

**Enterprise M3 Board Meeting**

**25 March 2024**

**Resources, Finance and Audit Committee Financial Update – Item 9**

**The EM3 Board is asked to:**

**NOTE:** The expected financial position being handed over to EM3's upper tier local authorities on 1 April 2024 (**Section 2**)

**NOTE:** The Enterprise M3 Residual Risk Register (**Section 3**)

**NOTE:** The plans/progress towards effective transfer of assets, liabilities, staff, and other activities which enable effective continued delivery of LEP functions from 1 April 2024 (**Section 4**)

**1 Executive Summary**

- 1.1 This report provides a summary of the financial, and operational position being transferred to upper tier local authorities at the end of the 2023/24 financial year. It also sets out the residual risks which will be handed over to Hampshire County Council on 1 April 2024
- 1.2 On 19 March 2024, the EM3 Resources, Finance and Audit Committee (RFAC) reviewed EM3's final financial position, and would like to formally confirm that the accounts have been in good order and good governance has been maintained throughout.
- 1.3 Working with the Board and RFAC over the last decade, EM3 is well placed to transfer a healthy financial position to Hampshire County Council (HCC) and Surrey County Council (SCC), so that they are able to continue delivering LEP functions from April 2024, supporting sustainable growth in our local economies. **Section 2** sets out a summary, showing the expected revenue and capital position, including longer term assets. Altogether, we estimate that assets and reserves approximating **£53m** will be transferred to the two county councils, who shared their proposed approach for dividing these funds between them with the EM3 Board at its meeting on 8 February.
- 1.4 EM3 maintained a Risk Register to capture and monitor all key risks of the following nature: strategic, governance and financial, our people, and projects and programmes. **Section 4** sets out residual risks for those activities that will continue after 1 April 2024.
- 1.5 We have worked constructively with both of our county councils and other partners, to support a LEP integration process that minimises disruption for our customers, stakeholders, and staff. **Section 4** sets out the plans and progress made towards effective transfer of assets, liabilities, staff, and other activities which will enable effective continued delivery of LEP functions from 1 April 2024.

**2 Anticipated EM3 Financial Position on 1 April 2024**

- 2.1 **Table 1** sets out our anticipated financial position to be transferred to HCC and SCC on 1 April 2024. **Appendix 1** provides more detail about the categories.

**TABLE 1: Anticipated balances on 1 April 2024**

<b>CURRENT ASSETS</b>	<b>£m</b>
Capital fund - Unallocated	9.4
Capital fund - Allocated *	9.2
Capital to revenue pot	0.3
Operational reserves	3.7
	<b>22.6</b>
<b>LONG TERM ASSETS</b>	<b>£m</b>
Fund Management Service	9.9
Repayment of Loans	8.9
Repayment of EZ grants	11.2
	<b>29.9</b>
<b>TOTAL</b>	<b>52.6</b>

\* See paragraph 2.3

2.2 The table shows that Enterprise M3 (EM3) has accumulated a significant financial legacy (**£52.6m**) to enable our two county councils to make a significant impact in the EM3 area.

2.3 Immediate funding available totals **£22.6m**.

- **£4.7m** of this is committed to existing capital project commitments including two which are in the process of being contracted.
- A further **£4.5m** was set aside by the EM3 Board to fund the Gigabit Fibre Spine project - the decision about the project's progression is subject to further discussion between the local authorities. Pending that decision, this amount is also included in the "Capital fund – Allocated" figure above.

2.4 A further **£29.9m** will be realised in the longer term – the majority of which could be available within the next ten years.

### 3 Residual Risk Register

3.1 Following review of the EM3 Risk Register by RFAC in February 2024, we identified 12 risks that can be closed on 31 March 2024 because the risks will no longer apply once the LEP and/or the Board are closed. The remaining risks concern activities that will continue into 24/25. In line with our previous practice, to enable publication on our website, any commercially sensitive content has been removed from this version of the residual risk register.

3.2 In summary, the Residual Risk Register in **Appendix 2** shows:

One Amber residual risk:

- 1) Future delivery of functions transferred from EM3 is uncertain following closure of LEP.

Five Green residual risks:

- 2) The handover of EM3 LEP functions to HCC is not seamless.
- 3) Enterprise Zone investments are delayed.
- 4) Non-delivery or delayed delivery of Careers Hub KPIs for current academic year.
- 5) Future Fund (capital fund) projects do not meet stakeholder expectations.
- 6) Reporting on delivery of Growth Hub 23/24 KPIs is delayed or is not undertaken.

