Enterprise M3 Board Meeting

1 December 2022

Resources, Finance and Audit Committee Financial Update – Item 10

The Enterprise M3 Board is asked to:

APPROVE: The Enterprise M3 Limited statutory accounts for the year ending 31 March 2022 **(Section 3)**

NOTE: The current 2022/23 forecast and medium-term position **(Section 2)**

NOTE: The key financial risks associated with the 2022/23 Revenue Forecast, and the 2022-2025 Medium Term Financial Plan **(Appendix 2)**

1. Executive Summary

1.1. This report provides a forecast for the 2022/23 out-turn position, and an updated 2022-2025 Medium Term Financial Plan (MTFP), at the mid-year point (September 2022), based on the budget approved by the Board in May 2022.

1.2. The EM3 Resources, Finance and Audit Committee (RFAC) met on 18 November 2022 to review the position, and is satisfied that the LEP is appropriately considering the risks to its medium-term financial stability, and adequately planning to mitigate and address the potential implications of those risks.

<u>Basis of assumptions</u>

1.3. We have applied conservative estimates in our revised forecast and plan, based on the latest global macro models and financial analysts' expectations. An expected public sector pay-increase cap, coupled with rising interest rates, puts us in a considerably better financial position at the end of our MTFP period, than originally forecast. The implications of changes in Government's fiscal and the Bank of England's monetary policies, could meaningfully change the forecast.

1.4. Our forecast is based on the assumption that our partners and Government will continue to fund us at the current funding level - reduction would require us to rationalise our activity or secure further income.

1.5. The key financial risks associated with the forecast are set out in **Appendix 2**.

<u>2022/23 Final Revenue Forecast and the 2022-2025 Medium Term Financial Plan (Section 2)</u>

1.6. In May 2022, the Board approved the Revenue Budget for 2022/23, and the 2022-2025 MTFP. In order to remain financially stable throughout the medium-term, the 2022/23 budget incorporated a savings target of £0.15m, and a cumulative savings/income generation target of £0.6m by the end of March 2025.

1.7. The position following activity to the end of Quarter 2 of the financial year, including revised economic assumptions, shows that we are on track to exceed both targets.

1.8. High interest rates and anticipated capped salary inflation rates, together with our re-organisation savings, mean that we are now forecasting a £0.4m improvement in our total reserves position at the end of March 2025. This provides mitigation against future risks, and some flexibility to expand our activities, and ability to budget for a longer period whilst maintaining financial stability.

1.9. We are progressing our EM3 Future Fund capital programme, and now expect to retain higher capital balances in the early years of the MTFP, resulting in higher interest. This will positively affect our medium-term reserves position, the impact of which will be reported to Board as we develop the 2023/24 budget.

1.10. In summary, our financial plan forecasts that we will remain financially stable in the medium term, with the right resources and processes in place to deliver our vision most effectively.

Enterprise M3 Limited Dormant Accounts (Section 3)

1.11. The Enterprise M3 Limited statutory accounts for the year to 31 March 2022 have been prepared, and are ready to be approved by the Board of 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)**.

Next Steps

1.12. We will continue to implement the outcome from our organisational review over the next few months. This includes recruitment to a number of posts, providing capacity to deliver our future vision and meet the expectations set by Government.

1.13. RFAC will continue to play a key role in overseeing the budget, identifying opportunities for savings and income generation, managing risks and keeping the Board informed.

1.14. 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.

2. 2022/23 Final Budget and Medium-Term Financial Plan

2.1. **Appendix 1** sets out the key financial risks and assumptions integrated in our financial management. The key assumptions are as follows:

- Inflation will average 10% over the medium term. This is in line with current economic commentary.
- Salary increases will average 5%, in line with expected pay caps for public sector salaries.
- The Bank of England base interest rate will average 2.25% in 2022/23 and 4.5% in the medium term. This is in line with current econometric models.
- Funding from our partners and Government will remain at the current level.

Mitigation against the risks means that we continue to present a prudent, robust budget and MTFP.

