



Driving prosperity in the M3 corridor

## Enterprise M3 Board meeting

31 January 2019

### EM3 2019/20 Outline Budget - Item 10

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

**ENDORSE** – The proposed outline budget for the 2019/20 financial year, subject to a full detailed budget being brought to the Board in March 2019.

**NOTE** – The expected 2018/19 out-turn position (Para 1.4-1.5)

**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 1.6-1.9)

**NOTE** – The three-year forecast and impact on reserves (Para 1.10-1.17)

#### 1. Executive Summary

- 1.1. The purpose of this report is to provide the Board with Enterprise M3's outline 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. Resources, Finance and Audit Committee (RFAC) reviewed the 2019/20 outline budget in January 2019. The group's recommendation is that it be endorsed by the Board, subject to a detailed budget being brought to the March 2019 Board meeting for approval, once we have more detailed information relating to spending plans and income. This report summaries the key constituents of the budget and the matters discussed by RFAC.
- 1.3. Enterprise M3's (EM3) budget across **ALL** revenue funds is detailed in **Appendix 1**, and summarised in Table 1, alongside 2018/19 budget and forecast year end position:

Table 1: EM3 Revenue Income and Expenditure	2018/19 Budget	2018/19 Forecast*	2019/20 Budget
	A	B	C
	£'000	£'000	£'000
<b>Income</b>	1,984	2,782	2,830
<b>Expenditure</b>	(2,424)	(2,733)	(3,329)
<b>(Excess) expenditure over income</b>	<b>(440)</b>	<b>49</b>	<b>(499)</b>
<b>TOTAL REVENUE RESERVES (D)</b>	<b>1,634</b>	<b>2,279</b>	<b>1,780</b>

\* Forecast at Quarter 3

- 1.4. **2018/19 Out-turn forecast vs budget (Table 1: A&B):** At the end of December 2018 (Quarter 3), we are forecasting in a good position to end the year with an almost balanced budget (£49k surplus).
  - Our forecast income has exceeded our budget, mainly due to additional one-off 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 expenditure is in line with our forecast expenditure set out in July (£2,714k) and agreed by the Board. We have underspent in some areas, such as skills strategy development and office relocation costs; this has been balanced out by overspends in areas such as additional expenditure on due diligence arising from new bids, and costs of LIS development/LEP review implementation.
- 1.5. **2018/19 Expenditure to date.** At 31 December 2018 (end of Quarter 3), operating expenditure across all revenue funds was £1.8m, representing 68% of the total forecast of £2.7m. This compares with the position at the same point last year of £1.5m, representing 68% of the eventual out-turn of £2.2m
  - 1.6. **2019/20 Budget (Table 1:C):** Expenditure is budgeted to exceed income by £499k. This reflects activity outlined in EM3's Business Plan (Item 18), and is in line with the Board's agreement to use excess retained reserves to expand operations and drive forward the SEP/LIS. ("Future Funding, Sustainability and Reserves Policy" May 2018).
  - 1.7. 2019/20 budgeted income is expected to be broadly in line with the 2018/19 forecast income. A slight increase is due to transfer of funds from capital to revenue to fund the Careers and Enterprise co-ordinators, allowing us to expand the service across all schools in the EM3 area.
  - 1.8. Our focus for 2019/20 will be on the development of the elements of our Local Industrial Strategy. This will involve specific analysis activity, roundtable discussions with business and other stakeholders and development of funding packages/interventions alongside partners to deliver impact. Government are expecting us to do some detailed work around skills needs and data handling and have provided funding of £75k to take forward.
  - 1.9. We are looking to increase activity around sectors and international activity and will be carrying through the next stage of our organisational changes by a review focussed on our theme areas. This will see us possibly taking on further business focussed staff.
  - 1.10. **Total revenue reserves (Table 1:D):** Our reserves at the end of 2018/19 are expected to stand at £2.3m – remaining at a similar level as last year (£2.2m). 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 £2.5m, meaning that reserves should be maintained at a minimum level of £1.25m.
  - 1.11. We plan to use reserves to cover the excess expenditure of £499k from our retained reserves brought forward, leaving £1.8m in the balance carried forward.
  - 1.12. **Three-year Reserves forecast:** Table 2 outlines the three-year financial plan to 2021/22, based on the assumptions 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 as 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. There is considerable uncertainty about 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. Once we have more details, we will review our 3-year plan.

