



Delivering prosperity through innovation

Enterprise M3 Board Meeting

24 May 2022

EM3 2021/22 Out-turn position, 2022/23 FINAL budget and Medium-Term Financial Stability - Item 11

The EM3 Board is asked to:

APPROVE the 2021/22 Final Outturn position, on both the revenue and capital funds, held by Enterprise M3. (**Sections 2 and 3**)

APPROVE the revised Enterprise M3's Reserves Policy and confirm its suitability for use in the medium-term (**Section 4**)

APPROVE the 2022/23 FINAL budget, and **NOTE** the updated 2022-2025 Medium Term Financial Plan, and required savings over the period (**Section 5**)

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

1 Executive Summary

1.1 This report summarises the final outturn financial position and the movement of funds controlled by the Enterprise M3 Board during 2021/22. Further, it provides a FINAL budget for the 2022/23 year, and an updated 2022-2025 Medium Term Financial Plan. It also includes Enterprise M3's Reserves Policy, which has been revised to better align with its suitability for EM3's operations.

2021/22 Final Outturn position:

1.2 The EM3 Resources, Finance and Audit Committee (RFAC) reviewed and endorsed the 2021/22 end of year position on 12 May 2022. They recommend that the Board approve the final position on both revenue and capital funds held by Enterprise M3.

1.3 At 31 March 2022 Enterprise M3 held **£2.6m revenue reserves** (2020/21 £3.0m) and **£23m capital funds** (2020/21 £27m), across a range of accounts which are set out in **Appendix 2**.

1.4 **2021/22 Revenue Out-turn (Section 2):** We finished the financial year by using £0.4m of our surplus reserves to cover excess expenditure. This is an improvement of **+£0.3m** against the budget, due mainly to additional Government funding and interest receivable on balances, and a reduction in running costs, reflecting the impact of the pandemic on ways of working, and in-person events.

1.5 **Capital Funds (Section 3):** In 2021/22 we spent £15.8m to support 19 capital projects across the EM3 area. Significantly we achieved 100% delivery of our total awarded Getting Building Fund (GBF). This successful achievement was recognised in our Annual Performance Review

where we secured the highest level of met against delivery. We carry forward £22.6m of capital funding into 2022/23; £17.2m has already been fully allocated, including £4.5m for development of the Fibre Spine project, with our partners and stakeholders. New projects will be focused on the priority areas of supporting innovation; net zero; digital connectivity; and the skills required to support these areas.

2022/23 Final Revenue Budget and the 2022-25 Medium Term Financial Plan (Section 5)

- 1.6 In February 2022, the Board endorsed the outline Revenue Budget for 2022/23, and the 2022-2025 Medium Term Financial Plan (MTFP), subject to a final budget being brought for approval once details emerged of the outcome of Government's review of LEPs. Government announced their funding decisions on 31 March 2022 and set out the expectation of LEPs. In April 2022, we set out the implications on the 2022/23 budget and MTFP, identifying the need to make savings or identify income generating opportunities, totalling £1.2m by the end of March 2025 to remain financially stable.
- 1.7 Since then, the Board have endorsed their vision for EM3, and we are working to manage resources to allow the LEP to grow and position itself into its new role. We are reviewing the organisation and delivery methods to ensure they are fit for purpose, and developing a three-year financial plan which ensures financial stability in the medium term. This will enable us to deliver objectives, whilst ensuring that efficiencies are not made at the detriment of maintaining sufficient capacity.
- 1.8 We are now in a position to agree a final budget for 2022/23, which incorporates a savings target of £0.15m in 2022/23, and to revise the cumulative savings/income generation target to £0.6m by the end of March 2025. This is a considerable reduction from the £1.2m savings needed as set out in our budget update to the Board in April, and partially reflects a proposed change to our reserves policy (see Section 4). This would enable us to remain financially stable throughout the medium-term.
- 1.9 We remain committed to continue exploring further opportunities for savings and income generation, allowing us to bring in the required expertise to grow and position the organisation into its new role.
- 1.10 RFAC recommend the Board approve the final budget and MTFP.