3.3 The Residual Risk Register includes recommended actions and controls, identified stakeholders and suggested risk action owners. The register will be handed over to Hampshire County Council.

#### **4 Transfer of EM3 staff and operations on 1 April 2024**

4.1 On 1 April 2024, assets, liabilities, staff, and activities which will enable effective continued delivery of LEP functions, will transfer to HCC and SCC. We have been working positively with both counties to ensure it is a smooth transition.

4.2 RFAC members reviewed progress towards implementation of this change, and are satisfied that we are on target to achieve effective transfer.

4.3 Significantly, good progress is being made against plans to integrate staff into the wider HCC structure; and on transfer of relevant records and data.

4.4 There are a few areas which are not yet fully resolved, but all of these can be resolved after the 31<sup>st</sup> of March if necessary. These include the following:

- Plans for the Growth Hub are still subject to confirmation of 2024/25 funding by the Department of Trade (DBT). Thus, extension of the current arrangements for the delivery of the existing Growth Hub model in Hampshire are not yet confirmed. Expected to be decided before 31 March 2024.
- The Finance South East Expansion Fund (FSEII) is currently run as an evergreen fund with debt repayment and equity returns being reinvested in new businesses. The two county councils are currently reviewing the future of the fund. Expected to be complete post 1 April 2024.
- The future governance arrangements for the Enterprise Zone are still being discussed by counties and districts. Expected to be decided post 31 March 2024.

4.5 As all staff (not including agency workers) will remain HCC employees, and will be integrated into HCC's wider Hampshire 2050 directorate structure, they will continue to support the completion of activities relating to the transition after 1 April 2024.

**Aleks Bennett - EM3 Head of Finance**

**19 March 2024**

Anticipated balances at 1 April 2024

Appendix 1

<b>CURRENT ASSETS</b>	<b>£m</b>	<b>Comment</b>
Capital fund - Unallocated	9.4	Capital funds available to fund future capital projects. Built up from loan repayments over the years.
Capital fund - Allocated	9.2	Committed capital balance on five ongoing projects, including: two new Future fund projects; £4.5m allocated by the EM3 Board to fund Gigabit Fibre Spine project; and amounts committed to the Fund Management Service
Capital to revenue pot	0.3	Unallocated capital pot available for development of projects
Operational reserves	3.7	Residual revenue reserve used to fund operational activities over the years, to deliver EM3's vision for a low-carbon, high growth economy, including supporting activities to deliver our sector, innovation and trade work to support business and actions around skills and net zero. This incorporates delivering our capital programmes, Growth Hub services, skills and Careers Hub activities. The activity has been funded by Government and our partners; from interest received on our loans and balances; and various other activity.
	<b>22.6</b>	
<b>LONG TERM ASSETS</b>	<b>£m</b>	<b>Comment</b>
Fund Management Service	9.9	Fund balance managed by Finance South East, supporting SMEs in the EM3 LEP area. Currently run as an evergreen fund i.e. debt repayment and equity returns are reinvested in new businesses. The two county councils are currently reviewing the future of the fund.
Repayment of Loans	8.9	Contracted loans issued from EM3 capital funds. Repayable between now and 2030.
Repayment of EZ grants	11.2	Grants issued from EM3 capital funds, to fund interventions in the EZ. This will be payable as revenue income, once enough Business Rates Income Growth (BRIG) has accumulated.
	<b>29.9</b>	
<b>TOTAL</b>	<b>52.6</b>	

