

Enterprise M3 Board meeting

27 May 2021

EM3 2020/21 Revenue Budget – Item 10

The Enterprise M3 Board is asked to:

AGREE: The final outturn 2020/21 position on both revenue and capital funds held by Enterprise M3. **(Sections 3 and 4)**

NOTE: The current 2021/22 forecast and updated 2021-2024 Medium Term Financial Plan **(Section 5)**

NOTE: The key financial risks associated with the 2021/22 Revenue Forecast, and the 2021-2024 Medium-Term Financial Plan **(Appendix 1)**

1 Executive Summary

- 1.1 This report summarises the final outturn financial position and the movement in funds managed by the Enterprise M3 Board during 2020/21. Further, it provides an update on the current year's forecast and an updated 2021-2024 Medium Term Financial Plan.
- 1.2 Expenditure in 2020/21 enabled us to help businesses respond to the economic disruptions caused by Covid-19, whilst driving implementation of the Local Industrial Strategy, Revive and Renewal Plans, and delivering the Local Growth Fund and Getting Building Fund capital programmes.
- 1.3 The EM3 Resources, Finance and Audit Committee (RFAC) reviewed and endorsed the end of year position on 13 May 2021. They recommend that the Board approve the final position on both revenue and capital funds held by Enterprise M3.
- 1.4 As at 31 March 2021 Enterprise M3 held **£3 million revenue reserves** (2019/20 £2.7m) and **£27 million capital funds** (2019/20 £28m), across a range of accounts which are set out in **Appendix 2**.
- 1.5 **Revenue Funds (Section 3):** We finished the financial year with a surplus of £237k. **Income** (£3.4m) was £0.5m higher than budgeted due mainly to additional Government funding. **Expenditure** (£3.2m) saw a net decrease against the budget of £0.2m, mainly due to a reduction in staff costs. Further cost reductions occurred as planned activity was diverted to help businesses respond to the Covid-19 economic disruptions, and navigate the UK's transition from the EU - both of which were additionally funded.
- 1.6 **Capital Funds (Section 4):** Grant income and loan repayments received in the year amounted to £52.5m. In addition, we held £27.8m in unspent money from the previous year. We spent £53.2m in 2020/21, meaning that we have now achieved 100% delivery of our total awarded Local Growth Fund (LGF), and 60% of the £6.65m Getting Building Fund (GBF) received to date. The remaining GBF funds received to date have been fully allocated and contracted to projects due to spend in 2021/22.
- 1.7 **2021/22 Revenue Budget and Medium-Term Financial Stability (Section 5):** The 2021/22 revenue budget is underpinned by our delivery/business plan, and is set to enable implementation and delivery of our developing Local Industrial Strategy and our Revive and Renew Plan. It supports activities to deliver our capital programme, business support activities and actions around skills such as the work of our careers and enterprise programme.
- 1.8 We are keeping the Medium-Term Financial Plan (MTFP) under constant review. The Government is currently carrying out a review of LEPs, which will determine their future direction. Alongside this, there has been a shift in policy to entrust Local Authorities and Further Education establishments, with the responsibility to bid directly for Government capital allocations.

- 1.9 We are in a good position for the next two years. We are able to carry out our plans in 2021/22 and 2022/23, as our reserves are at an adequate level to cover activity. Compared with most other LEPs, we are in the fortunate position of holding sufficient surplus reserves, built up over the years from careful management of our resources. The use of reserves to fund future operational activity, has been advocated by the Board for several years, with the aim of maintaining a minimum level of reserves set by our reserves policy.
- 1.10 However, our ongoing planned expenditure exceeds our income by around £0.5m per year, and by the end of the three-year period (March 2024), our reserves are predicted to fall below the minimum level. We are exploring opportunities for further savings and additional income generation options, in order to bridge the gap between income and expenditure, and to reverse the trend.
- 1.11 Our forecasts are based on assumptions that our core capital funding capital programme is much reduced; that our core funding from Government and our Local Authority and Education partners continues at existing levels; and that existing activities and staff levels continue. This report considers the risks of the assumptions incorporated in our financial management, and looks at the position should they materialise. The analysis demonstrates that in a scenario in which core funding was reduced by 50% from next year, we would breach our minimum reserves level during the next financial year, and would almost completely deplete our total reserves by March 2024.
- 1.12 As the future direction of LEPs becomes clearer, and our income generation plans develop, we will continue to work with RFAC and the Board to review the organisation to ensure it has the right resources to respond to new challenges. This may involve some up-front investment, which can be managed from our overall resources, but would require some funding redistribution.