<b>Table 2: EM3 Revenue Reserves</b>	<b>2019/20 Budget</b>	<b>2020/21 Estimate</b>	<b>2021/22 Estimate</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>TOTAL RESERVES AT START OF YEAR</b>	<b>2,279</b>	<b>1,780</b>	<b>1,581</b>
<i>Income</i>	<i>2,830</i>	<i>2,967</i>	<i>3,151</i>
<i>Expenditure</i>	<i>(3,329)</i>	<i>(3,167)</i>	<i>(3,298)</i>
<b>TOTAL RESERVES AT END OF YEAR</b>	<b>1,780</b>	<b>1,581</b>	<b>1,434</b>
<b>Annual use of retained reserves</b>	<b>(499)</b>	<b>(200)</b>	<b>(147)</b>

- 1.13. The three-year forecast demonstrates that we have the resources to support our ambitious plans. We plan to reduce our reserves to a prudent level of £1.3m by investing in activities that support the economy. Our careful management of funds means we do not plan to increase partner contributions next year. However, from 2021/22 onwards our reserves will start to drop and in readiness for this we already have in place a clear sustainability plan.
- 1.14. Our sustainability plan going forward involves implementing the measures required to secure financial sustainability for EM3, set out in the “Future Funding, Sustainability and Reserves Policy” Board paper (May 2018). It includes a combination of:
- Increasing application fees and partner contributions
  - Building up interest from LGF/GEF loans
  - Maintaining overall reserves at a prudent level
- 1.15. Table 2 highlights that reserves will be at the minimum level stipulated in the reserves policy. Current reserves of £2.3m, will be depleted by £0.85m across the three years, leaving £1.4m.
- 1.16. 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. We expect to be in a better position at the end of the summer to understand the implications for our budget.
- 1.17. 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.

## 2. LEP Operational Fund

- 2.1. The core activities of the LEP are managed through the **Operational Fund**.
- 2.2. **Appendix 2** provides 2019/20 LEP Operational Funding budget details including comparison with 2018/19 budget and the 2018/19 forecast actual figures, with commentary where variances are significant. **Table 3** provides a summary of the total figures:

<b>Operational Activity - INCOME</b>	<b>19-20 Budget</b>	<b>18-19 Forecast*</b>	<b>Note</b>
	<b>£'000</b>	<b>£'000</b>	
Government funding	575	700	<b>A</b>
Partner contributions (LA, FE, HE)	250	260	
Application Fee	220	351	<b>B</b>
Interest receivable on loans and LEP balances	637	0	<b>C</b>
Capital/Revenue transfer - Careers and Enterprise activity	118	53	
Growth Hub management	45	45	
GEF funds	442	345	<b>D</b>
Interest Reserve funding one off projects	245	65	<b>E</b>
Other	147	149	
<b>TOTAL INCOME</b>	<b>2,679</b>	<b>1,968</b>	
<b>Operational Activity - EXPENDITURE</b>	<b>19-20 Budget</b>	<b>18-19 Forecast*</b>	<b>Note</b>
	<b>£'000</b>	<b>£'000</b>	
Staff costs	1,341	1,190	<b>F</b>
Due Diligence	170	240	<b>G</b>
Research/studies/consultancy	587	303	<b>H</b>
Accountable Body	70	60	
Running costs	295	236	<b>I</b>
<b>TOTAL EXPENDITURE</b>	<b>2,463</b>	<b>2,028</b>	

