

**Paper for: The LEP Board**

**Title: Finance Report**

**Date: 16 October 2019**

**Strategic Purpose: Governance**

**Resource Implications: Financial**

**Board: To discuss and note the report.**

 **To approve recommended changes to the Bank Mandate.**

YTD 30th September 2019

Key points

* An operating surplus of £24k in the first half of 2019/20.
* A forecast operating surplus of £14k for the full year.
* The forecast includes £600k expenditure on developing business cases, marketing and the Evergreen Fund, funded from the retained business rates. This expenditure will be heavily weighted in the second half.
* Forecast reserves within the LEP of £284k with additional funds available from retained business rates.

Half year 2019/2020

A detailed table of income and expenditure is at Appendix A.

The first 6 months of the year shows a small operating surplus of £24k compared to a budget deficit of £64k. The budget deficit at the half year reflects the profile of income and expenditure, the full year budget is balanced. The surplus is made up of £16k on core activities and a £8k on programmes.

Core income is £45k above plan, largely because interest income on the unutilised balances of the LGF and GPF held by CEC was £80k more than expected. Spending on staff costs exceeds budget by £93k explained, for the most part, in the section “Full Year Forecast”. However, in addition, for the short term we are also funding temporary agency staff as we carry out our IT and HR reviews. Non-pay related costs are running below budget, the most significant saving being £61k on marketing and PR expenses. This underspend is expected to reduce.

For programme work we typically match the income provided for specific purposes with defrayed expenditure. So, for items such as the LIS Strategy, Digital Skills Partnership and Skills Advisory Panel, where spending has been softer than profiled, so the recorded income is also reduced. The lower income is compensated by lower expenditure. The £8k difference is purely a timing difference. As spending increases on these activities during the remainder of the year, so more income will be reflected in the accounts. Cash for these activities remains available to the LEP to be drawn from the balance sheet as and when required.

Full Year Forecast

Core Income and Expenditure

The core expenditure on staff pay has been re-calculated based on current employees and salaries charged to the core. Compared to the budget, the forecast is £83k higher, represented by variances as follows:

|  |  |
| --- | --- |
| Post | Employee cost variance to budget |
| Revised estimates: |  |
| Deputy Chief Executive (£50k not 50% charged to MC) | 12k |
| Finance and Commercial Director | 3k |
| Finance support (overlap and F/T vs P/T) | 22k |
| Communications and Marketing Director | 8k |
| Business Growth and Innovation Director (60%) | 53k |
| EU | (15k) |
| Total  | 83k |

The key variance of £53k arises from the proportion of costs of the Business Growth and Innovation Director presently being charged to the Growth Hub and other programmes. This allocation is under review.

LIS / Projects Income and Expenditure

In 2018/19, the LEP received £200k additional income towards the Local Industrial Strategy and towards strengthened governance. Only £78k was drawn, leaving a balance of £122k to be used this year. For transparency, this has been added to the forecast projects income, though a proportion will be used within the core in respect of governance and reviews.

In addition, the Board, in March 2019, approved the use of £700k of EZ funds split £400k for Business Case Development, £100k for inward investment marketing and £200k for the development costs over three years of the Evergreen Fund, of which £100k has been included in the current year. These investments were not included in the original budget and have therefore been reflected in the revised forecast.

Programmes

In setting budgets, consultancy previously presented within the EZ was moved to core projects and no provision was included for consultancy within the EZ programme. An additional piece of work has been identified, relating to business rates, and the forecast now includes £25k which unless funded by an additional draw down from the EZ retained balances will result in a deficit on the EZ programme.

Summary

Overall, the forecast out turn is a small operating surplus of £14k, which will pass to general reserves. Movements in the pension provision cannot be estimated.

General Reserves

The LEP policy for reserves was discussed at the F&A meeting in September. In short, it is not the policy of the LEP to build up substantial reserves by seeking to create operating surpluses year on year, instead it is to operate a broadly balanced budget by investing the resources at its’ disposal in activities to support the overall strategic aims of the organisation. However, in recognition of the fluctuation in normal business activity, the policy is to maintain a reasonable level of general reserves.

The recent review by F&A also took into consideration that the funding of core LEP activities is now somewhat dependent on funds received from the retained business rates arising from the Enterprise Zones, income from which can also fluctuate. However, because retained business rates are typically transferred one year in arrears, fluctuations of EZ funds are signalled well in advance.

Based on all factors, F&A approved a policy for a minimum reserve of £300k, which may either be held within the statutory organisation or within the EZ account held separately by CEC.

At an extreme, this level of reserve held is also compared to the estimated closure costs of the organisation in the event of Government policy being changed such that the continuation of the LEP is not viable or required, the cost of which is currently estimated at ca. £100k, assuming funding would be provided for staff to work notice periods and effect an orderly close down.

The general reserve however, should not be misconstrued as available cash, it is the difference between the assets and liabilities of the organisation and would only become cash if all the assets were realised at their book value in a closure situation (very unlikely) and after all trading liabilities had been paid.

That said, when the budget for 2019/20 was prepared in January 2019, the expected level of general reserves was £356k. However, after finalisation of the accounts at the 31st March 2019, the opening level of reserves is £270k. With the latest forecast of income and expenditure, the reserve is forecast to out-turn the year at £284k. Additional funds are available within the EZ account (see section “The EZ Fund”).

