Enterprise M3 Board Meeting

10 October 2023

Resources, Finance and Audit Committee Financial Update – Item 10

The EM3 Board is asked to:

NOTE: The 2023/24 forecast following quarter 1 activity **(Section 2)**

NOTE: The key financial risks associated with the 2023/24 Revenue Forecast **(Appendix 1)**

1 Executive Summary

1.1 This report provides a forecast for the 2023/24 year, following quarter 1 activity (April-June 2023).

1.2 On 4 October 2023, the EM3 Resources, Finance and Audit Committee (RFAC) reviewed the position, and is satisfied that the current financial position will enable EM3 to achieve its delivery plan and remain within budget.

1.3 In April 2023, the Board approved EM3's revenue budget for 2023/24, recognising that some changes may be required as further information emerges about the transition of LEP functions to local government from April 2024. Achieving our 2023/24 delivery plan continues to be our primary focus day-to-day. We continue to be funded by Government for this year, and our budget provides a robust baseline to ensure that we continue to deliver for EM3's businesses and communities during 2023/24.

1.4 However, in the context of uncertainty about 2024/25 and beyond, we have identified a number of changes to our activities, which are reflected in the revenue forecast. Such activities have either been curtailed, or are on pause while we explore with the Accountable Body ways of taking these forward. Significantly, our new capital funding programme, totalling approximately £15m has been reviewed and as a result reprofiled, resulting in additional interest of £0.3m against budget.

1.5 Overall, these changes, coupled with the impact of higher than budgeted interest rates, result in a forecast 2023/24 **£0.6m** surplus position, compared with a breakeven budgeted position.

1.6 The key financial risks associated with the forecast are set out in **Appendix 1**.

1.7 As discussions about the transition of LEP activities with our accountable body and local partners move forward, we will continue to work with RFAC to ensure it is well informed to play a key role in overseeing the 2023/24 budget, ensuring funds are best directed, managing risks and keeping the Board informed.

2 2023/24 Revenue Forecast

2.1 The Enterprise M3 (EM3) revenue budget is set to enable delivery of EM3's vision for a low-carbon, high growth economy, including activities to deliver our sector, innovation and trade work and to support businesses, and actions around skills and net zero. This includes delivering our Future Fund capital programme, and our contractual commitments relating to delivery of Growth Hub services and Careers Hub activities. The budget is underpinned by the EM3 Delivery Plan for 2023/24, endorsed by the Board in November 2022.

2.2 We are making good progress in achieving our delivery plan. Our Growth Hub is now fully staffed, and our Careers Hub team is making progress towards delivering its targets for the new school year. We continue to deliver a wide range of activity relating to, for example, development of high potential sectors such as Jet Zero, the rural economy, and skills.

2.3 The key financial risks associated with the 2023/24 forecast are set out in **Appendix 1**.

Significantly:

- Our partners (local authorities, colleges, and universities) provide significant financial contributions, enabling us to continue to deliver a wide-ranging programme of work. By September 2023, 16 of our 26 partners have made their contribution; and we have made a provision against the remaining contributions.
- We have incorporated future pay award assumptions at 5%. This is prudently above the currently anticipated public sector salary inflation rate, but below currently projected general labour market inflation rates.
- We are assuming that the Bank of England base interest rates will average 5% during the year. This is in line with current econometric models.

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

2.4 **Table 1** below summarises our current 2023/24 forecast against budget following the first quarter's activity of the year (April- June 2023):

2022/23 Actual £m A	TABLE 1: EM3 Revenue Reserves	2023/24 Budget £m B	2023/24 Forecast £m C	Variance from budget* £'000
2.6	**TOTAL RESERVES AT START OF YEAR**	**3.1**	**3.1**	
2.6	*Income*	*2.8*	*3.2*	*0.4*
(2.1)	*Expenditure*	*(2.8)*	*(2.6)*	*0.2*
0.5	**Use of reserves (D)**	**-**	**0.6**	**0.6**
3.1	**TOTAL RESERVES AT END OF YEAR (E)**	**3.1**	**3.8**	
1.0	Minimum Revenue Reserves Level (F)	1.1	1.2	
2.1	**RESERVES AVAILABE FOR USE (G)**	**2.0**	**2.6**	

* Variance is positive when 2023/24 income is higher / expenditure is lower, than budgeted.

2.5 As summarised in **Table 1** *(column C),* in 2023/24 we forecast that in year income of **£3.2m** (Budget £2.8m) will exceed expenditure of **£2.6m** (Budget £2.8m), and we therefore expect to add £0.6m to retained reserves, compared with the near break-even budgeted position.

2.6 This improvement of **+£0.6m** on the position anticipated at the time the budget was approved, is due to:

a) **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. This increases anticipated 2023/24 interest receivable by **+£0.3m**.

b) **Interest Receivable on Capital Balances – Positive impact:** When we set the budget, we anticipated that our cash balances would decrease during the year as Future Fund projects were delivered. However, following Government's announcement about the transfer of responsibility for delivering LEP functions, our accountable body requested that the £4.5m Gigabit project be paused, and we developed a revised approach to our Future Fund, thus delaying the disbursement of balances. This increases anticipated 2023/24 interest receivable by **+£0.3m**.

c) **Partner Contributions – Negative impact:** To date, 16 of our 26 local authority, college and university partners have made their contribution; and we have made a provision against the remaining contributions. In total reducing contributions by **-£0.1m.**

d) **Other operating costs - Positive Impact:** Staffing changes, such as the departure of one of our joint managing directors, and changes associated with the Careers Hub service in our Surrey districts and boroughs moving to Surrey County Council from 1 September 2023, result in a decrease in costs. Other revised costs result from reduced activity, including programme evaluation, Board and staff recruitment, renewal of technology and some stakeholder events. Total **+£0.1m.**

2.7 Following Government's decision about the delivery of future LEP functions, we curtailed some of our ongoing expenditure (*para 2.6 d above*), whilst maintaining our focus on achieving our 2023/24 delivery plan. It is likely that there will be further cost changes, as we re-assess which activities are best delivered to ensure we continue to deliver our services in the EM3 area, whilst planning for a smooth transition.

