enterprise M3
Delivering prosperity through innovation

Enterprise M3 Board Meeting

24 September 2020

Resources, Finance and Audit Committee Financial Update - Item 10

The Enterprise M3 Board is asked to:

NOTE: The current 2020/21 forecast and medium-term position impacted by COVID-19 business disruption and Government's fiscal and monetary response.

NOTE: The work taking place to ensure financial stability in the medium-term.

1. Executive Summary

1.1. In March 2020 the Board agreed the 2020/21 revenue budget acknowledging that there would be some variations in response to the impact of COVID-19. A significant part of our work in 2020/21 is now focused on supporting businesses in planning for economic recovery, working in partnership with business support organisations.

1.2. Since then, we have been working with Resources, Finance and Audit Committee (RFAC) to identify and mitigate the anticipated impact of these changes on our financial stability into the medium term, to March 2023.

1.3. In May, we reported to the Board that we had identified some of the savings and additional income needed to mitigate the three-year income loss of over £2m. Nevertheless, by the end of the three-year period, our reserves were predicted to be just over **£1m** below the minimum level of reserves set by our reserves policy.

1.4. Subsequently, we have identified further savings and income of just under **£0.6m**. We are now able to carry out our revised plans in 2020/21 and 2021/22 whilst retaining a comfortable reserves level, decreasing and pushing back the potential reserves gap to 2022/23, at just above **£0.4m**. However, we have also identified a number of potential cost reductions and income sources which would further reduce, and likely eliminate the reserves gap.

1.5. This paper outlines the current forecast position, the action taken to date, and sets out further options and opportunities to eliminate the currently forecast gap.

1.6. We remain conscious that the outcome of the Comprehensive Spending Review in the Autumn will determine likelihood of future longer term operational and capital programme funds.

2. Revised 2020/21 Budget and Medium-Term Financial position

2.1. Table 1 shows how the revised forecast affects the 2020/21 budget and our medium-term financial stability. Our reserves will be at **£1,253k** by the end of the three-year period to 2022/23 (Row A).

Table 1: EM3 REVENUE RESERVES	2020/21 Budget	2020/21 Forecast	2021/22	2022/23	
	£'000	£'000	£'000	£'000	TOTAL
In year use of reserves	(449)	(196)	(773)	(590)	(1,559)
TOTAL RESERVES (Row A)	2,469	2,615	1,843	1,253	
RESERVES above/(below) minimum level	473	913	157	(432)	

2.2. Our **reserves policy** stipulates that reserves should be maintained at a minimum level which covers 50% of annual operational expenditure. Table 1 (Row B) shows that we would be within the minimum reserves at the end of this financial year, and the next, but would breach it by **£432k** at the end of 2020/21.

3. Action taken to date

3.1. Since the Board approved the budget in March 2020, we have responded to the anticipated decrease in income through a number of measures, which will result in a decrease in expenditure of over £1.6m by the end of 2022/23. The revised position will enable us to focus on supporting businesses in planning for economic recovery, and continue to deliver our core plans. The key changes are as follows:

3.2. The decrease in expenditure has been achieved mainly by reducing our **staff costs**, which account for between 50% and 60% of total expenditure. Having reviewed future capacity needs, against the refocus of our activities and within the context of our reduced budget, we have removed some posts that are unfilled, moved staff to cover other roles, and reprofiled recruitment, saving over £1m.

3.3. We have reduced **other running costs** by almost £0.7m, by carefully considering where to direct our limited resources. Some projects have been withdrawn. This includes the ERDF Internationalisation project – as the cost and draw on resources were deemed too high, leaving potential issues with capacity to deliver other activities

3.4. The downsizing of the operation means we have also had to cut back on our planned activity. We will be unable to take forward our full plans for engaging with business sectors, will limit our work on skills to that of strategy development and influencing delivery through our Skills Advisory Panel, limit our involvement on housing and place and put focus on core business activity.

4. Scope for additional income and savings

4.1. Compared with the outlook reported in May, we are now in a much more favourable position. However, with a funding gap of £0.4m at the end of March 2023, as well as a downward trend beyond that time, we are conscious of the need to continue exploring opportunities for further savings and additional income

4.2. As always, our financial modelling assumes a prudent position. We have identified a number of potential cost reductions and income sources which would further reduce the reserves gap, and have not yet been accounted for.

4.3. These include:

COSTS:

- **Growth Hub:** In bringing the Growth Hub in-house, there may be opportunities to fund some existing activities from Government's funding. We are waiting for the current provider, to provide us with information about resources and obligations.

- **Property/Office Costs:** Our lease is contracted until August 2021, however we will review our requirements and options early next year. This will include looking at different space options, possible reductions for a longer lease, and exploration with partners about potential space sharing.

- **Careers and Enterprise Service:** The extended CEC contract ends in August 2021. The service is being externally reviewed, as part of our overall programme evaluation, which will inform future requirements. Future delivery may incorporate the move to a Careers and Enterprise Hub, which may be more financially viable.

INCOME:

- **Additional Business Support Funding:** We may be asked to provide work to support businesses prepare for the end of EU Exit transition at a cluster level, as well as for COVID 19 activity. We are likely to get additional funding for this activity and may need to recruit resource.

- **Skills Income:** For each of the past two years, the Department of Education has provided funding of £75k for our skills agenda. The budget does not assume that this will continue, although it is probable. Much of this covers budgeted costs.

- **Covid-19 Recovery Fund.** The remainder of our Capital to Revenue pot, has now been designated as a Covid-19 Recovery Fund. We have around £770k remaining in this pot. There is considerable scope to use this for future activity, as well as to fund existing costs. We are looking at looking at activities which could be funded from the balance.

- **Future Growth Deals:** The assumed position is that will be no further Growth Deal post 2021/22. Simply modelled, £1m of growth deal capital covers approximately 1% of annual operating expenditure (£30k), through receivable interest and application fees. A similar capital fund to our recent Getting Building Fund allocation (£13.3m) for the next two years would address the budget gap on its own.

- **Government Core Funding:** The Government's funding of LEPs to cover core activities has remained the same for the past five years, despite LEPs' responsibilities growing significantly since their inception. The LEP Network is engaging with Government around delivering greater sustainability, including discussions around the level of funding and provision of longer-term settlements.

5. Ongoing monitoring

5.1. We will continue with RFAC to monitor the risks of financial uncertainty, incorporating pressure/decision points, identifying opportunities for income generation and savings and necessary mitigation. We will update and involve the Board at future meetings

Aleks Bennett, EM3 Finance Manager

15 September 2020