\* Forecast at Quarter 3

- 2.3. **LEP Operational Fund income.** Operational Fund income sources in 2019/20 are budgeted to achieve £2,679k, against the 2018/19 forecast of £1,968k (£711k increase). Overall, the proportion of income is more widely dispersed amongst the income categories, than before. This is in line with observations and plans for less reliance to be made on Government funding, and to increase income from other sources.
- 2.4. The charts in **Appendix 3** represent the proportional categories of Operational Fund income sources.
- 2.5. Key observations:
- **Interest receivable on loans and LEP balances (£637k) (Table 3: C&E).** The increase is mainly explained by an accounting change. The application of in-year interest on loans and balances is now taken directly to operational funds (£637k), in line with accounting guidelines, rather than directly to reserves as in previous years. The previous year's figure is forecast at £628k.
  - **Government funding (£575k) (Table 3: A)** was higher in 2018/19 due to the additional £200k capacity funding provided for implementation of the LEP Review requirements. 2019/20 includes a one-off grant (£75k) to develop the skills advisory panel and associated analytical work to support development of skills strategy.
  - **Application Fees (£220k) (Table 3: B)** are £131k lower than in 2018/19, because we are anticipating a lower number of projects next year, as the current LGF funding stream nears conclusion.
  - **GEF revenue fund contribution (£442k) (Table 3: D)**, which covers GEF fund activity, has increased by £100k. This is mainly because the budget includes a full year of increased staff costs, following full implementation of the Organisational Review. The GEF revenue funds is now depleted, and thus alternative funding will be required from April 2020.
- 2.6. These and other variances are highlighted and further explained in **Appendix 2**.
- 2.7. **LEP Operational Funding expenditure:** Operational Fund expenditure in 2019/20 is budgeted at £2,463k against the 2018/19 forecast of £2,028k (£435k increase). The increases are mainly explained by increased staff costs (£151k increase), following full implementation of the Organisational Review with both assistant directors in post for the full year and recruitment of remaining posts; and Research, Studies and Consultancy costs (£284k increase) required to develop our LIS, skills strategy, new website and communications activity through our consultancy company.
- 2.8. The charts in **Appendix 3** represent the proportional costs of Operational Fund expenditure categories.
- 2.9. Key observations:
- **Staff Costs (£1,341k) (Table 3: F):** As in previous years, staff costs comprise the largest proportion, 54% of total expenditure, compared with 59% in 2018/19. At £1.3m, compared with £1.2m 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.
  - **Research, Studies and Consultancy (£587k) (Table 3: H):** The highest increase, it is almost double the forecast spend for 2018/19 (£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. The category includes our communications contract, and new website development.

- **Due Diligence (£170k) (Table 3: G):** This is lower than in 2018/19, reflecting the reduced number of new projects expected to be reviewed and contracted in 2019/20, as the latest Growth Fund term nears completion.
- **Running Costs (£295k) (Table 3: I):** This covers day-to-day costs, and remains largely the same as in the prior year. However, the Board will be aware that we are considering relocation of our offices, and the budget reflects these costs, as well as the previously uncharged accommodation costs for a hot desk facility at the current location of our Accountable Body.

2.10. These and other variances are highlighted and further explained in **Appendix 2**.

### 3. Ongoing monitoring

- 3.1. 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.
- 3.2. We plan to discuss our final budget figures with RFAC in March 2019 once we have further information from government around expected delivery for next year; costs associated with our new location and initial thoughts on planned organisational changes. We will bring our final budget to the board in March but agreement to this outline budget will allow us to set in train plans for recruitment of remaining staff.
- 3.3. The EM3 Revenue budget will be managed within the following approval levels, in line with the Scheme of Delegation agreed by the Board for approval in March 2018.

Area of Responsibility	EM3	RFAC	Executive Director
<b>Revenue budget approvals:</b>			
Approval of Operational Budget (including Operational, GEF revenue, SEEDA, Interest and overall EZ <sup>3</sup> revenue funds)	x		
Day-to-day management of Operational Budget, including EZ <sup>3</sup> , (within +/- 10% of overall approved income and expenditure budgets)			x
Approval of Operational Budget deviations of 10% - 30% of overall income and expenditure budgets		x	
Approval of Operational Budget deviations of > 30% of overall income and expenditure budgets	x		
Approval of virements between individual income and expenditure categories ≤£250k			x
Approval of virements between individual income and expenditure categories >£250k		x	

### 4. The Enterprise M3 Board is asked to:

**ENDORSE** – The proposed outline budget for the 2019/20 financial year, subject to a full detailed budget being brought to the Board in March 2019.