EM3 Revenue Reserves Policy (Section 4):

- 1.11 As part of this process, we have reviewed the EM3 Reserves Policy to ensure that minimum reserves are set at a level appropriate for the size of the evolved organisation; adequate to manage risks; and sufficient to support operations to ensure the LEP's goals and expectations can be met.
- 1.12 As our Accountable Body, Hampshire County Council has reviewed and endorsed the proposed changes.
- 1.13 The basic principles of the policy have not changed, only the assessment of appropriate parameters. We propose that reserves should be maintained at a minimum level which covers four months of annual operational expenditure (previously six), plus staff redundancy costs (no change). The period of cover reflects current operating practices. Additionally, we have been mindful of longer-term commitments, and made allowances to ensure that in the event that certain key services may be transferred to other organisations, they will be accompanied with a reasonable level of funding for operating.

- 1.14 This reduces pressure on our savings target over the next three years, and enables us to invest a further +£0.3m into developing our economy over the medium term.
- 1.15 RFAC recommends the Board approve the EM3 Reserves Policy (**Appendix 5**), and confirm its suitability for use in the medium term.

Audit and Publication

- 1.16 All revenue and capital funds relating to Enterprise M3 LEP's activities, are held by, and accounted for by Hampshire County Council (HCC) as the 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. They will be subject to external audit review as part of the Council's accounts, which will be completed by the end of September 2022.
- 1.17 In addition, after ratification by the Board, financial information set out in this report will be shown in EM3's online Annual Report.
- 1.18 The decision-making function of the LEP was incorporated in April 2019, forming Enterprise M3 Limited. This is a separate entity and is not included in the figures in this report. Its directors and members are the LEP Board. This private limited company has no funds, staff, assets, or financial liabilities. It does not trade, and will submit dormant accounts to Companies House, by 31 December each year.

Next Steps

- 1.19 We are carrying 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. We are keen to ensure that we can deliver against the expectations set by government as far as possible.
- 1.20 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.

2 2021/22 Final Out-turn Position

- 2.1 In 2021/22 we continued focusing on supporting viable businesses to stay trading and secure the help they need; and working to secure the renewal and revival of our economy. Our Growth Hub was brought in-house, so that the combined LEP and Growth Hub activity now operates as one integrated service. Alongside this, together with our partners and stakeholders, we continued developing and promoting delivery of our Local Industrial Strategy and Revive and Renew Plans; delivering our remaining capital programmes; and continued to deliver our skills activity, careers and enterprise activity and Enterprise Zone.
- 2.2 The final 2021/22 position is summarised in **Table 1** below. It shows that we ended the financial year **£0.253m** above budget (*column C*), using fewer reserves than budgeted, to deliver our planned activity.

2020/21	TABLE 1: EM3 Revenue Income and Expenditure	2021/22		
Outturn £'000		Budget £'000 A	Final £'000 B	Variance* £'000 C
2,811	REVENUE RESERVES Brought Forward		3,048	
3,433	<i>Income</i>	2,229	2,367	138
(3,196)	<i>Expenditure</i>	(2,889)	(2,774)	115
237	Excess/(deficit) income over expenditure	(660)	(407)	253
3,048	TOTAL REVENUE RESERVES		2,641	

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

- 2.5 **Income** (£2.367m) was **£138k** higher than budgeted, due mainly to additional Government funding and interest receivable on balances. Whereas **expenditure** (£2.760m) saw a net decrease of **£115k** against the budget, mainly due to a reduction in running costs, reflecting the impact of the pandemic on ways of working and in-person events.
- 2.6 **Table 1 (column B)** shows that the year began with **£3.047m** in overall revenue reserves, and ended with **£2.640m**, drawing **£407k** from retained reserves.
- 2.7 This is also an improvement of £107k against the Quarter 3 forecast reported to RFAC in April 2022. This is largely due to the staff cost savings made in the last quarter of 2021/22, resulting from vacancies, and a deliberate policy to delay recruitment and selected other activity, until the funding and future direction of the LEP was confirmed.

