

Enterprise M3 Board Meeting

22 May 2019

Enterprise M3 2018/19 Year-End Financial Position - Item 10

The Enterprise M3 Board is asked to:

APPROVE: The final outturn 2018/19 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 outturn financial position and the movement of funds controlled by Enterprise M3 Board during 2018/19. Expenditure in year enabled us to take forward delivery of our Strategic Economic Plan objectives, the Local Growth Fund (LGF) Programme, development of the Local Industrial Strategy and progress recommendations arising from the LEP review.
- 1.2. The EM3 Resources, Finance and Audit Committee (RFAC) reviewed and endorsed the end of year position in May 2019, and recommended that a summary report be submitted to the Board.
- 1.3. As at 31 March 2019 Enterprise M3 held **£2.5 million revenue** (2017/18 £2.3m) and **£42 million capital funds** (2017/18 £40m), across a range of accounts which are listed in **Appendix 1**.
- 1.4. **Revenue Funds:** We finished the financial year with a surplus of £248k. **Income** (£2.9m) was £0.9m higher than budgeted due mainly to additional Government funding and extra interest. **Expenditure** (£2.5m), was £0.2m above the original budget, but in line with the revised budget agreed by the Board in July 2018.
- 1.5. **Capital Funds:** Grant income and loan repayments received in the year amounted to £40m. We spent just over 100% of the 18/19 LGF capital allocation (£37m).

2. Audit and Publication

- 2.1. All revenue and capital funds relating to Enterprise M3 LEP's activities, are held by, and accounted for by Hampshire County Council (HCC) as the Accountable Body. In accordance with Enterprise M3's Accountability Framework and the Memorandum of Understanding between Enterprise M3 and HCC, these funds are contained within the County Council's overall accounting records. They will be subject to external audit review as part of the Council's accounts.
- 2.2. In addition, financial information set out in this report will be published in Enterprise M3's Annual Report, scheduled for publication in June 2019.

3. Revenue Funds

3.1. EM3's income and expenditure year-end position across all revenue funds, alongside the 2018/19 budget, is summarised in **Table 1**.

Table 1: EM3 Revenue Income and Expenditure	2018/19 Outturn	2018/19 Budget	Difference
	£'000	£'000	£'000
REVENUE RESERVES Brought Forward	2,229	2,229	0
Income	2,876	1,984	892
Expenditure	(2,628)	(2,424)	(204)
Excess/(deficit) income over expenditure	248	(440)	688
TOTAL REVENUE RESERVES	2,477	1,789	688

3.2. The year began with £2.2m in overall reserves, and ended with £2.5m, thus adding £248k to revenue reserve. At the time the budget was set in January 2018, we expected costs to exceed income by £440k, therefore the actual outturn results in a total increase above budgeted reserves of £688k.

3.3. Key observations:

3.3.1. Revenue INCOME

- Income of £2.9m exceeded the budget £2m by £892k.
- This is mainly due to additional government funding (£200k); transfer of "Capital to Revenue" funds to fund expansion of our Growth Hub service (£167k); and additional interest (£510k) 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.

3.3.2. Revenue EXPENDITURE

- Expenditure of £2.6m exceeded our budget of £2.4m by £204k.
- We overspent in areas such as additional resources (£155k) as we have built up our revised organisational structure, additional due diligence arising from new bids (£116k); and the costs of expanding our Growth Hub service (£167k).
- We also 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.
- We spent £170k in support of our Enterprise Zone delivery. We progressed enabling sites and the works at Basing View, estimated to unlock over £50m Business Rates Income Growth for the area. Costs were underspent by £80k (32%) largely due to the delay in the development of a business support programme and skills strategy. This is now planned for delivery in 2019/20.

3.4. We anticipate that expenditure in 2019/20 will be £0.9m higher than in 2018/19. This is reflected in the 2019/20 budget approved by the Board in March 2019. The increase 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. Additionally, our relocation to offices in a more central area within EM3, will see costs increase by around £90k. Our move will have no effect on the role of HCC as our Accountable Body, and we will retain a small hot desk facility in their head office in Winchester.