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 our 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.
- 2.2 They will be subject to external audit review as part of the Council's accounts, which will be completed by the end of September 2021.
- 2.3 In addition, financial information set out in this report will be published in Enterprise M3's Annual Report, scheduled for publication in June 2021.
- 2.4 Enterprise M3 Limited, the decision-making function of the LEP, is a separate entity whose directors and members are the LEP Board. The figures in this report are not part of this private limited company, which has no funds, staff, assets, or financial liabilities. Enterprise M3 Limited does not trade, and submits dormant accounts to Companies House, by 31 December each year.

3 Revenue Funds

- 3.1 The Board agreed the 2020/21 revenue budget in March 2020, acknowledging that there would be some variations resulting for COVID-19 related business disruption, Government's response, and clarifications of future capital programmes. We subsequently reported an assessed three-year income loss of £2.1m. We identified and implemented steps to mitigate the anticipated impact, and re-budgeted to allow a significant part of our activity to focus on supporting businesses in planning for economic recovery.
- 3.2 EM3's income and expenditure year-end position across all revenue funds, alongside the 2020/21 budget, is summarised in Table 1:

2019/20	TABLE 1: EM3 Revenue Income and Expenditure	2020/21		
Outturn £'000		Budget £'000 A	Outturn £'000 B	Difference* £'000 C
2,477	REVENUE RESERVES Brought Forward		2,811	
3,801	Income	2,936	3,433	497
(3,467)	Expenditure	(3,385)	(3,196)	189
334	Excess/(deficit) income over expenditure	(449)	237	686
2,811	TOTAL REVENUE RESERVES		3,048	

*Variance is positive when 2020/21 income is higher / expenditure is lower, than budgeted.

- 3.3 The year began with **£2.811m** in overall revenue reserves, and ended with **£3.048m** in overall reserves, adding **£237k** to the balance (*column B*). This is **£686k** (*column C*) higher than the budget approved in March 2020, when we expected to draw **£449k** from reserves (*column A*).
- 3.4 **Key observations:** There are several main contributing factors explaining how we ended the financial year with an improved revenue reserves position of just under £0.7m:
- Whilst some planned activity was reduced to accommodate the fall in income, other planned activity was diverted to help business plan for economic recovery following the disruptions caused by Covid 19, and to help businesses through the changes following the UK's transition from the EU. This new activity was fully funded outside EM3's revenue reserves, some of which contributed to our existing overheads, thus improving our budgeted position.
 - We received additional government income to: fund an extended Growth Hub service; lead the Peer-to-Peer Network programme; for Space Agency Cluster activity to develop EM3 Space Ecosystem; and to deliver the Getting Building Fund capital programme.
 - There were savings arising from our staff costs following reassessment of capacity needs, against the refocus of our activities and within the context of our reduced budget. We removed some unfilled posts, moved staff to cover other roles, and reprofiled recruitment.
- 3.5 Although the additional funding and refocused activity benefited our financial position last year, some of our diverted plans will still need to be delivered this year. This may cause a strain on the current year, and thus may require additional investment.