3 2020/21 Capital Funds

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

Table 2: EM3 Capital Funds	1 April 2021	Income	Expenditure	31 March 2022
	£m	£m	£m	£m
Enterprise M3 Future Fund (A)	22.5	6.6	(6.5)	22.6
Getting Building Fund (B)	2.7	6.7	(9.4)	0.0
TOTAL CAPITAL PROGRAMME FUNDS	25.2	13.3	(15.9)	22.6
Capital to Revenue Fund (C)	1.4	0.0	(0.6)	0.8
TOTAL CAPITAL FUNDS	26.6	13.3	(16.5)	23.4

- 3.2 EM3 holds two capital funds, funded from loan repayments and Government grants with a key condition that spend must be capital in nature:

- **Table 2 (A):** Government is no longer providing LEPs with Local Growth Funds to support projects in local areas. However, over the years, through a deliberate policy of issuing some of our funds as loans instead of grants, we have built an **EM3 Future Fund** which means we can continue supporting the EM3 area, developing projects and leveraging significant funding. The Board approved the strategic use of the Future Fund at the last Board meeting in April 2022.

During the year we received £5.3m loan repayments, and £1.3m returned from grants where projects had underspent on completion. Of the £22.6m carried forward balance, £17.2m has been fully allocated to existing and new projects approved by the Programme Management Group and Board. Of this, £12.7m has been contracted, and £4.5m approved for development of the Fibre Spine project. The remaining balance of £5.4m, will be targeted towards new projects supporting our new vision, covering innovation; net zero; digital connectivity; and the skills required to support these areas.

The fund will grow as we continue to receive loan repayments over the coming years, estimated at £30m over 10 years. This includes £11m of payments anticipated from Business Rates Income Growth (BRIG) in return for funding we have provided for implementation costs to support our Enterprise Zone.

- **Table 2 (B):** EM3 was awarded £13.3m of Getting Building Fund during 2020/21. We achieved Government's target to deliver the fund by the end of 2021/22. Overall, we allocated the total fund to 15 projects, all of which support a Green and Technology led economic recovery in the EM3 area.
- **Table 2 (C):** EM3 also holds a Capital to Revenue Fund, established in 2017/18, primarily to support scheme development, design advancement, skills and career improvement and scale-up business support. Subsequently the Programme Management Group (PMG) agreed to target the fund towards supporting the impact of Covid-19 and the subsequent business recovery activity. The opening balance was £1.4m, we spent £0.6m to support business recovery, development of our fibre spine project, and our Careers & Enterprise and Growth Hub services. Of the remaining £1.4m balance, £0.2m has already been allocated to projects approved by PMG and the Board. The Board approved that the remaining balance will be used to support the development of projects aligned to the future vision of the LEP and emerging County Deals.

4 EM3 Reserves Policy

- 4.1 Following direction from the Board, we have reviewed the EM3 Reserves Policy to ensure that the minimum reserve level (MRL) is set at a level appropriate for the size of the evolved organisation; adequate to manage risks; and sufficient to support operations to ensure the LEP's goals and expectations can be met.
- 4.2 Our reserves policy stipulates that revenue reserves should be maintained at a minimum level which covers operational expenditure for an adequate period should funding cease. Additionally, the MRL includes any reserves which are set aside for specific contingencies (e.g. staff redundancy reserve).
- 4.3 This fundamental basis for setting the MRL has not changed. We are proposing that the parameters applied to the MRL calculation are adjusted to reflect a more appropriate level.
- 4.4 Previously, the operational expenditure period was set at six months, in line with general guidelines. However, EM3's commitments differ from the norm due to their short-term nature - we own no buildings, or other long-term fixed assets, and have no long-term lease commitments. Except for staff, and a few relatively low-cost agreements, most contracts have been arranged on a monthly or call-off basis.
- 4.5 We have now reviewed our commitments and budgeted expenditure, which demonstrated that a lower period of four months is more appropriate for the size and nature of our organisation.
- 4.6 In carrying out the review we have taken into account:

