

Enterprise M3 Board Meeting

24 May 2016

Final Accounts 2015/16 – Item 11

Enterprise M3 Board members are asked to:

Note the 2015/16 year end position on both revenue and capital funds held by Enterprise M3.

Agree the financial summary to be included in the 2015/16 annual report.

1 Executive summary

- 1.1 Allocation and expenditure on project capital costs for Local Growth Fund and Growing Enterprise Fund projects was less than expected due to delays in projects resulting from contracting issues and increased costs. £7.06m has been transferred in to the 2017/18 financial year and is expected to be drawn down in the first quarter.
- 1.2 Income for operating costs was 15% higher than expected but costs were 5% higher than forecast mainly due to additional due diligence activity and additional research work to underpin review of our Strategic Economic Plan. There was a deficit of £23,080 at the end of the year which will be met from reserves.
- 1.3 This report summarises the use of these funds during financial year 2015/16.

2 Project (capital expenditure)

- 2.1 Enterprise M3 holds a number of revenue and capital funds. Total closing fund balances at 31 March 2016 were £16.4m of which:
 - £5.91m is to support existing Local Growth Fund projects where delivery has slipped and expenditure delayed
 - £1.15m is remaining revenue funds for operational activities in support of the Growing Enterprise Fund
 - £8.46m is earmarked for further investment in capital projects supported by the Growing Enterprise Fund
 - The remaining amount, £0.87m, is available to support other revenue activities including growth hub, European TA and general operating costs.

3 Revenue funds 2015/16

- 3.1 Total income received during the year was £932,354, an increase of £124,354 (15%) compared to the original 2015/16 budget. Details are shown in Appendix 1.
- 3.2 Total income for the year was £932,354, an increase of 15%. Running costs for Enterprise M3 were supported by £0.5m of Government grant core funding and a total of £0.26m contributions from partners. Enterprise M3 can spend this funding in the way it determines will best meet its needs.

- 3.3 An additional £172,354 of one-off contributions for projects were received from Government and partners, this was not included in the original 2015/16 budget. In each case the funding was received for a specific purpose and in most cases conditions were attached to this funding e.g. independent verification of spend and/or that objectives were delivered. A large proportion has been carried forward to support the delivery of specific projects continuing into future years. This funding will not recur in 2016/17 although opportunities to bid for individual funding sources may arise.
- 3.4 Total costs incurred during the year were £955,430 of which 60% related to staff, agency support and a further 24% to due diligence work, research, studies and consultancy. The balance was spent on office costs and expenses. This is £44,430 (5%) more than originally budgeted.
- 3.5 Appendix 1 illustrates the percentage actual income and spend compared to the original 2015/16 budget. As identified at previous Board meetings, Enterprise M3 were forecasting a number of variations from the original budget. Below is a short summary of the significant variances where spend is more than 30% over/under the original 2015/16 budget:
- a) Due Diligence: (+30%) The due diligence spend reflects the complexity and risks associated with our LGF projects which have included several large projects such as the Inner relief road at Whitehill and Bordon and the 5G project. We would expect fluctuations as projects change and the figure reflects 12 projects that were sent to AECOM for review.
 - b) Research, studies and consultancy: (+172%) The significant increase is due to research required by government for administering and managing new projects/programmes and additional research identified to support events and development of policy. Specifically the Careers / Enterprise coordinator programme, transport delivery programme review and the commercial property market study.
 - c) Stakeholder engagement and Website: (-49%) Spend is lower than budgeted, due to a saving of £20,000 on the final build and redevelopment cost of the Enterprise M3 website.
 - d) Funding/Sponsorship provided: (-103%) No funding or sponsorship was paid to partners during 2015/16. This will be carried forward to support more external partner events in 2016/17.
- 3.6 At the start of the year we held £238,893 in reserves. The original budget for 2016/17 agreed by the Board allowed for a draw of reserves of £103,000. The latest projections indicate a deficit of £23,077, which is £79,923 less than in the original budget agreed by the Board on 25 March 2015. This leaves an overall closing balance of £193,339. Some of this funding will be required in 2016/17 to meet any outstanding requirements relating to the one-off contributions but the balance is sufficient to meet these needs.
- 3.7 In 2015/16, interest of £115,821 on the balances held by the Accountable Body on behalf of Enterprise M3 were combined with previous interest payments of £161,153, totalling £276,974. This will be used to offer security to Government when upfront funding is required to administer new projects and programmes. In 2016/17 part of this account will be used to fund the European TA activities.
- 3.8 The position for the year is set out in more detail in Appendix 1.
- 3.9 The Enterprise M3 board should be aware of an outstanding issue which has meant that Enterprise M3 has been charged £77,000 by HCC for agency staff for 2014/15, inflating the agency costs figure for 15/16. This underpayment has only recently come to light as a result of HCC reviewing accruals from 2014/15. Enterprise M3 were not aware of any underpayment and are in discussions with HCC who are investigating the circumstances. Enterprise M3 could receive a subsequent credit/reimbursement of costs. The Board will be kept updated on the progress of HCC investigation.