4 Capital Funds

- 4.1 Capital involves the creation or improvement of capital assets. The scale and nature of capital projects means they can extend over more than one financial year. EM3's capital funds position is summarised in Table 2:

Table 2: EM3 Capital Funds	At 1 April 2020	Income	Expenditure	At 31 March 2021
	£m	£m	£m	£m
Local Growth Fund (A)	5.9	42.7	(48.6)	0.0
Enterprise M3 Capital Fund (B)	19.9	3.2	(0.6)	22.5
Getting Building Fund (C) ¹	0.0	6.7	(4.0)	2.7
TOTAL GROWTH FUNDS	25.8	52.5	(53.2)	25.1
Capital to Revenue Fund (D)	2.0	0.0	(0.6)	1.4
TOTAL CAPITAL FUNDS	27.8	52.5	(53.8)	26.5

- 4.2 EM3 holds three capital Growth Funds, funded from Government grants with a key condition that spend must be capital in nature:

¹ GBF total includes £360k spend relating to a project which is in the process of being officially transferred into the programme.

- **Table 2 (A):** The majority of capital activity by EM3 relates to the **Local Growth Fund (LGF)**, into which grant funding is received annually, from a total allocation of £219m over six years. This funding is in addition to match funding provided by scheme promoters. The LEP received the final instalment (£42.7m) in 2020/21, and succeeded in delivering the full programme during the year. Forty-three projects were funded during the course of the year with payments totalling £48.6m.
- **Table 2 (B):** Further funds are held in the **Enterprise M3 Capital Fund**. This incorporates all loan repayments from previous and current growth funds. The carry forward balance (£22.5m) has been fully allocated to existing and new projects approved by the Programme Management Group and Board. The fund will grow over the coming years, as we continue to receive loan repayments and income anticipated from Business Rates Income Growth from investments in our Enterprise Zone.
- **Table 2 (C):** Enterprise M3 was awarded £13.3m Getting Building Fund during 2020/21, of which 50% was received during the year, and the remainder will be received in 2021/22. During the year, we allocated the total fund to nine projects, which will support a Green and Technology led economic recovery in the EM3 area. Eight out of the nine projects have been fully contracted.
- **Table 2 (D):** Enterprise M3 also holds a **Capital to Revenue Fund**, a predominantly “revolving” fund to support scheme development, design advancement, skills and career improvement and scale-up business support. The opening balance was £2m, we spent £0.6m to support COVID-19 business recovery activity and our Careers & Enterprise and Growth Hub services. Of the remaining £1.4m balance, £0.6m has already been allocated to projects approved by the Programme Management Group and Board. These include continued funding support for COVID-19 business recovery activity.

5 2021/22 Revenue Forecast and 2021 to 2024 Medium-Term Financial Plan (MTFP)

- 5.1 Our focus in 2021/22 is to continue supporting viable businesses to stay trading and secure the help they need, and work to secure the renewal and revival of our economy. Our Growth Hub has been brought in-house, so that the combined LEP and Growth Hub activity now operates as one integrated service. Alongside this, we are developing and promoting delivery of our Local Industrial Strategy and Revive and Renew Plans, with our partners and stakeholders; delivering our remaining capital programmes; and continuing to deliver our careers activity and Enterprise Zone.
- 5.2 **Table 3** summarises our medium-term financial forecast, including the 2021/22 revenue forecast against the budget approved in January 2021:

TABLE 3: EM3 Revenue Reserves: Three-year forecast	2021/22 Budget £'000	2021/22 Forecast £'000 A	2022/23 Estimate £'000 B	2023/24 Estimate £'000 C	
TOTAL RESERVES AT START OF YEAR		3,048	2,580	2,025	
<i>Income</i>	2,229	2,637	2,363	2,416	
<i>Expenditure</i>	(2,889)	(3,105)	(2,917)	(2,950)	TOTAL
Use of reserves	(660)	(468)	(555)	(534)	(1,557)
TOTAL RESERVES AT END OF YEAR		2,580	2,025	1,491	
Minimum Revenue Reserves Level (D)		1,828	1,718	1,730	
RESERVES AVAILABLE FOR USE (E)		752	307	(239)	

- 5.3 Since the budget was agreed, we have had further clarification of our funding streams, and have modified our planned activity in response. Significantly, we have received additional funding to continue our Peer-to-Peer programme, Growth Hub cluster activity, and Skills Action Plan activity. The overall impact is an increase in forecast 2021/22 net income of just under £0.2m.
- 5.4 Column A shows that we now anticipate that expenditure in 2021/22 of **£3.105m** (budget £2.889m) will exceed in year income of **£2.637m** (budget £2.229m), and we therefore expect to draw **£0.468m** (budget £0.660m) from retained reserves.

