

## Enterprise M3 Board Meeting

3 February 2022

### Resources, Finance and Audit Committee Update

#### 2022/23 Outline Revenue Budget and Medium-Term Financial Stability – Item 8

The Enterprise M3 Board is asked to:

**ENDORSE** the Outline Revenue Budget for the 2022/23 financial year, subject to a final budget being brought to the Board, once details about the future funding and direction of LEPs emerge (**Section 3**)

**NOTE:** The forecast 2021/22 outturn position at the end of December 2021 (Quarter 3) (**Section 2**)

**NOTE:** The key financial risks associated with the 2022/23 Outline Revenue Budget, and the 2022-2025 Medium Term Financial Plan (**Appendix 1**)

#### 1. Executive Summary

- 1.1. The Enterprise M3 (EM3) revenue budget is set to enable implementation of our Revive and Renew Plan, and contractual commitments relating to delivery of growth hub services, skills and careers and enterprise activities. Furthermore, it supports activities to deliver our capital programme, sector, innovation and trade work to support business and actions around skills and net zero. The budget is underpinned by our delivery/business plan.
- 1.2. The purpose of this report is to seek the Board's endorsement of the 2022/23 **outline** Revenue Budget, and sets out our 2022-2025 Medium Term Financial Plan (MTFP). Once details emerge from the outcome of Government's review of LEPs, we will bring a **final** Revenue Budget for 2022/23 for approval. With current anticipated timings, we expect this to be in April 2022.
- 1.3. On 20th January 2022, the Resources, Finance and Audit Committee (RFAC) reviewed the proposed 2022/23 outline budget, and agreed to recommend the Board endorse it.
- 1.4. The paper also provides an updated forecast for the 2021/22 out-turn position at the Quarter 3 position (April-December 2021).

#### Rationale and current position:

- 1.5. We remain uncertain about the future direction and funding of LEPs, although we now expect the role of LEPs to continue, but change. Direction and funding will be shaped by the outcome of the Government's Review of LEPs and the Levelling-Up White Paper. Both are expected late early February 2022, with details materialising over the following weeks.
- 1.6. In the meantime, to plan delivery of our objectives from 1 April 2022, we require an agreed operating budget. Therefore, we are asking the Board to endorse an **outline** budget for 2022/23.
- 1.7. Until we receive further clarification from Government the budget is based on the following key assumptions:
  - Revenue funding and operational activity remain largely at the current level – Government and Partner funding remains at current levels, without any previously received one-off enhancements
  - Some changes to structure and direction – significantly the budget incorporates no further Government capital funds allocations.

- 1.8. **Appendix 1** sets out the **Key Financial Risks and Assumptions** integrated in our financial management. Mitigation against the risks means that we continue to present a prudent, robust budget and MTFP.

### **2022/23 Outline Revenue Budget and Medium-Term Financial Plan (Section 3):**

- 1.9. With these assumptions, we are able to carry out our plans for almost two years, before having to start making considerable cost savings. Even if Government/partner funding from April 2022 falls significantly, we can meet the activity planned in our outline budget, and maintain a prudent reserves level to the end of 2022/23.
- 1.10. Regardless of funding levels, we face making efficiencies in the medium term. To lessen the intensity of cost reductions, and remain prudent, we plan to identify and start implementing changes in 2022/23. We are already working on options for these, as well as for income generation.
- 1.11. Once we have detailed clarification from Government about the future funding and direction of the LEP, we will pull together a business plan for the year ahead and alongside this identify areas for costs savings. We will carry out an organisational review to ensure we are able to deliver our future vision, incorporating a budget which ensures financial stability in the medium term.

### **2021/22 Forecast Out-turn (Section 2):**

- 1.12. The Board agreed the 2021/22 revenue budget in January 2021. Since then, 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 majority of which carry additional resources/cost.
- 1.13. The overall impact is an increase in forecast 2021/22 net income of **+£0.2m**.

### **Next Steps**

- 1.14. We will update our outline budget following the outcome of the Government's Review of LEPs and the Levelling-Up White Paper.
- 1.15. RFAC will continue to play a key role in overseeing the budget, exploring opportunities for savings and income generation, managing risks and keeping the Board informed. This is 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.
- 1.16. 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, which will be managed from our resources, but may require some fund re-deployment and budget variation.