2.2. **Table 1** below summarises our current 2022/23 forecast against budget following the first six month's activity of the year (April- September 2022); and the updated medium-term financial stability position up to 31 March 2025.

2021/22 Actual £m	TABLE 1: EM3 Revenue Reserves: Three-year forecast	2022/23 Budget £m	2022/23 Forecast £m	2023/24 Estimate £m	2024/25 Estimate £m	
3.0	**TOTAL RESERVES AT START OF YEAR**		**2.6**	**2.5**	**2.4**	
2.4	*Income*	*2.3*	*2.7*	*2.5*	*2.1*	
(2.8)	*Expenditure*	*(2.5)*	*(2.8)*	*(2.6)*	*(2.8)*	**TOTAL**
(0.41)	**Use of reserves**	**(0.23)**	**(0.08)**	**(0.14)**	**(0.75)**	**(0.97)**
2.6	**TOTAL RESERVES AT END OF YEAR (A)**		**2.5**	**2.4**	**1.7**	
1.7	Minimum Revenue Reserves Level (B)		1.2	1.0	1.1	
0.92	**RESERVES AVAILABE FOR USE (C)**		**1.3**	**1.4**	**0.6**	

2.3. The budget incorporated a savings target of £150k, with a further £220k per annum for the next two years. The table demonstrates that we will meet our savings targets and remain financially stable for the three-year term.

2.4. Our reserves are predicted to stand at £1.7m (row A) by the end of the three-year MTFP period (March 2025). This maintains the minimum reserves level stipulated in our reserves policy (Rows B and C). This is an improvement of **+£0.15m** in 2022/23 and +**£0.4k** in the medium term, on the position anticipated at the time the 2022/23 budget was approved**.**

The key points are as follows:

a) **Organisational Review - Positive Impact:** Savings made from the outcome of our organisational review, reduces the requirement to use our retained reserves to fund our expenditure by **+£0.05m** in 2022/23 and **+£0.3** in the medium term.

b) **Interest Rates - Positive Impact:** The increase in the actual and predicted Bank of England base interest rate, which affects the interest we receive on our capital and revenue bank balances. Additionally, we have reviewed our current capital programme, taking into account profiling of future income and expenditure. This increases interest income by **+£0.2m** in 2022/23 and **+£0.7m** in the medium term.

c) **Inflation - Negative Impact:** The anticipated rise in inflation, including salary inflation, is estimated to increase our requirement to use our retained reserves to fund expenditure by **-£0.08m** in 2022/23 and **-£0.5m** in the medium term.

d) **Other - Negative Impact:** Other sundry changes, including revision of vacancy assumptions, total **-£0.2m** in the medium term.

2.5. Further, we have reviewed the required redundancy reserve, based on the revised organisational structure, to ensure it is adequate to cover liabilities in the future. In total, we estimate that **+£0.2m** can be added to our reserves available for use, whilst maintaining an adequate ringfenced reserve for any future closure costs.

2.6. In total, this means that our usable reserves balance at the end of 2024/25 is estimated to be £0.6m higher, compared with the position when the budget was set. This provides a buffer against future risks, some flexibility to expand our activities, and ability to budget for a longer period whilst maintaining financial stability.

2.7. As we develop the EM3 Future Fund capital programme, we will review current assumptions around activity. We anticipate delivery will be reprofiled, initially resulting in higher capital balances in the early years of the MTFP Higher interest rates and higher balances would positively affect our medium-term reserves position.

3. Enterprise M3 Limited Dormant Accounts

3.1. We have prepared the statutory accounts for Enterprise M3 Limited, for the year ended 31 March 2022 (**Appendix 1**). They require Board approval so that they can be submitted to Companies House.

3.2. 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.

3.3. 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.

3.4. 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.

3.5. 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.

The Enterprise M3 Board is asked to APPROVE the Enterprise M3 Limited Statutory Accounts for the year ending 31 March 2022

4. Ongoing monitoring

4.1. 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 Head of Finance

22 November 2022

Registered Number 11897237

ENTERPRISE M3 LIMITED

Dormant Accounts

31 March 2022

Balance Sheet as at 31 March 2022

	31 3 2022	31 3 2021
	£	£
Net Assets	**0**	**0**
Reserves	**0**	**0**

STATEMENTS

a. For the year ending 31 March 2022 the company was entitled to exemption under section 480 of the Companies Act 2006 relating to dormant companies.
b. The members have not required the company to obtain an audit in accordance with section 476 of the Companies Act 2006.
c. The directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of accounts.
d. These accounts have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime.

