

Enterprise M3 Board meeting

26 March 2020

EM3 2020/21 Revenue Budget – Item 9

The Enterprise M3 Board is asked to:

AGREE – The 2020/21 revenue budget (Section 3)

NOTE – The expected 2019/20 out-turn position at the end of Month 10 (Section 2)

NOTE – The continued key financial risks associated with the budget and medium-term forecast (Section 4)

1. Executive Summary

- 1.1. Enterprise M3 (EM3) revenue budget is set to enable delivery of the Strategic Economic Plan objectives, drive implementation of the Local Industrial Strategy and deliver the Local Growth Fund Programme. In January 2020, the Board endorsed the 2020/21 outline budget, subject to an updated budget being brought to the Board once we have clarity about future funding.
- 1.2. The purpose of this report is to seek the Board's agreement of the 2020/21 revenue budget.
- 1.3. The Resources, Finance and Audit Committee (RFAC) reviewed the updated 2020/21 budget on 12th March 2020, which incorporated the impact of the Bank of England's interest rate reduction announced on 11th March 2020. *(Please note we have just heard of the further interest rate change on 19th March which will reduce our budget further. We will provide an updated position at board)* Details behind the figures in this report are available to Board Directors on request.
- 1.4. We are in a good position for the upcoming year:
 - Government have confirmed 2020/21 revenue funding for the LEP Operational and Growth Hub activity
 - We will receive £42million in April 2020 as part of the current Growth Deal
 - Our reserves levels are at a sufficient level to cover planned 2020/21 activity, should no further Growth deal be announced.
- 1.5. **Therefore, RFAC's recommendation is that the Board support the activities set out in the outline budget, and agree the updated 2020/21 revenue budget.**
- 1.6. The group is considering the longer-term consequences of funding uncertainty on financial stability, looking at pressure/decision points. Over the next few months, as details emerge relating to future government spending and funding plans, we will work with RFAC to review different scenarios and option, and will reporting to the Board the medium-term financial implications on EM3's activities.

2. 2019/20 Forecast Out-turn

2.1. As reported to the Board in January, we are forecasting a surplus position for 2019/20, and are expecting to end the financial year with net income about **£0.76m** above budget. This is summarised below in **Table 2**:

2018/19 Audited Outturn £'000	Table 2: EM3 Revenue Income and Expenditure	2019/20 Approved Budget £'000	2019/20 Forecast Quarter 3 £'000	2019/20 Budget variance* £'000
		A	B	C
2,229	REVENUE RESERVES Brought Forward		2,477	
2,876	Income	3,203	3,891	688
(2,628)	Expenditure	(3,522)	(3,451)	71
248	(Deficit)/Excess Income over expenditure	(319)	440	759
2,477	TOTAL REVENUE RESERVES		2,917	

* Variance is positive when 2019/20 forecast income is higher / expenditure is lower, than budgeted

2.2. The year began with **£2.477m** in overall revenue reserves. At the end of Month 10, we are forecasting the 2019/20 year to end with **£2.917m** in overall reserves, adding **£440k** to the balance (*column B*). This is **£759k** (*column C*) higher than the approved budget approved in March 2019, when we expected to draw **£319k** from reserves (*column A*).

2.3. The **£759k** net additional funds, arose mainly due to:

- The decision to expand our project pipeline and thereby bring forward additional application fee income (**£447k**)
- The decision to pause recruitment until the planned new organisation is in place (**£118k**)
- Continued difficulties in recruiting staff in a tight labour market (**£178k**)
- Other (**£16k**)

3. 2020/21 Outline Budget

3.1. Our focus for 2020/21 was to be on implementing our developed Local Industrial Strategy (LIS), alongside a final push on getting remaining projects up and running; meeting funding targets; and continuing to deliver careers activity, Enterprise Zone and the Growth Hub service. This will involve cross-sector engagement with business and other stakeholders to ensure delivery is in line with our LIS. Recent events around COVID-19 will mean that these areas will continue to be important but that our work emphasis will be on supporting business to stay trading and secure the help they need through our LEP and Growth Hub activity and work to secure the revival of our economy.