Enterprise M3 – Residual Risk Register

Appendix 2

	Residual Risk (with causes and consequences)	Likelihood	Impact	Level	Change	Response Accept; Avoid; Transfer; Mitigate	Recommended Actions and Controls	Date last reviewed by EM3	Stakeholders identified	Proposed Risk Action Owner
		1 to 5	1 to 5							
1	<p><b>Future delivery of functions transferred from EM3 is uncertain following closure of LEP on 31 March 2024 due to:</b></p> <ul style="list-style-type: none"> <li>- Uncertainty concerning which LEP functions will continue from 1st April 2024.</li> <li>- Leads to lack of clarity and shared purpose with stakeholders re: future delivery of economic development activities.</li> </ul>	3	3	9	=	Mitigate	<ul style="list-style-type: none"> <li>- HCC and SCC engage closely with its stakeholders/partners in relation to future delivery of functions.</li> <li>- Applicable risks will be transferred to HCC and/or SCC for those LEP functions that continue within upper tier authorities.</li> <li>- Enterprise M3 website will remain available for a period of at least three months after 1 April 2024 to provide signposting to relevant pages on HCC and SCC websites.</li> </ul>	MARCH - TRANSFER	Local Authorities, Growth Hub clients, CEC	HCC
2	<p><b>The handover of EM3 LEP functions to HCC is not seamless due to:</b></p> <ul style="list-style-type: none"> <li>- Uncertainty around immediate and longer-term roles for LEP staff within HCC 2050.</li> <li>- Leads to lower staff morale and difficulty in maintaining effective workforce.</li> <li>- Leads to increasing difficulty in retaining staff, loss of corporate 'know-how' with consequent increased pressure on remaining staff.</li> </ul>	2	3	6	=	Mitigate	<ul style="list-style-type: none"> <li>- HCC provide staff with regular comms on plans.</li> <li>- All EM3 staff have access to information provided by HCC and opportunity for 1-1 conversations with HCC.</li> <li>- Induction/familiarisation days at HCC office will be scheduled in early April.</li> <li>- EM3 staffing will continue delivering those ongoing LEP activities post 1 April, providing continuity as functions are embedded within HCC.</li> </ul>	MARCH - TRANSFER	Local Authorities, Growth Hub clients, CEC	HCC
3	<p><b>Enterprise Zone (EZ) investments are delayed due to:</b></p> <ul style="list-style-type: none"> <li>- Delays in identifying and agreeing investment focus areas.</li> <li>- Leads to low take-up by companies and consequent reduction in business rate income growth.</li> <li>- Leads to reduction in ability for further investments in the Enterprise Zone.</li> </ul>	2	3	6	=	Mitigate	<ul style="list-style-type: none"> <li>- External consultancy will update the EZ Implementation Plan, which will inform the future of the EZ, identifying investment focuses, and reassessing future income.</li> <li>- HCC and SCC to agree future governance arrangements for the three EZ sites.</li> </ul>	MARCH - TRANSFER	HCC, SCC, EZ Programme Steering Group	HCC, SCC

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4	<p><b>Non-delivery or delayed delivery of Careers Hub (CH) KPIs for current academic year due to:</b></p> <ul style="list-style-type: none"> <li>- Uncertainty about post-1 April 2024 delivery arrangements.</li> <li>- Leads to HCC being unable to deliver commitments under the Careers and Enterprise Company (CEC) funding agreement.</li> </ul>	2	3	6	=	Mitigate	<ul style="list-style-type: none"> <li>- As of 8 March 2024, the CH team is fully staffed and includes temporary cover for CH operational manager.</li> <li>- Team has good support from the CEC and have regular discussions with CEC (funding partners), to discuss 2023/24 delivery arrangements.</li> <li>- CH has a detailed delivery programme for current academic year with events and activities underway to deliver this; progress against KPIs is monitored.</li> </ul>	MARCH - TRANSFER	CEC	HCC
5	<p><b>Future Fund (capital fund) projects do not meet stakeholder expectations due to:</b></p> <ul style="list-style-type: none"> <li>- Delivery of projects delayed and/or scope of projects is reduced.</li> <li>- Leads to Future Fund not delivering its objectives or meeting expectations of stakeholders.</li> </ul>	2	2	4	=	Mitigate	<ul style="list-style-type: none"> <li>- Regular monitoring of projects to ensure that each is on track to deliver planned work and meet stated objectives.</li> <li>- Keep project stakeholders informed about delivery progress, for example via relevant Hampshire/Surrey partnership boards.</li> </ul>	MARCH - TRANSFER	Local Authorities	HCC
6	<p><b>Reporting on delivery of Growth Hub 23/24 KPIs is delayed or is not undertaken due to:</b></p> <ul style="list-style-type: none"> <li>- Embedding of staff within HCC from 1 April 2024 and data transfer from HubSpot to Evolutive.</li> <li>- Uncertainty about post-2023/24 delivery arrangements means that staff leave the Growth Hub.</li> <li>- Leads to HCC being unable to provide Dept. for Business &amp; Trade (DBT) end of year reporting commitments in Q1 24/25.</li> </ul>	2	3	6	=	Mitigate	<ul style="list-style-type: none"> <li>- As of 8 March 2024, the Growth Hub for the EM3 area is fully staffed.</li> <li>- Data held in HubSpot is now within Evolutive; Power BI dashboards have been created allowing progress to be monitored and to also facilitate annual reporting in Q1 24/25.</li> <li>- Preparations for the 2023-24 reporting to DBT are underway, includes collection of customer satisfaction data.</li> <li>- On 8 March DBT issued template for 23/24 report; deadline for submission to DBT is 31 May.</li> </ul>	MARCH - TRANSFER	DBT	HCC