity outlined in EM3's Business Plan and is in line with the Board's agreement to use excess retained reserves to expand operations and drive forward the SEP/LIS. Our focus for 2019/20 will be on developing elements of our LIS. This will involve specific analysis activity, roundtable discussions with business and other stakeholders and development of funding packages/interventions alongside partners to deliver impact.
- **2019/20 budgeted income is £3.2m.** This is approximately **£430k** higher than the 2018/19 forecast income, **£275k** of which relates to additional Government funding: £200k Government capacity funding provided to aid implementation of the LEP review requirements and to develop our LIS; and £75k towards Skills Advisory Panel activity. Additionally, revenue funding of **£80k** has been made available in 2019/20, equally from the Careers and Enterprise Co and our Capital to Revenue transfer reserve. This will to fund further Careers and Enterprise Co-ordinators enabling effective provision of the service across the EM3 area.
 - **2019/20 budgeted expenditure is £3.5m.** This is **£900k** higher than the 2018/19 forecast expenditure. It is largely due to an increase in staff costs (**£470k**), and research and consultancy costs (**£200k**) which will enable us to develop and take forward elements of our Local Industrial Strategy. Government are expecting us to do some detailed work around skills needs and data handling. We are carrying through the next stage of our organisational changes by a review focussed on our theme areas. In particular, we have identified staff to increase activity around sectors and international focus. Posts include a clean growth champion; a data analyst to develop our evidence-based LIS, which incorporates a skills strategy; as well as the increase in number of Careers and Enterprise Co-ordinators.
- 2.4. **Total revenue reserves (Table 1: Row D):** Our reserves at the end of 2018/19 are expected to stand at **£2.4m**, **£150k** above last year. We plan to use reserves to cover the excess expenditure of **£319k** from our retained reserves brought forward, leaving **£2m** in the balance carried forward.

3. LEP Operational Fund

- 3.1. The core activities of the LEP are managed through the Operational Fund, which forms one part of our overall revenue funds. This section provides further analysis relating to this key fund.

3.2. **Table 2** provides a summary of budgeted income and expenditure and highlights the main changes between last year's budget and the proposed budget for 2019/20:

TABLE 2: 19-20 Operational Income and Expenditure			
Operational Activity - INCOME	19-20 Budget	18-19 Forecast*	Note
	£'000	£'000	
Government funding	775	700	A
Partner contributions (LA, FE, HE)	253	260	
Application Fee	344	347	
Interest receivable on loans and LEP balances	596	0	B
Capital/Revenue transfer - Careers and Enterprise activity	158	37	
Growth Hub management	45	45	
GEF funds	442	345	
Interest Reserve funding one off projects	245	65	C
Other	194	138	
TOTAL INCOME (Table 1)	3,052	1,937	
Operational Activity - EXPENDITURE	19-20 Budget	18-19 Forecast*	Note
	£'000	£'000	
Staff costs	1,616	1,144	D
Due Diligence	160	186	
Research/studies/consultancy	494	303	E
Accountable Body	70	60	
Running costs	316	215	F
TOTAL EXPENDITURE (Table 1)	2,656	1,908	
Net Operating Fund under-spend	396	29	

* Forecast at February 2019

3.3. **LEP Operational Fund income.** Operational Fund income sources in 2019/20 are budgeted to achieve **£3m**, against the 2018/19 forecast of **£2m (£1m increase)**. This is largely explained by additional Government funding, and an accounting change in the way in-year interest is treated, as detailed below.

3.3.1. Key changes/observations:

- **Government funding (£775k) (Table 3: A)** is **£75k** higher than 2018/19 due to a new Government grant provided to develop the skills advisory panel.
- The increase in **Interest receivable on loans and LEP balances (£596k) (Table 3: B)** is explained by an accounting change. The application of in-year interest on loans and balances is now taken directly to operational funds, in line with accounting guidelines, rather than directly to reserves as in previous years. The previous year's figure is forecast at £628k.
- Similarly, **Interest Reserve funding transferred to fund one off projects (£245k) (Table 3: C)** is **£180k** higher than in 2018/19 – due to reprofiling into 2019/20 projects previously agreed to be funded in this way.

3.4. **LEP Operational Funding expenditure:** Operational Fund expenditure in 2019/20 is budgeted at **£2.7m** against the 2018/19 forecast of **£1.9m (£760k increase)**. It is largely represented by increase in staff costs (**£470k increase**) and research and consultancy costs (**£190k increase**) which will enable us to develop and take forward elements of our Local Industrial Strategy, skills strategy, new website and communications activity through our consultancy company.