3.2. As summarised in **Table 3**, we anticipate expenditure of **£3.385m** (19/20 £3.451m) will exceed in year income of **£2.936m** (19/20 £3.891m), and we therefore expect to draw on retained reserves, by **£449k**:

Table 3: EM3 Revenue Income and Expenditure	2020/21 Budget	2019/20 Forecast (Month 10)
	£'000	£'000
INCOME	2,936	3,891
EXPENDITURE	(3,385)	(3,451)
(Excess) expenditure over income	(449)	440
TOTAL REVENUE RESERVES	2,469	2,917

3.3. **Income:** 2020/21 income is expected to be **£955k** lower than in 2019/20, mainly due to:

- Lower Government funding (**- £627k**): In 2019/20 one-off Government funding was provided to help businesses prepare for EU Exit and for intelligence gathering (£427k), and as additional capacity funding in 2019/20 to aid implementation of the LEP review requirements and to develop our LIS (£275k). However, in 2020/21 £75k one-off Government funding will be provided as additional capacity funding to develop our Local Skills Action Plan. We may secure additional funding for COVID-19 but at this stage unclear. LEP Network are meeting officials on 20th March and we will give a verbal update.
- Lower Application fees (**- £391k**) these were exceptionally high in 2019/20 arising from new project calls.

- Lower Interest Receivable (- **£224k**). We receive interest on our balances held by HCC, as our accountable body, at the Bank of England base rate, which decreased from 0.75% to 0.25% in March 2020. (and now further to 0.1% on 19th March)
- Higher Contributions from Local Authority partners (**+£150k**). The increase was agreed for 2019/20, However, due to careful budget management and some additional government income, we postponed increase to 2020/21.
- EU Legacy Fund, one off receipt (**+£184k**) This will be used to contribute to Growth Hub delivery and other schemes supporting SMEs
- Other (-**£47k**)

3.4. **Expenditure** is expected to be only marginally below (**£66k**) the 2019/20 level. A notable reduction in costs arising from completion of the LIS development work carried out in 2019/20, is countered by an increase in costs arising as we move into LIS implementation, development of our Local Skills Action Plan, and to cover work arising from new Government initiatives, such as those which may arise from the Devolution White Paper. (note : *this focus will change as a result of COIVID 19 work and the expectations by government of the part that LEPs and Growth Hubs will play*).

4. Key Financial Risks

4.1. The Board should be aware of the **key financial risks** associated with the proposed budget and medium term-financial plan. The key risks relate mainly to the uncertainty of Government funding and policy.

Risk	Description	Impact	Likelihood	Mitigation
Capital Funding uncertainty	The current Growth Deal funding ends in 2020/21. Government have yet to announce their spending and funding plans beyond this date. There is an indication of more LGF funds but it is unclear how much will come top LEPs.	Medium Initial financial modelling of potential no growth deal scenarios, indicate that the net detrimental financial effect is about £0.2m in 2020/21, and £0.3m in the following years. Need to secure further funding/cost-savings, in order to cover activity for the three years to the end of 2022/23, and remain in line with our reserves policy.	Medium	For 2020/21 we have enough reserves to cover the potential gap in funding of £0.2m in our budget. We expect Government to announce their funding plans by November 2020. We continue to work with RFAC to consider different scenarios and options for the medium term and report to the Board.
Revenue Funding uncertainty	2020/21 revenue funding confirmed. Beyond 2020/21 assumptions are that funding continues at same level.	Medium Without this continued funding, in order to maintain the same level of activity, we would need to reduce costs or secure further funding/cost-savings of £1.8m to cover the two years post 2020/21 to the end of 2022/23.	Low	Does not affect 2020/21 We continue to work with RFAC to consider different scenarios and options for the medium term and report to the Board.
Interest rate uncertainty	We receive interest on our balances held by HCC, as our accountable body, at the Bank of England base rate. Our forecasting assumes that rates remain at the new current level of 0.25% throughout 2020/21.	Low A small change in the level will impact reserves. For example, a change of 0.25% in the base rate would affect income by approximately £145k per year.	High	2020/21 incorporates we have enough reserves to cover the potential gap in funding in our budget. There is most impact when capital funds are high – and our funds will decrease as the capital programme is delivered. We continue to work with RFAC to consider different scenarios and options for the medium term and report to the Board.

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 2020/21 income and expenditure and the medium-term-financial forecast, on an ongoing basis, adjusting the forecast, accordingly, challenging spend and championing future sustainability through increased income and expenditure savings.

Aleks Bennett - EM3 Finance Manager

17 March 2020