Approved by the Board on 1 December 2022

NOTES

Company is limited by guarantee.

Key Financial Risks **Appendix 2**

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

Appendix 2: Key Financial Risks and Assumptions				
Risk	**Description**	**Impact**	**Likelihood**	**Mitigation**
Government Revenue Funding uncertainty	In 2022/23 Government provided £375k for LEP core funding, and £268k for Growth Hub (GH) funding. In addition, there is a further £55k for skills action plan and £40k for GH cluster work. Assumptions for the 2023/24+ medium-term plan are that funding continues at same level as in 2022/23, WITHOUT £55k skills action plan funding. Total £683k per year.	**High** No risk in 2022/23. 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.	**Medium**	We are working with RFAC to explore opportunities for further savings and additional income, to address further gaps in the longer term. We have agreed our future vision, following clarification from Government about the future funding and direction of LEPs. We have completed our organisational review, and are implementing proposals 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.
Partner Contributions	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. 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 in the future.	**High** Low risk in 2022/23. Almost all LAs have provided their contributions. In addition, some higher education establishments have offered £10k contribution each for the year. Removal of partner funding in future would see a reduction in future income of £350k per year. More importantly it would not allow us to draw down funding from government. Should matched funding be reduced we would need to reduce costs/activity or secure further funding/cost-savings of approximately £350k per year	**Medium**	We are working with our LAs to ensure they continue to match our funds. We are working with RFAC to identify opportunities for additional income, to address any potential future gap. This is involving discussions with our partners, including HE, to determine the support we can provide, and the corresponding income. We have agreed our future vision, following clarification from Government about the future funding and direction of LEPs. We have completed our organisational review, and are implementing proposals 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.

Appendix 2: Key Financial Risks and Assumptions				
Risk	**Description**	**Impact**	**Likelihood**	**Mitigation**
Financial Viability	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.	**Medium** 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	**Medium**	We have identified achievable savings targets for the next three years, and are in the process of implementing them. They will ensure we have enough reserves to cover the gap in funding to the end of the medium-term period (2024/25). We continue to work with RFAC to explore opportunities for further savings and additional income, to address any further gaps in the medium term.
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 now assumes that rates will average 2.25% in 22/23 (considering the current level of 3%), then 4.5% to the end of the medium-term plan. This is a conservative estimate based on the latest global macro models and analysts' expectations.	**Medium** In the unlikely event that interest rates do not increase above the current 2.25% the overall effect is £78k in 2022/23, and a further £277k in the medium term.	**Low**	We have enough reserves to cover the potential gap in funding to the end of 2024/25 We continue to work with RFAC to explore opportunities for further savings and additional income, to address any further gaps in the medium term.
Inflation	Inflation has risen considerably in the last few months, with predictions that the rate will remain at 10%+ in the medium term. We have revised the assumptions in place when the budget was approved. General inflation is set at an average of 10%; and salary inflation at 5% (22/23 award now agreed at average of 5%). Salary inflation in the next two years is prudently set above the currently anticipated public sector salary inflation rate, but below currently projected general labour market inflation rates of at least 10%.	**Medium** If Public Sector salary inflation increases in line with general market predictions of 10% p.a., our reserves would decrease by £225k by the end of the medium-term financial term. We would remain financially stable. Salary inflation could increase by a further 10% in the next two years, and financial stability would remain. Anything higher would mean that we would need to make further costs savings / generate income in 2024/25. Salary inflation would need to average over 50% from 2023/24, for us to be in a financially compromised position before the end of next financial year.	**Low**	We have enough reserves to cover the potential gap in funding to the end of 2024/25 We continue to work with RFAC to explore opportunities for further savings and additional income, to address any further gaps in the medium term.