The table below shows the movement in the reserve:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Forecast****£’000** | **Budget****£’000** | **Variance****£’000** |
| **Opening Reserves at 1/4/19** | **270** | **356** | **(86)** |
| Operating Surplus/(Deficit) | 14 | 0 | 14 |
| Movement in Pension Provision | 0 | 0 | 0 |
| **Closing Reserves at 31/3/20** | **284** | **356** | **(72)** |

The EZ Fund

Having received confirmation of business rates obtained in 2018/19 by the Local Authorities, receipts to the EZ “fund” were £87k higher than forecast. The table below provides an indication of how the fund is being utilised. The table reflects the proposed EZ loan, with estimated costs, based on current understanding and assumptions:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Forecast****£’000** | **Budget****£’000** | **Variance****£’000** |
| **Opening Balance at 1/4/19** | **1,014** | **1,014** | **0** |
| Receipts  | 843 | 756 | 87 |
| EZ Local Authority “Match” | (125) | (125) | 0 |
| Drawn by LEP | (632) | (607) | (25) |
| LEP Core Programmes (Board approved) | (600) | 0 | (600) |
| **Closing Balance at 31/3/20** | **500** | **1,038** | **(538)** |
| Deferred Liabilities on EZ funds: |  |  |  |
| Arrangement fee EZ loan | (75) | 0 | (75) |
| Interest | (77) | 0 | (77) |
| **Imputed Balance at 31/3/20** | **348** | **1,038** | **(690)** |

**Marketing Cheshire**

Given that the LEP now legally stands as the sole guarantor member, the following table summarises the latest financial position of Marketing Cheshire:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Forecast****£’000** | **Budget****£’000** | **Variance****£’000** |
| **Income**  | **1,174** | **1,189** | **(15)** |
| Contribution  | 430 | 413 | 17 |
| Expenditure  | 405 | 412 | 7 |
| Surplus / Deficit | 25 | 1 | 24 |

|  |  |  |  |
| --- | --- | --- | --- |
| **Reserves 31/3/2020** | **309** | **272** | **37** |
|  |  |  |  |
| Current cash balance  | 504 |  |  |

The current forecast for the year and overall strength of reserves and cash give no cause for concern.

**Bank Mandate**

The LEP Bank Mandate requires updating. The mandate currently has three directors and two officers as signatories. Two of the named directors have since left the organisation, leaving only Christine. The two officers are Philip and Mark.

It is recommended that Chris Hindley and Stephen Kinsey, the two directors also serving on the Finance and Audit committee, and Ian Brooks are added to the mandate, to replace those who have left or are leaving.

**Ian Brooks**

**Finance and Commercial Director**

**October 2019**

Appendix A

Income and Expenditure

A summary of the income and expenditure account for the half year to 30th September 2019 is presented below:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **£’000** | **Actual****YTD** | **Budget****YTD** | **Variance****YTD** | **Annual Budget** | **Current Forecast** |
| **Core Activity** |  |  |  |  |  |
| Core Income |  770 | 725 | 45 | 1,349a | 1,349 |
| Core Expenditure: |  |  |  |  |  |
|  Staff | (514) | (421) | (93) | (843) | (926) |
|  Non-Staff | (180) | (218) | 38 | (506) | (506) |
|  |  |  |  |  |  |
| LIS/Projects Income | 0 | 0 | 0 | 300 | 422 |
| EZ Transfer for Core Projects | 26 | 0 | 26 | 0 | 600 |
| LIS/Projects Expenditure | (86) | (150) | 64 | (300) | (900) |
| **Sub-Total Core +** | **16** | **(64)** | **80** | **0** | **39** |
|  |  |  |  |  |  |
| **Programmes** |  |  |  |  |  |
| DiT Income | 34 | 34 | 0 | 68 | 68 |
| DiT Expenditure | (32) | (34) | 2 | (68) | (68) |
| Digital Skills Partnership/SAP Income | 15 | 0 | 15 | 150 | 150 |
| Digital Skills Partnership/SAP Expenditure | (15) | 0 | (15) | (150) | (150) |
| Growth Hub Income | 132 | 143 | (11) | 287 | 287 |
| Growth Hub Expenditure | (114) | (143) | 29 | (287) | (287) |
| The Pledge Income (in. kickstart and CEC) | 111 | 106 | 5 | 212 | 212 |
| The Pledge Expenditure | (111) | (106) | (5) | (212) | (212) |
| Enterprise Zone Income | 69 | 69 | 0 | 138a | 138 |
| Enterprise Zone Expenditure | (81) | (69) | (12) | (138) | (163) |
| **Sub-Total Programmes +** | **8** | **0** | **8** | 0 | (25) |
| **Total Operating LEP Surplus/(Deficit)** = | **24** | **(64)** | **88** | **0** | **14** |
|  |  |  |  |  |  |
| Movement in Pension Provision + | 0 | 0 | 0 | 0 | 0 |
|  |  |  |  |  |  |
| **Total LEP Surplus/(Deficit)** = | 24 | **(64)** | **88** | **0** | **14** |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| NP11 Income | 176 | 403 | (227) | 805 | 805 |
| NP11 Expenditure | (176) | (403) | 227 | (805) | (805) |

Notes

1. Expressed after transfer of £593,000 EZ funds, including £125k as Local Authority “match”.