**NOTE** – The expected 2018/19 out-turn position (Para 1.4-1.5)

**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 1.6-1.9)

**NOTE** – The three-year forecast and impact on reserves (Para 1.10-1.17)

**Aleks Bennett**  
EM3 Finance Manager 31<sup>st</sup> January 2019

## Enterprise M3 19-20 Revenue Budget – OVERALL

This Appendix provides an analysis of the income and expenditure anticipated across all revenue funds<sup>1</sup>:

2019-20 Revenue	1	2	3	4	5	6	7	8	GROSS TOTAL £'000	Inter account transfers £'000	TABLE 1
	Operational Funding (App 2) £'000	GEF Funding £'000	Growth Hub £'000	SEEDA £'000	European funding £'000	Interest £'000	Staff redundancy £'000	EZ <sup>3</sup> £'000			TOTAL (External) £'000
<b>BUDGETED Revenue reserve balance at 31 March 2019</b>	414	371	0	48	0	681	120	0	1,634		1,634
<b>FORECAST Revenue reserve balance at 31 March 2019</b>	350	442	0	48	0	1,318	120	0	2,279		2,279
<b>INCOME 19-20</b>											
Government funding	575		287						862		862
Partner contributions - LA, FE, HE	250								250		250
Application fees	220								220		220
Interest receivable on loans and LEP balances	637		60				20		717		717
Growth Hub Management Fee	45								45		45
Other	147								147		147
European funding					53				53		53
EZ <sup>3</sup> : HCC Loan / Business Rates Growth								250	250		250
Transfers between reserves	687		48						735	(735)	
Transfer of Capital to Revenue funds	118		168						286		286
<b>TOTAL INCOME</b>	<b>2,679</b>	<b>0</b>	<b>563</b>	<b>0</b>	<b>53</b>	<b>0</b>	<b>20</b>	<b>250</b>	<b>3,565</b>	<b>(735)</b>	<b>2,830</b>
<b>EXPENDITURE 19-20</b>											
Staff costs	(1,341)					(34)		(149)	(1,524)		(1,524)
Due Diligence	(170)								(170)		(170)
Research, studies and consultancy	(587)								(587)		(587)
Other running costs	(365)					(19)		(101)	(485)		(485)
Growth Hub costs			(563)						(563)		(563)
Transfers between reserves		(442)		(48)		(245)			(735)	735	
<b>TOTAL EXPENDITURE</b>	<b>(2,463)</b>	<b>(442)</b>	<b>(563)</b>	<b>(48)</b>	<b>(53)</b>	<b>(245)</b>	<b>0</b>	<b>(250)</b>	<b>(4,064)</b>	<b>735</b>	<b>(3,329)</b>
<b>Movement in year</b>	<b>216</b>	<b>(442)</b>	<b>0</b>	<b>(48)</b>	<b>0</b>	<b>(245)</b>	<b>20</b>	<b>0</b>	<b>(499)</b>	<b>0</b>	<b>(499)</b>
<b>Revenue reserve balance at 31 March 2020</b>	<b>566</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,073</b>	<b>140</b>	<b>0</b>	<b>1,780</b>	<b>0</b>	<b>1,780</b>

## Enterprise M3 19-20 Revenue Budget – OVERALL

<sup>1</sup> 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
8. The Enterprise Zone income and expenditure, funded by a loan against future Business Rates growth.