- 5.5 Table 3 columns A to C summarises our revised medium-term financial stability position up to 31 March 2024. We can fund our planned activities to support the economy over the next two years, using existing revenue reserves whilst maintaining the minimum reserves level stipulated in our reserves policy (Rows D and E). However, during the final year of our MTFP (2023/24 – column C), with no further income or savings, our reserves would be at £1.491m, meaning that we would breach the minimum level by **£0.239m**.
- 5.6 In order to bridge the continuing gap between income and expenditure, we are exploring opportunities for further savings and carrying out our income generation study.

Sensitivity analysis

- 5.7 **Appendix 1** sets out the key financial assumptions underpinning the updated MTFP, and outlines mitigation against the risk. We have prudently assumed that we will receive no further Government capital funding, thus our capital programme is much reduced, and continuation of existing activities in other areas. We also assume that core funding from Government, and income from our Local Authority and education partners, continues at the current levels.
- 5.8 **Table 4** shows the position were we to receive only half of the current assumed income from Government and our Local Authority and education partners:

TABLE 4: EM3 Revenue Reserves: Three-year forecast	2021/22 Budget £'000	2021/22 Forecast £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	
TOTAL RESERVES AT START OF YEAR		3,048	2,580	1,306	
<i>Income</i>	2,229	2,637	1,643	1,696	
<i>Expenditure</i>	(2,888)	(3,105)	(2,917)	(2,950)	TOTAL
Use of reserves	(660)	(468)	(1,274)	(1,254)	(2,996)
TOTAL RESERVES AT END OF YEAR		2,580	1,306	52	
Minimum Revenue Reserves Level		1,828	1,718	1,730	
RESERVES AVAILABE FOR USE		752	(412)	(1,678)	

- 5.9 The table demonstrates the continued importance of funding from Government and our Local Authority and education partners. Without it, to continue delivering all our current activity, we would breach our minimum reserves level during the next financial year, and by March 2024, would almost completely deplete our TOTAL reserves.

6 Next Steps

- 6.1 To remain financially sustainable over the longer term, we must bridge the gap between income and expenditure, and reverse the downward trend.
- 6.2 We will update our forecasts and plans following the outcome of the Government's Review of LEPs (expected before Summer Recess), which will influence the Comprehensive Spending review, expected in the Autumn 2021. This sits alongside the work with the Board exploring the future direction of the LEP, and considering the strategic role of the LEP in driving forward Revive and Renew plans to grasp opportunities for our economy.
- 6.3 Together with the development of our income generation plan, we will review the organisation to ensure it has the right resources to respond to new challenges. This may involve some up-front investment, to be managed from our resources, but may require some redeployment of funding and budget variation.
- 6.4 RFAC will continue to play a key role in overseeing the budget, managing risks and keeping the Board informed. This includes challenging spend and championing future sustainability through increased income and expenditure savings.

Aleks Bennett - EM3 Finance Manager
20 May 2021

The Board should be aware of the **key financial risks** associated with the proposed budget and medium term-financial plan. The budget and medium-term forecast has been prepared under prudent assumptions; however, key risks remain relating mainly to the uncertainty of Government funding and policy.