3.4.1. Key changes/observations:

- **Staff Costs (£1.6m) (Table 3: D):** As in previous years, staff costs comprise the largest proportion of total expenditure, 61% compared with 60% in 2018/19. At £1.6m, against a £1.1m forecast for 2018/19, this reflects a full year of the revised staffing structure following the reorganisation of the team which was put in place during 2018/19. Additionally, we have identified staffing requirements required to increase activity around sectors and international focus, and additional Careers and Enterprise co-ordinators.
- **Research, Studies and Consultancy (Total £494k) (Table 3: E):** The highest increase, at almost 40% more than the 2018/19 forecast spend (£303k). This reflects the additional planned work to develop an ambitious LIS, to deliver the refreshed SEP objectives, and respond to the LEP Review recommendations. Plans includes evidence gathering and expertise analysis for the LIS; developing the Skills Strategy and Skills Advisory Panel; and carrying out impact Assessment/Evaluation of our LGF&GEF projects. As well as associated costs of evidence gathering and expert analysis, this category includes our communications contract, and new website development.
- **Running Costs (£316k) (Table 3: F):** This covers day-to-day costs. The increase in costs is largely due to the development of options for relocation of our offices. This proposed move follows a period of considering how we take forward the LEP Review push for LEPs to be more independent and business focussed. Further considerations include the implementation of organisational changes and the expansion of our team. The changes in geographical boundaries means that an office based at the edge of our patch is even less acceptable and we are considering a move to a more central area in the second part of 2019/20. Costs include move, set up and rental charges, and incorporate previously uncharged accommodation costs for a small hot desk facility alongside our Accountable Body in Winchester.

4. Three-year Forecast and Reserves Position

4.1. Table 3 is an update of our three-year financial plan to 2021/22.

TABLE 3: Three-year Income and Expenditure Forecast	2019/20 Budget	2020/21 Estimate	2021/22 Estimate
	£'000	£'000	£'000
TOTAL RESERVES AT START OF YEAR	2,384	2,065	1,606
INCOME:			
<i>Operational fund activity - INCOME</i>			
<i>Government funding</i>	775	500	500
<i>Partner contributions (LA, FE, HE)</i>	253	400	400
<i>Application Fees</i>	344	190	460
<i>Interest receivable on loans and LEP balances</i>	596	676	692
<i>Capital/Revenue transfer - Careers and Enterprise activity</i>	158	161	165
<i>Growth Hub management</i>	45	45	45
<i>GEF funds</i>	442	0	0
<i>Interest Reserve funding one off projects</i>	245	0	0
<i>Other</i>	194	175	179
TOTAL Operational Activity INCOME (Table 2)	3,052	2,148	2,440
OTHER INCOME:			
Growth Hub Income	563	563	563
Enterprise Zone Income	250	300	300
Other reserves income	73	0	0
LESS Inter account transfers	(735)	(108)	(108)
TOTAL INCOME	3,203	2,903	3,194
EXPENDITURE:			
<i>Operational Activity - EXPENDITURE:</i>			
<i>Staff Costs</i>	(1,616)	(1,737)	(1,621)
<i>Due Diligence</i>	(160)	(95)	(230)
<i>Research/studies/consultancy</i>	(494)	(232)	(272)
<i>Accountable Body</i>	(70)	(71)	(73)
<i>Running costs</i>	(316)	(363)	(370)
TOTAL Operational Activity EXPENDITURE (Table 2)	(2,656)	(2,498)	(2,566)
OTHER EXPENDITURE:			
Growth Hub Costs	(563)	(563)	(563)
Enterprise Zone Costs	(250)	(300)	(300)
Interest reserve expenditure	(245)	(108)	(108)
GEF/SEEDA reserve expenditure	(490)	0	0
Other reserves expenditure	(53)	0	0
LESS Inter account transfers	735	108	108
TOTAL EXPENDITURE	(3,522)	(3,361)	(3,429)
TOTAL RESERVES AT END OF YEAR	2,065	1,606	1,372
Annual use of retained reserves	319	458	234

4.2. Assumptions underpinning the forecast include expectations that government funding for LEPs will continue, that we continue to get contributions from our major partners, and that LEP activity is broadly similar to at present. In addition, further growth deals are assumed to be in place beyond March 2021, meaning that income from application fees and interest from new loans will be available to fund activity.