- Contracted commitments, including notice periods for all staff.
- Reasonable level of funding to accompany a transfer of key services to other organisations to enable them to operate effectively. This includes adequate resources to manage:
 - Delivery of the EM3 Gigabit project
 - The EM3 Future Fund
 - The continued monitoring of contracts

- 4.7 **Appendix 4** sets out further details of the factors considered, and the basis for the recommended change to the MRL.
- 4.8 The review demonstrated that a prudent MRL for EM3 would be achieved by setting the operational expenditure period at four months (≈£0.8m in 2022/23), and adding the staff redundancy reserve, including the Hampshire Pension Service early retirement strain (≈£0.4m in 2022/23).
- 4.9 Both Hampshire County Council, as our Accountable Body, and RFAC have reviewed the policy, and the basis of these calculations, and are satisfied that the revised methodology ensures the MRL is set at a prudent level to allow EM3 to continue operating for an adequate level of time, in times of uncertainty, and to cover any cessation costs should they be required.
- 4.10 RFAC recommends the Board approve the EM3 Reserves Policy (**Appendix 3**), and confirm its suitability for use in the medium term.

5 2022/23 Final Budget and Medium-Term Financial Plan

- 5.1 The 2022/23 revenue budget is underpinned by our delivery/business plan, and is set 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.
- 5.2 Since our outline budget was approved in February 2022, Government announced their funding decisions on 31 March 2022, and set out their expectation of LEPs. Subsequently, the Board have approved our new vision statement, which sets out our strategic purpose, aims and priorities.
- 5.3 We are carrying out an organisational review to ensure we have the right resources and processes in place to deliver the vision most effectively. Alongside this, we have carried out a review of our activity, costs and income in response to the revised vision and to mitigate the impact of the decrease in funding.
- 5.4 We are now in a position to set the **final budget for 2022/23**, and to **update our MTFP to the end of March 2025**.
- 5.5 When we reported our financial position to the Board in April 2022, we identified a **budget gap of £1.2m** by the end of March 2025. This has been reduced to **£0.6m** by incorporating:
 - The more favourable 21/22 out-turn position (**£0.1m** – section 2)
 - Revising the arrangement to fill the Chief Executive post (**£0.2m**); and
 - On the assumption that the Board agrees to adopt the revised reserves policy (**£0.3m** – section 4).
- 5.6 Thus, the final budget incorporates a savings target of £150k in 2022/23, with a further £220k per annum for the next two years. We plan to achieve the savings targets, by implementing a

revised structure and processes following the outcome of the organisational review, with the aim of creating a team which can take forward the new EM3 vision.

- 5.7 This action will achieve enough savings to enable us to remain financially stable into the medium term. We will ensure that it does not compromise our ability to effectively deliver our priorities, by making sure we maintain sufficient capacity and expertise.
- 5.8 **Table 3** below summarises our final 2022/23 budget, and updated medium-term financial stability position up to 31 March 2025.

2021/22 ACTUAL £m A	TABLE 3: EM3 three-year revenue forecast	2022/23 BUDGET £m B	2023/24 ESTIMATE £m C	2024/25 ESTIMATE £m D	
3.0	TOTAL RESERVES AT START OF YEAR	2.6	2.4	2.0	
2.4	<i>Income</i>	2.3	2.2	1.9	
(2.8)	<i>Expenditure</i>	(2.5)	(2.6)	(2.7)	TOT AL
(0.4)	Use of reserves (E)	(0.2)	(0.4)	(0.8)	(1.4)
2.6	TOTAL RESERVES AT END OF YEAR (F)	2.4	2.0	1.2	
1.7	Minimum Revenue Reserves Level (G)	1.2	1.2	1.2	
0.9	RESERVES AVAILABE FOR USE (H)	1.2	0.8	0	