## **2. 2021/22 Forecast Out-turn**

- 2.1 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.
- 2.2 This section considers the revised 2021/22 forecast against the budget approved in January 2021, following the nine months activity to 31 December 2021. **Table 1** sets out our forecast:

TABLE 1: EM3 Revenue Income and Expenditure	2021/22		
	Approved Budget £m A	Forecast £'000 B	Budget variance* £m C
REVENUE RESERVES Brought Forward		3.0	
Income	2.2	2.5	0.3
Expenditure	(2.9)	(3.0)	(0.1)
(Excess) expenditure over income	(0.7)	(0.5)	0.2
<b>TOTAL REVENUE RESERVES</b>		<b>2.5</b>	

\* Variance is positive when 2021/22 income is higher / expenditure is lower, than budgeted.

- 2.3 As summarised in **Table 1 (column B)**, in 2021/22 we anticipate expenditure of **£3.0m** (budget £2.9m) will exceed in year income of **£2.5m** (budget £2.2m), and we therefore expect to draw **£0.5m** from retained reserves. This is an overall improvement of **£0.2m (column C)**, on the budgeted draw on reserves of **£0.7m (column A)**.
- 2.4 The improvement of £0.2m is mainly due to the additional funding we have received from government (**+£0.3m**) to continue funding:
- Peer-to-Peer network activity to support SMEs to recover from the impacts of COVID-19
  - Growth Hub cluster activity
  - Development of our Local Skills Action Plan
- 2.5 Set against this, the additional income is provided to cover additional activity (**-£0.1m**), mainly covering:
- Commissioning of delivery partners to support the Peer-to-Peer network cohort activity
  - Extension of staff resources, in particular to support the cluster activity funded through the Growth Hub; and to further develop and implement our skills action plan
- 3. 2022/23 Outline Revenue Budget and Medium-Term Financial Plan**
- 3.1. Our focus in 2022/23 will be to drive forward a business-led renewal and revival of our economy. As an integrated Growth Hub/LEP service, we will accomplish this together with our partners and stakeholders. We will also continue to develop and deliver our ongoing capital programme, careers activity and Enterprise Zone.
- 3.2. Our reserves policy stipulates that total reserves should be maintained at a minimum level which covers 50% of annual ongoing operational expenditure (approx. £1.3m to £1.4m) **plus** staff redundancy costs (currently standing at £0.4m). This is in line with best practice and our accountable body's policies.
- 3.3. With the assumptions set out, we are in a good position for the next two years (2022/23 and 2023/24), albeit at the end of second year, reserves will fall to just below the minimum level. We are able to achieve this as we are in the fortunate position of being able to use surplus reserves, built up over the years from careful management of our resources.
- 3.4. **Table 2** summarises our 2022/23 Revenue Budget and Medium-Term Financial Plan to the end of 2024/25:

2021/22 Forecast* £m A	TABLE 2: EM3 three-year revenue forecast	2022/23 Budget £'000 B	2023/24 Estimate £'000 C	2024/25 Estimate £'000 D	
3.0	TOTAL RESERVES AT START OF YEAR	2.5	2.1	1.7	
2.5	<i>Income</i>	2.4	2.5	2.2	
(3.0)	<i>Expenditure</i>	(2.8)	(2.9)	(3.0)	
(0.5)	Use of reserves (E)	(0.4)	(0.4)	(0.8)	TOTAL
2.5	TOTAL RESERVES AT END OF YEAR (F)	2.1	1.7	0.9	(1.6)
1.8	Minimum Revenue Reserves Level (G)	1.7	1.8	1.8	
0.75	RESERVES AVAILABLE FOR USE (H)	0.4	(0.1)	(0.8)	

\*Table 1 column B

### 2022/23 Revenue Budget

- 3.5. As summarised in **Table 2 (column B)**, in 2022/23 we anticipate that expenditure of **£2.8m** (2021/22 £3.0m) will exceed in year income of **£2.4m** (2021/22 £2.5m), and we therefore expect to draw on retained reserves, by **£0.4m**:
- 3.6. **Income:** Overall, 2022/23 income of £2.4m is expected to be marginally (**£0.1m**) below the 2021/22 figure.
- 3.7. We expect lower Government funding, as Government has confirmed it will terminate the Peer-to-Peer network programme, which has successfully supported SMEs to recover from the impacts of COVID-19 over the last two years. Similarly, funding is unlikely to continue to cover Growth Hub cluster activity, nor capacity to develop our Local Skills Action Plan (currently funded from DfE).
- 3.8. However, we expect a compensating increase in income from higher interest receivable on loans and balances. Significantly due to £200k p.a. interest, plus £90k related deferred interest, restarting on a significant loan.
- 3.9. **Expenditure:** 2021/22 expenditure of £2.8m is expected to be **£0.2m** lower than in 2020/21, mainly due to the reduction in activity to cover Covid 19 recovery activity, including development activity associated with our fibre spine project. We will continue to support businesses, to promote the revival and renewal of our economy. However, without additional Government directives and funding, this will be at a lower level than in 2021/22.