## Enterprise M3 19-20: Operational Income and Expenditure

19-20 Operational Income and Expenditure	19-20 TOTAL BUDGET	18-19 FORECAST @ Quarter 3	Variance from 19- 20 budget <sup>1</sup>	18-19 BUDGET	Variance from 19- 20 budget <sup>1</sup>	Comment
	£'000	£'000	%	£'000	%	
<b>INCOME 19-20</b>						
Government funding	575	700	-22%	500	13%	19/20: Additional Skills Advisory Panel funding (£75k) 18/19: Additional LEP review implementation funding (£200k)
Partner contributions:						
<i>Local Authorities</i>	170	180	-6%	180	-6%	Decrease due to New Forest DC moving to Solent LEP
<i>Further Education colleges</i>	30	30	0%	30	0%	
<i>Higher Education Universities</i>	50	50	0%	50	0%	
Salary match funding	14	49	-250%	52	-270%	HCC's part funding of Internationalisation Project Officer. Previously more posts were part-funded by partners - including partial funding of Operations AD, and further funding of Internalisation Project Officer
Application Fee	220	351	-60%	333	-51%	Estimate for successful Growth Fund 3 bids. In 2018/19 covered 28 projects totalling £48m mostly at 1%. 2019/20, fewer projects, although at 2%.
Interest receivable on EM3 Loans and Balances	637	0	100%	0	100%	Previously accounted for in year interest via separate reserve and transferred as required. Now showing annual interest as income in year directly to operational fund, in line with accepted budgeting principals
Transfers from other EM3 Revenue Reserve Funds:						
Transfer from Interest fund	245	65	73%	135	45%	Funding for spending agreed in 18/19, moved to 19/20
Transfer from Capital to Revenue	118	53	55%	0	100%	Funding for Careers and Enterprise Co-ordinators employed during 2018/19. This matches funding received from Careers and Enterprise Company (shown in "Other income").
Transfer from GEF funds to cover GEF activity	442	345	22%	345	22%	Increase mainly due to funding of additional staff posts This depletes GEF funds
Other:						
<i>Growth Hub management fee</i>	45	45	n/a	45	n/a	
<i>Other</i>	133	100	25%	93	30%	Includes Careers and Enterprise Company funding of 5 Careers and Enterprise Co-ordinators (£118k)
<b>TOTAL INCOME</b>	<b>2,679</b>	<b>1,968</b>		<b>1,763</b>		

<sup>1</sup> Variance is negative when 19/20 budgeted income or expenditure is lower

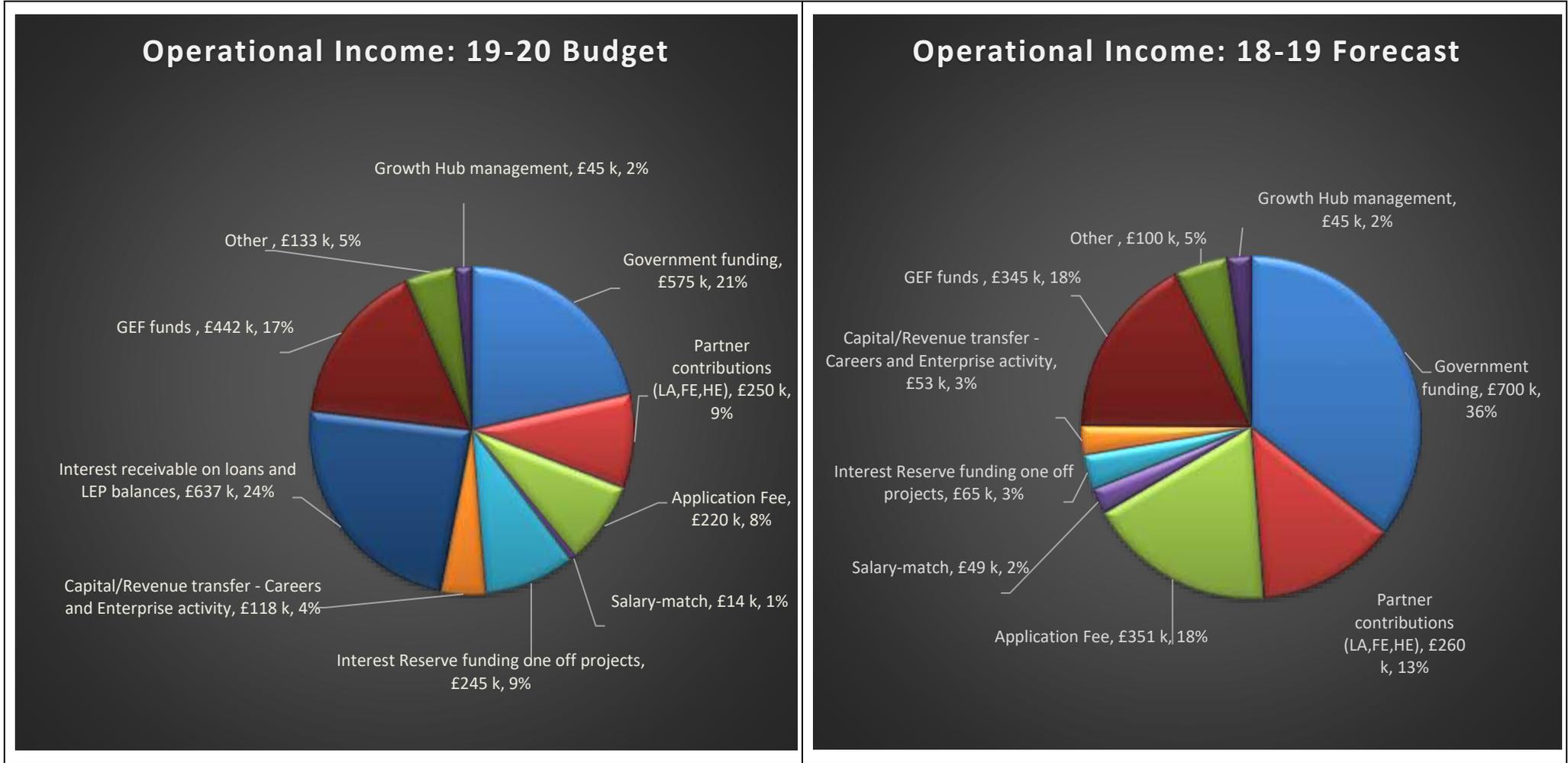
## Enterprise M3 19-20: Operational Income and Expenditure