4. Capital Funds

- 4.1. 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. EM3's capital funds position is summarised below in **Table 2**.

Table 2: EM3 Capital Funds	At 1 April 2018	Income	Expenditure	At 31 March 2019
	£m	£m	£m	£m
Local Growth Fund (A)	26.4	38.4	(36.9)	27.9
Growing Enterprise Fund (B)	10.2	1.5	0.0	11.7
Capital to Revenue Fund (C)	3.0	0.3	(0.7)	2.6
TOTAL CAPITAL FUNDS	39.6	40.3	(37.6)	42.3

- 4.2. Enterprise M3 holds two capital funds, funded from Government grants with a key condition that spend must be capital in nature:
- 4.2.1. **Table 2 (A):** 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 £26.4m was supplemented by additional grant funding (£36.8m) and repayments of loans (£1.6m), totalling £38.4m. Thirty-seven projects were funded during the course of the year with payments totalling £36.9m. This funding is in addition to match funding provided by scheme promoters. The remaining balance (£27.9m) is already fully allocated to projects approved by the Programme Management Group and Board.
- 4.2.2. **Table 2 (B):** Further funds are held in 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 £10.2m was supplemented by repayments of £1.5m, leaving a balance to carry forward of £11.7million which will be allocated as part of the call for projects during 2019/20.
- 4.3. **Table 2 (C):** Enterprise M3 also holds a **Capital to Revenue Fund**, established in 2017/18, a predominantly "revolving" fund to support scheme development, design advancement, skills and career improvement and scale-up business support. The opening balance was £3m, we received income of £0.3m, and spent £0.7m in support of scheme development, and expansion of our Careers & Enterprise and Growth Hub services. The remaining balance of £2.6m is almost fully allocated to projects approved by the Programme Management Group and Board.
- 4.4. Our investment in staff meant that we achieved over 100% of the Government's annual capital spend target. This exceeds the 97% aspiration reported at last Board meeting. Our emphasis is now on our cumulative programme spend which is at 84% - we aim to achieve 100% by the end of 2019/20.
- 4.5. Capital funds are held by HCC earning interest at the Bank of England base rate. As we successfully spend our capital balance, the interest reduces, which affects our revenue income. We continue, therefore, to identify and secure further funding to enable future delivery of our aspirational plans.

Aleks Bennett, EM3 Finance Manager

22 May 2019

Enterprise M3 18-19 Capital and Revenue reserve funds

As at 31 March 2019 Enterprise M3 held £2 million revenue and £42 million capital funds across a range of accounts:

Enterprise M3 Funds: Revenue and Capital	At 1 April 2018	Income	Expenditure	At 31 March 2019
	£'000	£'000	£'000	£'000
REVENUE¹				
Operational Fund	350	2,001	(1,874)	477
Growth Hub	0	562	(562)	0
Interest	816	661	(65)	1,412
GEF	787	0	(367)	420
SEEDA	156	0	(108)	48
Staff Redundancy	120	0	0	120
Enterprise Zone	0	170	(170)	0
TOTAL REVENUE FUNDS (Table 1)	2,229	3,394	(3,146)	2,477
CAPITAL				
Local Growth Fund	26,400	38,391	(36,850)	27,941
Growing Enterprise Fund	10,200	1,535	0	11,735
Capital to Revenue Fund	3,000	335	(735)	2,600
TOTAL CAPITAL FUNDS (Table 2)	39,600	40,261	(37,585)	42,276
TOTAL FUNDS	41,829	43,655	(40,731)	44,753

¹ The Enterprise M3 accounting structure has seven 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 Growth Hub reserve covers all income and expenditure relating to the Growth Hub
3. The interest reserve accumulates all interest earned on Enterprise M3 capital funds and LGF/GEF loans awarded
4. The GEF fund is a legacy fund available to fund the day to day expenditure of the LEP
5. The SEEDA legacy reserve is a ring-fenced to support business support activities in line with government guidance
6. The staff redundancy reserve covers any staffing liabilities in the event of the LEP being wound down
7. The Enterprise Zone income and expenditure, funded by a loan to be repaid from future Business Rates Growth.