### 2021/22 to 2024/25 Medium-Term Financial Plan

- 3.10. **Table 2 (columns A to D)**, summarises our medium-term financial stability position up to 31 March 2025.
- 3.11. We are able to fund our planned activities to support the economy over the next two years, by using £0.889m from existing revenue reserves (*Row E, Columns B and C*). This maintains the minimum reserves level stipulated in our reserves policy to the end of December 2024, before falling just below (by £0.1m) in the last quarter of 2023/24 (*Row H, Column C*).
- 3.12. Our current modelling, demonstrates that even if we can preserve current income levels, our planned expenditure exceeds our income by approximately £0.4m - £0.7m per year. In order to achieve financial stability, we must achieve savings/additional income of **£0.8m** from 2024/25. However, earlier introduction of savings will **lessen the impact**. For example, introducing more manageable average savings of **£275k** per year from **2022/23** will achieve the same outcome.

- 3.13. We have begun reviewing our costs to achieve maximum efficiency in delivering our services, and we continue to explore opportunities for additional income. Once we have detailed clarification from Government about the future funding and direction of LEPs, we will work with RFAC, the Board and our partners, incorporating an organisational review, to ensure we are able to deliver our future vision. This will be planned within a budget which ensures the minimum reserves level is maintained over the next three years.

#### **Sensitivity Analysis - 2021/22 to 2024/25 Medium-Term Financial Plan**

- 3.14. To provide further assurance that the outline budget is feasible within so much uncertainty about the future direction and funding of LEPs, we have carried out scenario planning, considering funding and policy change implications on our financial stability and future activity.
- 3.15. Our MTFP is based on a number of **Key Financial Risks and Assumptions**, which are set out in **Appendix 1**. The highest risks are around future direction of the LEP, and associated funding, both from Government and our partners. In order to provide assurance to RFAC and the Board that our 2022/23 budget is robust and achievable, we have challenged the assumptions.
- 3.16. Our analysis shows that even with up to a **30% reduction** in 2022/23 funding from Government and our partners, we can fund the activity proposed in our outline 2022/23 budget to support the economy over the next year. We can do this by using all of our existing **surplus** revenue reserves.
- 3.17. However, **even if we preserve current income levels for another year**, to maintain financial stability, we must implement significant plans to increase savings and/or income, by the end of next year. We intend to follow a more prudent course of action by implementing opportunities for savings and income generation as soon as possible.

#### **4. Next Steps**

- 4.1. We will update our forecasts and plans following the outcome of the Government's Review of LEPs and the Levelling-Up White Paper, alongside the work with the Board exploring the future direction of the LEP, considering the strategic role of the LEP in driving forward Revive and Renew plans to grasp opportunities for our economy, and developing our income generation plans. We will review the organisation to ensure it has the right resources to respond to new challenges. This may involve some up-front investment, which will be managed from within our resources, but may require some fund deployment and budget variation.
- 4.2. If Government release the information based on their current timetable, we will develop a full detailed budget for review by RFAC in March 2022, to be approved by the Board in April 2022
- 4.3. RFAC will continue to play a key role in overseeing the budget, managing risks and keeping the Board informed.