2.8 With the assumptions and changes set out, including the incorporation of changes arising from the implications of transitioning LEP functions to local government post 1 April 2024, we are in a good position to achieve our delivery plan for this year. Reserves will remain above the minimum level, with surplus reserves, built up over the years from careful management of our resources.

3 Ongoing monitoring

3.1 RFAC will continue to play a key role in overseeing the budget, managing risks, and keeping the Board informed. This includes monitoring 2023/24 income and expenditure on an ongoing basis, adjusting the forecast accordingly.

Aleks Bennett - EM3 Head of Finance

4 October 2023

The Board should be aware of the **key financial risks** associated with the 2023/24 budget and forecast, which has been prepared under prudent assumptions.

Appendix 1: Key Financial Risks and Assumptions				
Risk	**Description**	**Impact**	**Likelihood**	**Mitigation**
Partner Contributions	The budget included the assumption that we will receive significant contributions of £400k in 2023/24, from Local Authorities (LAs - £320k), Higher Education institutions (HEs - £50k) and Further Education Colleges (FEs - £30k) to help fund our support. Given the pressures on LA and FE funding and reductions in capital funding partners may look to reduce their contributions. Having invoiced our partners, to date 16 of our 26 partners have paid their contribution. We have adjusted our forecast, and made provision against the remaining contributions, resulting in a forecast reduction in income of £110k.	**Low** At September 2023, £150k remains unpaid, which has not been confirmed as a bad debt. This year Government have removed the requirement for local partner funding to match Government core funding, thus no other income is at risk.	**Medium**	Other 2023/24 forecast changes mitigate the risk from any potential further loss in partner contributions. Further, there are enough reserves to cover potential loss of this funding. We remain committed to continue exploring further opportunities for savings and income generation, allowing us to bring in the required expertise to grow and respond to existing and new challenges faced by our economy
Interest Rate uncertainty	We receive interest on our balances held by HCC, as our accountable body, at the Bank of England base rate. The budget assumed that rates would average 4% in 2023/4. Following further increases in the rate, now standing at 5.25%, our forecasting now assumes an average of 5% for the year. This is a conservative estimate based on the latest global macro models and analysts' expectations.	**Low** In the unlikely event that interest rates run at an average of 1% below current assumptions, the overall effect is a drop of £145k.	**Medium**	Other 2023/24 forecast changes mitigate the risk from any potential further loss in partner contributions. Further, we have enough reserves to cover a gap in funding arising from a 1% fall in interest rates. We remain committed to continue exploring further opportunities for savings and income generation, allowing us to bring in the required expertise to grow and respond to existing and new challenges faced by our economy.
Capital Programme	Interest on our capital balances, which are built up from past and future loan repayments, forms a significant part of our annual income. We have launched our Future Fund, which is expected to see a steady stream of capital payments/investments and loan/equity repayments over the next few years. Our budgeted cashflow assumptions were that our existing Future Fund capital pot would be delivered by the end of 2023/24.	**Low** Slower delivery than assumed, means that our reserves balance will benefit from interest receivable on balances. However, if delivery is quicker than assumed, the impact would not be significant. For example, in the very unlikely event that we distributed all our existing funding in Q4 2023/24, our interest receivable would be readjusted back by £136k.	**Low**	Any delays will benefit the reserves balance. However, we will work with the Board to ensure that the programme is delivered in a timely and efficient way. We remain committed to continue exploring further opportunities for savings and income generation, allowing us to bring in the required expertise to grow and respond to existing and new challenges faced by our economy.

Appendix 1: Key Financial Risks and Assumptions				
Risk	**Description**	**Impact**	**Likelihood**	**Mitigation**
	However, following Government's announcement about the transfer of responsibility for delivering LEP functions, our accountable body requested that we developed a revised approach to our capital funding, thus delaying the disbursement of balances. It is now unlikely that much of the balance will be disbursed before the end of the financial year. This increases forecast 2023/24 interest receivable by £280k.			
Inflation	Our budget assumed that general inflation will be at an average of 10%; and salary inflation at 5% - prudently set above the currently anticipated public sector salary inflation rate, but below currently projected general labour market inflation rates of at least 10%. Although inflation has fallen below 10%, and the current public sector pay offer approximates 4%, we have not adjusted the forecast.	**Low** If public sector salary inflation increases in line with general market predictions of 10% p.a. our 2023/24 forecast costs would increase by £62k.	**Low**	Other 2023/24 forecast changes mitigate the risk from any potential further loss in partner contributions. Further, we have enough reserves to cover the potential gap in funding. We remain committed to continue exploring further opportunities for savings and income generation, allowing us to bring in the required expertise to grow and respond to existing and new challenges faced by our economy.