- 4.3. The three-year forecast in Table 2 continues to demonstrate that we have the resources to support our ambitious plans. By investing in activities that support the economy, we plan to reduce our reserves by **£1m**, from the current level of **£2.4m** to a prudent level of **£1.4m**, in accordance with our reserves policy. Our reserves policy is that reserves should be maintained at a level which covers 50% of annual operational expenditure. In 2019/20 budgeted operational expenditure is **£2.66m**, meaning that reserves should be maintained at a minimum level of **£1.33m**.
- 4.4. Our forecasting is based on prudent assessments of income and expenditure, including the assumption that interest rates remain at the current level. The Bank of England base rate was set at 0.5% for the majority of the last 10 years, rising to 0.75% in August 2018. Although it is difficult to predict movements in interest rates in the current economic climate, market analysts generally expect the rates to rise in the next 12 months. A small change in the level could have a significant impact on reserves. For example, a further increase of 0.25% in the Bank of England base rate would increase reserve levels to **£1.6m** by the end of 2021/22 i.e. £0.2m higher than the current financial modelling forecast.
- 4.5. It is clear that the combination of declining reserves and possible reductions in government funding means we must continue to secure further funding to enable further delivery of our aspirational plans.
- 4.6. Uncertainty remains around future funding, but next year's Comprehensive Spending Review (CSR), should provide us with a better idea about future income and spending, although it is still unclear whether this will provide figures for one year only or the normal 3-year period. Our Growth Hub is currently funded per year from a combination of Government Funding (£287k), LGF capital converted to revenue (£168k) and the balance is funded from revenue reserves (£108k). Government have confirmed funding of Growth Hubs until 31 March 2020. We expect the service to continue, but this will be considered as part of the CSR. We are reviewing how we take our Growth Hub activity forward and this will be informed by government's future policy and funding.
- 4.7. We expect to be in a better position at the end of the summer to understand the implications for our budget. Once we have more details, we will review our 3-year plan. At that time, we will review our reserves policy which currently takes into consideration expenditure limited to operational activity. We will assess its adequacy to enable Enterprise M3 activity to continue during a period of uncertainty due to lack of confirmed funding beyond 2020.

5. Ongoing monitoring

- 5.1. RFAC will continue to play a key role in overseeing the budget, managing risks and keeping the Board informed. This includes monitoring 2019/20 income and expenditure and the medium-term-financial forecast, on an ongoing basis, adjusting forecasts accordingly, challenging spend and championing future sustainability through increased income and expenditure savings.
- 5.2. The EM3 Revenue budget will be managed within the following approval levels, in line with the Scheme of Delegation approved by the Board in 2018.

6. The Enterprise M3 Board is asked to:

APPROVE – The proposed revenue budget for the 2019/20 financial year.

NOTE – The expected 2018/19 out-turn position (Para 2.2)

NOTE – The expenditure for planned activities for 2019/20 in support of the business plan, including taking forward elements of our Local Industrial Strategy (Para 2.3-2.4)

NOTE – The three-year forecast and impact on reserves (Section 4)

Aleks Bennett - EM3 Finance Manager

28 March 2019

Enterprise M3 19-20 Revenue Budget

This Appendix provides an analysis of the income and expenditure anticipated across all revenue funds¹:

2019-20 Revenue	1 Operational Funding (TABLE 2) £'000	2 GEF Funding £'000	3 Growth Hub £'000	4 SEEDA £'000	5 European funding £'000	6 Interest £'000	7 Staff redundancy £'000	8 EZ ³ £'000	GROSS TOTAL £'000	Inter account transfers £'000	TABLE 1 TOTAL (External) £'000
BUDGETED Revenue reserve balance at 31 March 2019	414	371	0	48	0	681	120	0	1,634		1,634
FORECAST Revenue reserve balance at 31 March 2019	379	442	0	48	0	1,394	120	0	2,384		2,384
INCOME 19-20											
Government funding	775		287						1,062		1,062
Partner contributions - LA, FE, HE	253								253		253
Application fees	344								344		344
Interest receivable on loans and LEP balances	596		60				20		676		676
Growth Hub Management Fee	45								45		45
Other	194								194		194
European funding					53				53		53
EZ ³ : HCC Loan / Business Rates Growth								250	250		250
Transfers between reserves	687		48						735	(735)	
Transfer of Capital to Revenue funds	158		168						326		326
TOTAL INCOME	3,052	0	563	0	53	0	20	250	3,938	(735)	3,203
EXPENDITURE 19-20											
Staff costs	(1,616)				(34)			(149)	(1,799)		(1,799)
Due Diligence	(160)								(160)		(160)
Research, studies and consultancy	(494)								(494)		(494)
Other running costs	(386)				(19)			(101)	(506)		(506)
Growth Hub costs			(563)						(563)		(563)
Transfers between reserves		(442)		(48)		(245)			(735)	735	
TOTAL EXPENDITURE	(2,656)	(442)	(563)	(48)	(53)	(245)	0	(250)	(4,257)	735	(3,522)
Movement in year	396	(442)	0	(48)	0	(245)	20	0	(319)	0	(319)
Revenue reserve balance at 31 March 2020	775	0	0	0	0	1,149	140	0	2,065	0	2,065

Enterprise M3 19-20 Revenue Budget

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
7. The staff redundancy reserve covers any staffing liabilities in the event of the LEP being wound down