Appendix 1: Key Financial Risks and Assumptions				
Risk	Description	Impact	Likelihood	Mitigation
Government Capital Funding uncertainty	<p>The current Government Capital Deal (Getting Building Fund) ends in 2021/22.</p> <p>Government has determined its policy to entrust Local Authorities with the responsibility to bid directly for allocations from the Levelling Up Fund, the UK Community Renewal Fund and the Community Ownership Fund, and for their subsequent delivery. Similarly Further Education capital funding will no longer go via the LEP.</p> <p>We are prudently assuming no further growth deals will be distributed through LEPs.</p>	<p>Low</p> <p>We are able to carry out our plans in 2021/22 and 2022/23, as our reserves' levels are at a sufficient level to cover activity.</p> <p>The need remains to secure further funding/income generation/cost-savings, in order to cover activity in 2023/34 and beyond.</p> <p>Should we successfully attain further capital funding, each £1m capital fund would yield around £40k revenue funds via application fees and interest.</p>	Low	<p>For 2021/22 and 2022/23 we have enough reserves to cover the potential gap in funding of £0.5m - £0.6m per year in our budget.</p> <p>We are working with RFAC to explore opportunities for further savings and additional income, to address the longer- term gap.</p>
Government Revenue Funding uncertainty	<p>Government has confirmed revenue funding contributions for the LEP operational and Growth Hub activity, at the same level as 2020/21 (LEP £500k, and Growth Hub £617k, including £80k for cluster activity).</p> <p>Assumptions for the 2022/23+ medium-term plan are that funding continues at same level excluding cluster activity (£537k).</p>	<p>Medium</p> <p>Without this continued funding, we would not be able to maintain same level of activity to cover the two years activity post 2021/22 to the end of 2023/24.</p> <p>We would need to reduce costs/activity or secure further funding/cost-savings of £2m.</p>	Low	<p>We are working with RFAC to explore opportunities for further savings and additional income, to address the longer- term gap.</p>
Partner Contributions	<p>The budget and medium-term forecast includes the assumption we will continue to receive significant contributions of £403k per year in total, from Local Authorities (LAs - £320k), Universities (HEs - £53k) and Further Education Colleges (FEs - £30k) to help fund our support, in particular providing funding for them to deliver capital projects.</p> <p>As Government has no medium-term plans to use LEPs to manage and distribute large capital funds, and the strategic direction of LEPs is being reviewed, these establishments may no longer wish to support our activities in the same way.</p>	<p>Medium</p> <p>Removal of LA, HE and FE funding would see a reduction in income of £0.4m per year.</p>	Medium	<p>For 2021/22 and 2022/23 we have enough reserves to cover the potential gap in funding of £0.4m per year in our budget.</p> <p>The Joint Leaders Board were notified of the 2021/22 LA contribution, and as we are continuing to deliver a significant part of our current programme in 2021/22, this risk is low in 2021/22, and rises in the subsequent years.</p> <p>We are working with RFAC to explore opportunities for further savings and additional income, to address the longer- term gap. The results of the Government's review of LEPs (expected by September 2021), and our work with the EM3 Board and other stakeholders, will shape the future direction of the LEPs This will involve</p>

Appendix 1: Key Financial Risks and Assumptions				
Risk	Description	Impact	Likelihood	Mitigation
				discussions with our partners to determine the support we can provide, and the corresponding income.
Future Direction of LEPs	With the shift in Government policy from having LEPs manage and distribute large capital funds, and their current review of LEPs, the future direction of LEPs is currently uncertain. The budget assumes revenue funding and activity largely at the current level; and that there will be further Government capital funds allocations.	<p>Medium</p> <p>Further deferment would see a reduction in income as follows:</p> <p>2021/22: Minimal. Current year Government revenue is confirmed, and the remaining capital programme will require similar level of LEP activity. We may require additional funding to £0k</p> <p>2022/23+ Significant: Without continued Government funding at the core levels currently received, we would not be able to maintain same level of activity to cover the two years activity post 2021/22.</p> <p>We would need to reduce costs/ revise activity or secure further funding/cost-savings of £2m.</p>	High	<p>Our medium-term financial plans are prudently based on assumptions that we will receive no further Government capital funding, thus our capital programme is much reduced; and the continuation of existing activities with staff levels are assumed to run at the current levels.</p> <p>We have enough reserves to cover the potential gap in funding to the end of 2022/23</p> <p>We will update our forecasts and plans following the outcome of the Government's Review of LEPs, alongside the work with the Board exploring the future direction of the LEP.</p>
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 will remain at 0.1%, and recover to 0.2% in the following two years. This is in accordance with global macro models and analysts' expectations, the base rate is projected to trend around 0.1% percent in 2021/22 and recover to 0.20% percent in 2022/23+	<p>Low</p> <p>Due to the low level of capital funding assumed, a change in the level will not impact reserves significantly.</p> <p>For example, if interest rates did not recover from 0.1%, the overall effect over three years is £38k.</p> <p>Similarly, if the base rate fell to below zero, say -0.1%, and in the unlikely event it remains there during the medium term, the effect on income is approximately £115k.</p>	Low	<p>We have enough reserves to cover the potential gap in funding in 2021/22 and 2022/23</p> <p>We are working with RFAC to explore opportunities for further savings and additional income, to address the longer- term gap.</p>