Medium-Term Financial Plan and Financial Stability

- 5.9 **Table 3 (columns B-D)** summarises our medium-term financial stability position up to 31 March 2025. With the assumptions set out, including achievement of required savings, we are now in a good position to deliver our vision until the end of the end of our medium-term financial plan. Reserves will remain above the minimum level. We are able to achieve this as we are in the fortunate position of being able to use the **£1.4m** of surplus reserves, built up over the years from careful management of our resources.
- 5.10 **Appendix 1** sets out the key financial risks and assumptions integrated in our financial management. We are assuming that funding from our partners and Government will remain at the current level. There may be further reductions in 23/24 but our budget position should allow us to respond to any changes. Mitigation against the risks means that we continue to present a prudent, robust budget and MTFP.

2022/23 Revenue Budget

- 5.11 As summarised in **Table 3** (column B), in 2022/23 we anticipate that expenditure of **£2.5m** (2021/22 £2.8m) will exceed in year income of **£2.3m** (2021/22 £2.4m), and we therefore expect to draw on retained reserves, by **£0.2m**:

2022/23 Income (£2.3m): The overall reduction in income of £0.1m from the previous year, is predominantly due to the fall in government funding, as set out in our report to the Board in April 2022 (-£0.5m), mitigated by the increase in interest receivable both from loans and on balances (+£0.4m).

2022/23 Expenditure (£2.5m): The overall reduction in expenditure of £0.3m, from the previous year, is predominantly due to the fall in staff costs which incorporate reductions in costs resulting from existing vacancies and a further £150k planned savings outlined above.

- 5.12 Other savings have been identified following a review of the way we deliver our services, including our communications contract, and reduction of Growth Hub services delivered in light of expectations and funding.

6 Ongoing monitoring

- 6.1 RFAC will continue to play a key role in overseeing the budget, managing risks and keeping the Board informed. This includes monitoring 2022/23 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 May 2022

The Board should be aware of the **key financial risks and risks** associated with the medium term-financial plan. The budget and medium-term forecast has been prepared under prudent assumptions.

Appendix 1: Key Financial Risks and Assumptions				
Risk	Description	Impact	Likelihood	Mitigation
Government Revenue Funding Uncertainty	<p>Government has now announced funding for 2022/23. Providing £375k for LEP core funding, and £268k for Growth hub funding. In addition, there is a further £55k for skills work and £40k for GH cluster work.</p> <p>Assumptions for the 2023/24+ medium-term plan are that funding continues at same level as in 2022/23 WITHOUT £55k skills funding. Total £683m per year.</p>	<p>High</p> <p>No risk in 2022/23.</p> <p>If the funding is not provided in 2023/24 and 2024/25, we would need to reduce costs/activity or secure further funding/cost-savings of approximately £683k per year.</p>	Medium	<p>We are working with RFAC to explore opportunities for further savings and additional income, to address further gaps in the longer term.</p> <p>We have agreed our future vision, following clarification from Government about the future funding and direction of LEPs. We are carrying out an organisational review, to ensure we are able to deliver our future vision, within a budget which ensures the minimum reserves level is maintained over the next three years.</p>
Partner Contributions	<p>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 Further Education Colleges (FEs - £30k) to help fund our support for the economy of the region and for partnership working.</p> <p>Matched funding is required to draw down funds from government. Given the pressures on LA and FE funding and reductions in capital funding partners may look to reduce their level of match.</p>	<p>High</p> <p>Removal of partner funding would see a reduction in income of £350k per year. More importantly it would not allow us to draw down funding from government.</p> <p>Should matched funding be reduced we would need to reduce costs/activity or secure further funding/cost-savings of approximately £350k per year.</p>	Medium	<p>We are working with our LAs to ensure they continue to match our funds.</p> <p>We are working with RFAC to explore opportunities for additional income, to address any potential future gap.</p> <p>We have agreed our future vision, following clarification from Government about the future funding and direction of LEPs. We are carrying out an organisational review, to ensure we are able to deliver our future vision, within a budget which ensures the minimum reserves level is maintained over the next three years.</p>
Financial Viability	<p>To remain financially stable in the medium term, we must make savings or identify income generating opportunities, totalling £0.6m by the end of March 2025.</p>	<p>Medium</p> <p>We will cease being financially viable during 2024/25, if we do not identify and implement savings/additional income opportunities of £0.6m before the end of that year.</p>	Medium	<p>We have identified achievable savings targets for the next three years, which ensure we have enough reserves to cover the gap in funding to the end of the medium-term period (2024/25).</p> <p>We continue to work with RFAC to explore opportunities for further savings and additional income, in order to ensure we have sufficient resources to cushion any future reduction in income, and to enable us to position and grow into our new role.</p>

