

Enterprise M3 Board Meeting

26 November 2020

Resources, Finance and Audit Committee Financial Update - Item 11

The Enterprise M3 Board is asked to:

APPROVE: The Enterprise M3 Limited statutory accounts for the year ending 31 March 2020

NOTE: The current 2020/21 forecast and medium-term position following Quarter 2 activity (April-September 2020).

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

NOTE: The outcome of the Southern Internal Audit Partnership's annual review of our governance arrangements.

1. Executive Summary

- 1.1. In March 2020 the Board agreed the 2020/21 revenue budget, acknowledging that there would be some variations resulting for COVID-19 related business disruption, Government's response and clarifications of future capital programmes.
- 1.2. Our subsequent assessment showed a three-year income loss of £2.1m, meaning that our excess reserves would be used up during the next financial year (2021/22), and were predicted to be just over **£1m** below the minimum level of reserves set by our reserves policy by the end of 2022/23.
- 1.3. Working with the Resources, Finance and Audit Committee (RFAC), we have identified and implemented steps to mitigate the anticipated impact. Alongside this, we have re-budgeted to allow a significant part of our activity to focus on supporting businesses in planning for economic recovery - working in partnership with business support organisations.
- 1.4. We have reported progress to the Board through the year, and can now update the position incorporating the results of our mid-year out-turn (April-September 2020). We are 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 **£0.3m**.
- 1.5. As we continue to explore further options and opportunities to eliminate the long-term forecast gap, we will work to develop an income generation strategy and action plan. RFAC will oversee the development and implementation of the strategy. We are commissioning work to explore what other LEPs are doing to generate income.
- 1.6. The Treasury confirmed in October that the 2020 Spending Review will take place on the 25th November, and will set resource and capital budgets for one year, rather than the three-year period originally planned. The longer-term Spending Review, which is expected to determine future longer term operational and capital programme funds, will now take place in 2021. Until then, our medium-term planning will continue to be prudently based on existing funding indications.
- 1.7. The statutory accounts for Enterprise M3 Limited have been prepared, and are ready to be approved by the Board Directors, so that they can be submitted to Companies House. The company incorporates the decision-making element of the LEP, which does not trade, and has no financial transactions, assets, or liabilities, thus the accounts filed are dormant accounts (**Appendix 1**).

1.8. Finally, the Southern Internal Audit Partnership carried out their annual review of our governance arrangements, both internally and with our Accountable Body (HCC), and awarded a “substantial assurance” rating, which is their highest level of audit assurance.

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 **£1,396k** 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)	(121)	(670)	(624)	(1,415)
TOTAL RESERVES (Row A)	2,469	2,690	2,020	1,396	
RESERVES above/(below) minimum level (Row B)	473	991	305	(305)	

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 **£305k** at the end of 2022/23.

2.3. This is an improvement on the position reported to Board in September, mainly due to additional Government income provided to administer our new £13.3m Getting Building fund.

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 affected staff costs. Following review of 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.

3.2. The downsizing of the operation means we have had to cut back on our planned activity and involvement, so that we can focus on our core business activity.

4. Additional income and savings

4.1. Compared with the outlook at the start of the year, we are now in a much more favourable position. However, A funding gap of £0.3m remains at the end of March 2023, as well as a downward trend beyond that time.

4.2. 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, but have not yet been accounted for.

4.3. However, we cannot plan for the future relying on potential additional funding, and are conscious of the need to continue exploring opportunities for further savings and additional income. Working with a consultancy, in early 2021, we will develop an income generation strategy and action plan which will be overseen by RFAC.

5. Enterprise M3 Limited Dormant Accounts

5.1. We have prepared the statutory accounts for Enterprise M3 Limited, for the year ended 31 March 2020 (Appendix 1). They require Board approval so that they can be submitted to Companies House.

- 5.2. All Board members are Directors and Members of the Company. It is the responsibility of each director in a limited company to ensure that annual accounts are prepared, circulated to members and delivered to Companies House on time, even if that company has not traded.
- 5.3. The purpose of EM3 Limited is that of a decision-making company. It does not trade, and has no financial transactions, assets, or liabilities. Thus, in accordance with section 1169 of the Companies Act 2006, the company qualifies to file dormant accounts.
- 5.4. All revenue and capital funds relating to the LEP's activities, are held by, and accounted for by Hampshire County Council (HCC) as our Accountable Body. In accordance with the Accountability Framework and the Memorandum of Understanding between Enterprise M3 and HCC, these funds are separately identified within the County Council's accounting records. They are subject to external audit review as part of the Council's accounts.
- 5.5. Enterprise M3 Limited is a company limited by guarantee (CLG), and does not have shares. Instead, the members promise to guarantee the company to the sum of £1 each, and are issued with membership certificates.

5.6. **The Enterprise M3 Board is asked to:**

APPROVE: The Enterprise M3 Limited Statutory Accounts for the year ending 31 March 2020

6. **Internal Audit Review of Governance Arrangements**

- 6.1. The Southern Internal Audit Partnership recently carried out their review of our internal governance controls, as part of their review of HCC as the Accountable Body. This is a voluntary annual review which provides evidence for our Annual Conversation with Government.
- 6.2. The audit included a review of
 - Our arrangements with HCC, including the Accountability Framework, Service Level Agreements, and the Memorandum of Understanding.
 - Our compliance with EM3's codes of conduct, register of interests, scheme of delegation.
 - The decision-making process covering a substantive review of PMG/Board minutes and reports and due diligence reports.
 - Contracting, payments and project monitoring.
- 6.3. The report concluded that a sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied. The audit identified no areas for improvement or management action, and awarded a "substantial assurance" rating, which is their highest level of audit assurance

7. **Ongoing Monitoring**

- 7.1. 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
18 November 2020

Registered Number 11897237

ENTERPRISE M3 LIMITED

Dormant Accounts

31 March 2020

Balance Sheet as at 31 March 2020

	31 3 2020 (First Year)
Net Assets	£
Reserves	0
	0

STATEMENTS

- For the year ending 31 March 2020 the company was entitled to exemption under section 480 of the Companies Act 2006 relating to dormant companies.
- The members have not required the company to obtain an audit in accordance with section 476 of the Companies Act 2006.
- The directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of accounts.
- These accounts have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime.

Approved by the Board on 26 November 2020

NOTES

Company is Limited by Guarantee.