Appendix 1: Key Financial Risks and Assumptions				
Risk	Description	Impact	Likelihood	Mitigation
Interest receivable on loans	The budget and medium-term forecast includes interest receivable on three loans issued from our capital funds. Two of these were formally deferred in 2020/21, due to COVID 19 related business disruption. There is a risk that further deferment is necessary.	<p>Medium</p> <p>Further deferment would see a reduction in income as follows:</p> <p>2021/22: £110k 2022/23: £346k 2023/24: £400k</p> <p>We have enough reserves to cover the potential gap in funding in 2021/22, however our reserves would fall to £153k below minimum level by the end of 2022/23.</p>	Low	<p>We are in regular contact with the loan holders.</p> <p>We have enough reserves to cover the potential gap in funding in 2021/22.</p> <p>We are working with RFAC to explore opportunities for further savings and additional income, to address the longer- term gap.</p>

At 31 March 2021 Enterprise M3 held £3million revenue and £26.5million capital funds across a range of accounts:

Enterprise M3 Funds: Revenue and Capital	At 1 April 2020	Income	Expenditure	At 31 March 2021
	£'000	£'000	£'000	£'000
REVENUE¹				
Operational Fund ¹	1,504	2,723	(2,486)	1,741
Growth Hub ²	0	617	(617)	0
Interest ³	1,167	0	(235)	932
Staff Redundancy ⁴	140	235	0	375
Enterprise Zone ⁵	0	93	(93)	0
Inter Company Transfers	0	(235)	235	0
TOTAL REVENUE FUNDS (Table 1)	2,811	3,433	(3,196)	3,048
CAPITAL				
Local Growth Fund	5,933	42,685	(48,618)	0
Enterprise M3 Capital Fund	19,851	3,197	(582)	22,466
Getting Building Fund	0	6,650	(3,996)	2,654
Capital to Revenue Fund	1,973	0	(569)	1,404
TOTAL CAPITAL FUNDS (Table 2)	27,756	52,533	(53,765)	26,524
TOTAL FUNDS	30,567	55,966	(56,961)	29,572

¹ The Enterprise M3 accounting structure has seven revenue accounts that support the delivery of the Strategic Economic Plan.

1. The Operational Fund funds the day-to-day expenditure of the LEP.
2. The Growth Hub fund covers all income and expenditure relating to the Growth Hub.
3. The Interest Reserve is a legacy fund which previously accumulated interest earned on Enterprise M3 balances and loans. Since 2018/19 annual interest income has been accounted for within the Operational Fund. It is used to fund identified one-off revenue expenditure, or for required transfers to ring-fenced reserves (i.e. Staff Redundancy).
4. The Staff Redundancy Reserve covers any staffing liabilities in the event of the LEP being wound down. The balance is reviewed annually, and any movements transferred to/from the Interest Reserve.
5. The Enterprise Zone income and expenditure, funded by from Business Rates Growth.