Appendix 1: Key Financial Risks and Assumptions				
Risk	Description	Impact	Likelihood	Mitigation
Interest Rate Uncertainty	<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 1% in 22/23, then 1.5% 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>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, in the unlikely event that interest rates did not recover from the current 0.75% the overall effect is under £60k per annum.</p>	Low	<p>We have enough reserves to cover the potential gap in funding to the end of 2024/25</p> <p>We are working with RFAC to explore opportunities for further savings and additional income, to address any further gaps in the medium term.</p>

At 31 March 2022 Enterprise M3 held £2.65 million revenue and £23 million capital funds across a range of accounts:

Enterprise M3 Funds: Revenue and Capital	1 April 2021	Income	Expenditure	31 March 2022
	£'000	£'000	£'000	£'000
REVENUE¹				
Operational Fund ¹	2,673	2,284	(2,691)	2,266
Staff Redundancy ²	375	0	0	375
Enterprise Zone ³	0	83	(83)	0
TOTAL REVENUE FUNDS (Table 1)	3,048	2,367	(2,774)	2,641
CAPITAL				
Enterprise M3 Future Fund	22,466	6,564	(6,483)	22,547
Getting Building Fund	2,654	6,683	(9,337)	0
Capital to Revenue Fund	1,404	0	(559)	845
TOTAL CAPITAL FUNDS (Table 2)	26,524	13,247	(16,379)	23,392
TOTAL FUNDS	29,572	15,614	(19,153)	26,033

¹ The Enterprise M3 accounting structure has seven revenue accounts that support the delivery of our strategy and delivery programme.

1. The Operational Fund funds the day-to-day expenditure of the LEP. It incorporates the legacy fund of accumulated interest earned on Enterprise M3 balances and loans, previously shown separately. Since 2018/19 annual interest income has been accounted for within the Operational Fund.
2. 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.
3. Enterprise Zone income and expenditure, funded from Business Rates Income Growth.

RFAC reviewed Enterprise M3's Revenue Reserves' Policy to ensure that the minimum reserve level (MRL) is set at a level appropriate for the size of the evolved organisation; adequate to manage risks; and sufficient to support operations to ensure the LEP's goals and expectations can be met.

Enterprise M3 Reserves Policy

- 1.1. The Local Government Finance Act 1992 requires accountable bodies to have regard to the level of reserves required to meet estimated future expenditure. EM3 does not have a statutory duty to maintain a Reserves Policy as the accountable body is Hampshire County Council, but it is considered best practice to have a published Reserves Policy (laap bulletin 99 CIPFA).
- 1.2. The principles of the Financial Reserves policy are outlined at Note 1.
- 1.3. In assessing the appropriate reserve level, the following factors have been considered:
 - Risks associated with unforeseen income and expenditure variations
 - Sums set aside for major schemes planned in future accounting periods
 - Reserves for unspent revenue grants
- 1.4. Reserves should be maintained at a level equal to earmarked reserves plus four months of annual operating expenditure to enable Enterprise M3 activity to continue during a period of uncertainty.
- 1.5. The four months calculation excludes non-reoccurring extraordinary expenditure. It takes into account the risk associated with each income stream, and thus excludes from the calculation, specified activity and expenditure which will only occur if funding is available. The calculation of the required level of reserves is an integral part of the organisation's medium term financial planning.