19-20 Operational Income and Expenditure	19-20 TOTAL BUDGET	18-19 FORECAST @ Quarter 3	Variance from 19- 20 budget <sup>1</sup>	18-19 BUDGET	Variance from 19- 20 budget <sup>1</sup>	Comment
	£'000	£'000	%	£'000	%	
<b>EXPENDITURE 19-20</b>						
Total Staff costs	(1,341)	(1,190)	11%	(908)	32%	Increase from prior year due to full year implementation of revised structure.
Due Diligence	(170)	(240)	-41%	(100)	41%	Estimate based on forward plan and further projects from new call. Lower than 18/19: - less funding available for new bids, as current LGF funding stream nears conclusion - costs savings from re-negotiated contracts with providers
Research, studies and consultancy	(587)	(303)	48%	(461)	21%	£280k increase due activity relating to LIS development and implementation: £150k; and development of Skills Advisory Panel and skills strategy (£130k - of which £75k is covered by Government grant)
Stakeholder engagement and events	(60)	(49)	18%	(93)	-55%	
Accountable Body	(70)	(60)	14%	(70)	0%	Activity for services provided by HCC under SLAs. 18-19 includes costs of additional activity from e.g. LEP review. 19-20 incorporates increase for expected additional routine activity e.g. HR Cost
Staff training	(12)	(11)	8%	(11)	8%	Includes incorporation and appraisal training
Staff expenses	(30)	(30)	0%	(30)	0%	
Running costs	(193)	(146)	24%	(92)	52%	Includes provisional costs of moving to new premises £70k (Starting Q3. The total is in line with the average of neighbouring LEPs' accommodation costs). Includes mitigation costs of relocation.
<b>TOTAL EXPENDITURE</b>	<b>(2,463)</b>	<b>(2,028)</b>		<b>(1,764)</b>		
<b>NET (over)/under spend</b>	<b>216</b>	<b>(60)</b>				

<sup>1</sup> Variance is negative when 19/20 budgeted income or expenditure is lower

Enterprise M3 19-20: Operational Income and Expenditure Charts

Proportional representation of Operational Fund Income: 2019/20 Budget and 2018/19 Forecast (at Quarter 3)



Proportional representation of Operational Fund Expenditure: 2019/20 Budget and 2018/19 Forecast (at Quarter 3)

Enterprise M3 19-20: Operational Income and Expenditure Charts