4 **Growing Enterprise Fund (GEF) revenue fund**

- 4.1 The GEF revenue fund was provided by the Government as one-off funding and has been used to date in line with Government requirements to cover costs associated with supporting delivery of the capital projects funded from GEF. In 2015/16 these costs totalled £233,299 of which 94% related to staffing costs and due diligence work.
- 4.2 Staffing costs were £72k (144%) more than forecast due to a review of the staffing allocations between the operational and GEF revenue accounts. Increasingly work associated with LGF and GEF funds is more closely aligned and as a result more officer time has been offset against GEF. (50% of the Enterprise M3 Director, Senior Project Officer and Project Administrator salary costs are now transferred to the GEF revenue.) This has resulted in the operation staffing expenditure being reduced and the GEF staffing expenditure being increased.
- 4.3 The position for the year is set out in Appendix 2 which confirms a closing balance of £1.15m.
- 4.4 A separate paper and dashboard are provided giving Board members a summary of the up to date position around the LGF and GEF.

5 **Audit 2015/16**

- 5.1 Enterprise M3 accounts will be audited in May/June 2016 by Hampshire County Council Audit.
- 5.2 Findings of the audit will be presented to the Board later in the year and the 2015/16 accounts will then be finalised and signed off.

6 **Annual Report**

- 6.1 The annual report is due to be published in readiness for the AGM on 27 June which will be before the audited accounts are available. It is proposed that the latest accounts are presented in the annual report in a simple form with a link to the full accounts on the website where we will put the audited accounts when signed off. Appendix 3 proposes the headings and financials to be included in the 2015/16 annual report. The operational funds include resource support for GEF
- 6.2 Board members are asked to **agree** the content prior to the information being sent to production.

Alex Piper/Kathy Slack

16 May 2016

**APPENDIX 1
ENTERPRISE M3 LOCAL ENTERPRISE PARTNERSHIP: OPERATIONAL FUNDS 2015/16**

2015/16		£	£	
INCOME		Budget	Actual	Variance
Core Funding grants				
	Core Funding	250,000	250,000	
	Strategic Economic Plan Delivery	250,000	250,000	
Partner contributions				
	Local Authorities	180,000	180,000	
	Further Education	30,000	30,000	
	Higher Education		50,000	
Specific one-off contribution				
	Western Basingstoke capacity support		28,221	
	Apprenticeship –SFA		4,700	
	Careers & Enterprise project support		55,300	
	CEC partner contributions		8,000	
	Tech Study contribution Grant Thornton		5,000	
	Surrey CC - Programme manager post		33,333	
	Transport delivery excellence monies		37,800	
TOTAL INCOME		808,000	932,354	+15%
EXPENDITURE				
Employee costs				
	Staff salaries	360,000	292,088	-19%
	Agency staff*	232,000	280,610	+21%
Professional Support				
	Due Diligence	75,000	97,642	+30%
	Research, studies and consultancy	50,000	136,237	+172%
	Stakeholder engagement and events	82,000	42,076	-49%
	Sponsorship	10,000	-256	-103%
	Accountable body	30,000	35,105	+17%
Expenses and Training Costs				
	Expenses	20,000	18,392	-8%
General expenses				
	LEP Running costs	52,000	53,540	+3%
TOTAL EXPENDITURE		911,000	955,434	+5%
NET INCREASE/(DECREASE) IN FUNDS		(103,000)	(23,080)	

(1) * Due to a discrepancy in agency staff costs incurred in 2014/15, £77,000 is showing in the accounts for 2015/16. This is currently being investigated by HCC.

**APPENDIX 1A
MOVEMENT IN OPERATIONAL FUND BALANCES 2015/16**

	£
OPERATIONAL FUNDS	
Opening balance 1/4/2015	238,893
Net decrease in funds	(23,080)
Closing balance 31/3/16	193,335
INTEREST ACCOUNT	
Opening balance 1/4/2015	161,153
Net increase in funds	115,821
Closing balance 31/3/16	276,974
COMBINED REVENUE FUNDS	
Operational Funds 31/3/16	193,335
Interest Account 31/3/16	276,974
Combined Revenue Funds 31/3/16	470,309

**APPENDIX 2
ENTERPRISE M3 LOCAL ENTERPRISE PARTNERSHIP: GROWING ENTERPRISE FUND
REVENUE 2015/16**

2015/16		£	£	
		Budget	Actual	Variance
INCOME		0	0	
EXPENDITURE				
Employee costs				
	Staff salaries	50,000	122,065	+144%
	Agency Staff	55,000	52,020	-5%
Professional support	Due Diligence	50,000	19,666	-61%
	Research, Studies and Consultancy		1,850	
	Stakeholder engagement and events			
	Sponsorship			
	Accountable body	30000	23,217	-23%
Other employee costs				
	Expenses	3,000	373	-88%
	Training	2,000	0	-100%
General administrative expenses				
	Miscellaneous	10,000	14,109	+41%
TOTAL EXPENDITURE		200,000	233,299	+17%
NET INCREASE/(DECREASE) IN FUNDS		200,000	233,299	
MOVEMENT IN FUND BALANCE 2015/16				
Opening balance 1/4/2015			1,387,376	
Net decrease in funds			233,299	
Closing balance 31/3/16			1,154,077	

Appendix 3
Enterprise M3 Annual report financial summary 2015/16

2015/16	£	£
Income		
National Government	500,000	
GEF Income	233,300	
Local Government	213,333	
Further Education	30,000	
Higher Education	50,000	
Project Income for specific in year projects	134,021	
Private sector contributions	5,000	
		<u>1,165,654</u>
Expenditure		
Resource related costs	414,153	
Due diligence	117,308	
Technical consultancy/Research	512,537	
Office and General expenses	86,414	
Accountable body support	58,322	
		<u>1,188,734</u>
Net Increase/(Decrease) in funds		<u>(23,080)</u>