**Aleks Bennett - EM3 Finance Manager**  
**27 January 2022**

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
<b>Future Direction of LEPs</b>	The outcome of the Government's review of LEPs, will determine their future direction. LEPs anticipate change, and it is clear that their previous major role of managing and distributing large capital funds, will not continue for the foreseeable future	<p><b>High</b></p> <p>Impact on budget:</p> <p><b>2022/23:</b> Minimal. By using surplus reserves, the budget can withstand up to 30% drop in income for Government and partners, and maintain current levels of activity.</p> <p>And if in the unlikely event, funding from partners and Government completely ceased at the start of 2022/23, there would be enough reserves to maintain activity - although these would fall well below the minimum reserves level.</p> <p><b>2023/24+</b> Significant: Without continued support, at the levels currently received, from our partners and Government (GH/Operational), we would not be able to continue a similar level of activity post 2022/23.</p> <p>We would need to reduce costs/ revise activity or secure further funding/cost-savings of approximately £1m a year.</p>	<b>High</b>	<p>The budget prudently assumes activity largely at the current level, leaving room to reshape activity within a similar cost envelope.</p> <p>We have enough reserves to cover the potential gap in funding in 2022/23 and most of 2023/24.</p> <p>We will update our forecasts and plans following the outcome of the Government's Review of LEPs (expected January 2022), alongside the work with the Board exploring the future direction of the LEP.</p> <p>Once we have detailed clarification from Government about the future funding and direction of LEPs, we will carry out an organisational review, to ensure we are able to deliver our future vision. This will be planned within a budget which ensures the minimum reserves level is maintained over the next three years.</p>
<b>Government Revenue Funding uncertainty</b>	<p>Government officials have informed us that there is a future for LEPs, but Government have not announced the level of revenue funding for the LEP operational and Growth Hub activity.</p> <p>Assumptions for the 2022/23+ medium-term plan are that funding continues at same level as in 2021/22, WITHOUT £80k cluster activity (i.e. LEP £500k, and Growth Hub £537k).</p>	<p><b>High</b></p> <p>Should core funding reduce by <b>up to 35%</b>, we would be able to maintain the same level of activity for the <b>next year</b> (2022/23). After this, we would need to reduce costs/activity or secure further funding/cost-savings of approximately £1m per year.</p>	<b>High</b>	<p>We are working with RFAC to:</p> <ul style="list-style-type: none"> <li>Identify implications of reduced core funding</li> <li>Explore opportunities for further savings and additional income, to address the longer-term gap.</li> </ul> <p>Once we have detailed clarification from Government about the future funding and direction of LEPs, we will carry out an organisational review, to ensure we are able to deliver our future vision. This will be planned within a budget which ensures the minimum reserves level is maintained over the next three years.</p>
<b>Partner Contributions</b>	The budget and medium-term forecast include the assumption that we will continue to receive significant contributions of £350k per year in total, from Local Authorities (LAs - £320k), and	<p><b>High</b></p> <p>Removal of partner funding would see a reduction in income of £0.4m per year.</p>	<b>Medium</b>	For 2022/23 and 2023/4 we have enough reserves to cover the potential gap in funding of £0.4m per year in our budget.

Appendix 1: Key Financial Risks and Assumptions				
Risk	Description	Impact	Likelihood	Mitigation
	<p>Further Education Colleges (FEs - £30k) to help fund our support.</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>For 2022/23 we have enough reserves to cover the potential gap in funding in our budget.</p> <p>After this, we would need to reduce costs/activity or secure further funding/cost-savings of approximately £0.4m per year</p>		<p>We are working with RFAC to explore opportunities for additional income, to address the longer-term gap. This is involving discussions with our partners, including HE, to determine the support we can provide, and the corresponding income.</p> <p>Once we have detailed clarification from Government about the future funding and direction of LEPs, we will carry out an organisational review, to ensure we are able to deliver our future vision. This will be planned within a budget which ensures the minimum reserves level is maintained over the next three years.</p>
<b>Interest Rate uncertainty</b>	<p>We receive interest on our balances held by HCC, as our accountable body, at the Bank of England base rate.</p> <p>Our forecasting assumes that rates will average 0.5% from 22/23 to the end of the medium-term plan. This is a conservative estimate based on the latest global macro models and analysts' expectations.</p>	<p><b>Low</b></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, in the unlikely event that interest rates did not recover from the current 0.25% the overall effect over three years is £97k.</p>	<b>Medium</b>	<p>We have enough reserves to cover the potential gap in funding in 2022/23 and most of 2023/24.</p> <p>We are working with RFAC to explore opportunities for further savings and additional income, to address the longer-term gap.</p>
<b>Government Capital Funding uncertainty</b>	<p>The current Government Capital Deal (Getting Building Fund) ends in 2021/22. Levels of capital funding affect our operational funding via interest receivable and application fees.</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><b>Low</b></p> <p>We are able to carry out our plans in 2022/23 and most of 2023/24 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 2024/35 and beyond.</p> <p>Should we successfully attain further capital funding, each £1m of capital funding would yield around £40k revenue funds via application fees and interest.</p>	<b>Low</b>	<p>We are able to carry out our plans in 2022/23 as our reserves levels are at a sufficient level to cover activity.</p> <p>Once we have detailed clarification from Government about the future funding and direction of LEPs, we will carry out an organisational review, to ensure we are able to deliver our future vision. This will be planned within a budget which ensures the minimum reserves level is maintained over the next three years.</p>