Note 1**The principles of the Financial Reserves policy**

EM3 is required to maintain adequate reserves to meet the needs of the organisation and to be able to demonstrate to the Accountable Body and grant making organisations that there is a Reserves Policy in place.

Reserves are categorised as 'general', held to cushion the impact of uneven cash flows or unexpected events or 'earmarked' and held for special purposes. Both circumstances are applicable to EM3 because of the lack of certainty over future funding streams and because of the delivery nature of the organisation.

Reviewing the organisation's future financial risk including strategic, operational, and financial risks, forms the basis of determining the level of reserves held.

Reserves are not held to fund ongoing expenditure.

Activity/Costs	Rationale	Proportion set-aside
Earmarked reserves - Staff redundancy	Amount set aside to cover staff redundancy for all staff, based on HCC policy. Calculated by HCC HR, as all EM3 staff are HCC employees.	100%
Earmarked reserves - Pension fund strain	Liability to Hampshire Local Government Pension Scheme (LGPS) afforded to members over 55 years old at time of redundancy, to allow them to draw their pension for date of redundancy. Calculated by HCC in consultation with Hampshire Pension Service for all EM3 staff who are part of the LGPS, and will be over 55 years old at the end of the budgeted year.	100%
Staff resources - General	Notice periods are 1-3 months, depending on grade. Set commitment at 3 months in line with maximum notice period to allow for operation to continue for three months.	3 months
Staff resources - Transferable service	Where we would want to enable transfer to other organisation for specific services, allow 9 months e.g. to continue monitoring growth fund projects.	9 months
Staff resources - Careers and Enterprise service	Provide to enable transfer. However, 50% funded by CEC company. EM3 provides 50% match funding only.	50% of 9 months
Enterprise Zone - staff and other running costs	100% funded from Business Rates Income Growth - fund sits outside of EM3 resources, and holds sufficient funds to operate in the medium term.	0%
Running costs	In line with contracted commitments or 3 months, whichever is the higher. 3 months estimate to coincide with three months provided for staff operating costs. This is a prudent allowance, as it is likely that many activities would immediately just stop.	3+ months
Accountable Body costs	Full year provided. Covers Finance, Legal, HR, Sec 151, HCC system access / IT services. Unlikely to request full year if LEP ceases, but full year commitment shown.	100%
EM3 Future Fund including delivery of the EM3 Gigabit project	Capital projects in progress. Revenue activity could be partially funded out of the capital fund as it relates to bringing a capital project into use, and it is thus an allowable use of capital. However, we have also set-aside 9 months staff costs of the capital manager	From capital fund + 9 months of specific staff costs

Outcome and other considerations:

1) **OPERATING COSTS SET-ASIDE:** Applying this method to planned operational activity in the medium term, demonstrated that a prudent MRL for EM3 would be achieved by setting the operational expenditure period at **29%**, however, for further assurance, we propose setting at **four months i.e. 33.3%**.

This is in addition to the 100% set aside for the staff redundancy/pension strain reserve (≈£0.33m in 2022/23).

2) **ENTERPRISE M3 LIMITED CLOSURE COSTS:** All revenue and capital funds relating to Enterprise M3 LEP's activities are held by, and accounted for by Hampshire County Council (HCC) as the Accountable Body. Enterprise M3 Limited incorporates the decision-making function of the LEP. This separate entity has no funds, staff, assets, or financial liabilities. It does not trade, and closure costs would be minimal.

3) **GOVERNMENT SUPPORT DURING TRANSITION:** Were Government funding to cease, and LEPs to dissolve, in similar past cases, organisations have been given considerable forewarning, and Government has ensured there are sufficient time, funds and other resources to manage the transition.