

Agenda Item 5 (a)

Paper for Finance and Audit Committee 14/09/2021

Financial Report - Month Ended 31st July 2021

This Report refers to the LEP only.

Income and Expenditure

A summary of the income and expenditure account is presented below. In addition to reporting the legal entity, to bring more visibility of the “Enterprise” the cash balances, and related transactions, of the key investment funds are shown separately. The one word of caution is that typically those funds have existing commitments yet to be paid such that the reported closing balance should not be viewed as funds “available” for new projects and a separate report is provided for the investment funds.

SUMMARY OF 2020-21 FUNDING (YTD JULY 2021)						
£'000	LEP ORGANISATION		INVESTMENT FUNDS			
	Core Activity	Delivery Programmes	Local Growth	Getting Building Fund	Growing Places	Retained Business Rates
Opening Balance			6,053	7,640	4,375	4,133
Resources Receivable:						
Central Government	118	226	0	7,750		
Central Government NP11		104				
Local Authorities incl. Business Rates	250	0				0
Investment Loans Repaid					41	
LEP Borrowing						0
Other Delivery Programmes	59	492				
Resources Expended:						
Infrastructure Projects		(368)	(5,492)	(7,656)	(16)	(205)
Skills & Education		(175)				(600)
Business Growth & Support		(184)			0	
Northern Powerhouse 11 Strategy, Planning and Operations	(450)	(104)				
Closing Balance	(23)	(9)	561	7,734	4,400	3,328

A more detailed analysis of the LEP Organisation is provided at Appendix A.

Four Months to 31st July 2021

For the first four months of the year the LEP reports an operating deficit of £32k, compared to a budgeted deficit of £58k. We planned a deficit for the year having recognised the income for several grants last year where expenditure continues into 2021/22.

While the overall financial position is slightly better than planned, there are some notable variances. Core income is £83k below budget. There are two main factors for this. The first is that the budget included drawing in £150k in the current year (£50k for the first four months) of deferred income. In the audit for 2020/21, it was agreed to recognise that income last year. The impact of that decision was to increase income and carried forward reserves last year, and to lower income and utilise reserves in the current year. The second factor relates to grant received from MHCLG/BEIS, which is separated into a general operating fund and a fund for strategy projects. So far, we have recognised only £18k towards the strategy projects, matching the costs so far incurred, although the budget recognised £67k by this stage of the year.

Part of the background is the reported delay to receiving our core annual grant payment of £500k. We have been slightly cautious to accrue income at the budgeted level or to commit project funds in anticipation that payments will be received. The position has eased in August with receipt of half the annual grant, but a second payment remains uncertain. Consequently the allocation of the MHCLG/BEIS grant between operations and strategy may need to be different to the split that was budgeted.

Despite the lower income, the deficit on core activities at £23k is better than the budgeted deficit of £37k. This is due to operating costs running £97k lower than budget in the early part of the year. Most significant among the positive cost variances is £38k on staff costs, although this is to some extent a presentational matter. Confirmation of the higher grants for the Growth Hub means more core staff time (and cost) continue to support Growth Hub activities, thus reducing the burden on core costs. We have also limited our expenditure on temporary staff, consultant and legal and professional services generating savings of £27k. In addition, the ongoing restrictions on working in the office, travel and face to face meetings yielded a £10k saving to budget. We have yet to require any of the contingency budget generating a positive variance of £17k.

This year we budgeted to use £650k of Retained Business rates to fund £550k of Accelerate grants and £100k for Place Marketing. The Accelerate grants are being paid out faster than profiled, and expenditure is ahead of budget by £90k. However, this is matched by income.

On our programmes, there are also a couple of variances worthy of explanation. Because for many of our programmes, income is claimed in arrears once costs are defrayed, income is accrued at the cost run rate. Notable is that the Growth Hub income and costs are running £41k below the budget. Most of that was incurred by May, and expenditure is now running much closer to budget levels. Recruitment is ongoing to bolster the team and activities such as the peer networks have only just begun to operate at the anticipated levels.

The income and costs of EZ programme are currently £39k below budget, but as and when deals come through the associated consultant and legal costs will increase quickly.

Full Year Forecast

The most significant updates to the forecast relate to expected income. We continue to assume full MHCLG/BEIS core funding albeit that £250k remains outstanding. As mentioned earlier in the report, the recognition of income last year has reduced the expectation for other income in this year by £150k. In contrast, we have been awarded £100k of additional income, spread over 2 years to September 2023, to support work on North-West Net Zero. £25k has been included in the forecast covering the period 1/10/21 to 31/3/22. We are currently recruiting an Energy Programme Manager (a £70k p.a. post) funded principally by this additional income but topped up by strategy projects funding. Potential upsides not included in the forecast include a possible management fee for LGF arising from residual balances and increases in the supplementary grant arising from repayments within the GPF.

On the expenditure side, core staff costs are anticipated to be below budget by £90k, the saving materialising from our flexible approach to staff supporting programmes particularly the Growth Hub.

All programmes are currently forecasted to operate to their budgeted position, where income and costs balance, with the exception of Accelerate. This programme had a budgeted deficit of £60k for the year which, following the down scaling of activity, is reduced to £13k.

Following the forecast changes, the deficit within the core has increased from £113k to £147k, while the deficit for programmes has reduced from £60k to £13k. Overall, the deficit is forecast at £160k compared to budget on £173k.

Impact on Operating Reserves

LEP reserves include values associated with general operating activities and investing activities, the later arising from the inclusion of the Life Sciences Fund and the investments into the Enterprise Zone. Previously the committee has approved a policy of maintaining the operating reserve above £300k so, for the purposes of this section and comparability to prior years, the reserves have been split into their various components and only the operating reserve is shown in the table below:

	YTD £'000	Forecast £'000	Budget £'000	Variance £'000
Opening Reserves at 1/4/21	892	892	591	301
Operating Surplus/(Deficit)	(32)	(160)	(173)	13
Closing Reserves at 31/3/22	860	732	418	314

The forecast opening balance of the reserve is different to the budget, reflecting the audited outcome of 2020-21.

While the opening level of reserves is reassuring, it is affected by recognising income received during 2020-21 which is earmarked to pay for expenses in 2021-22. In addition, some sources of funding achieved in 2020-21, such as management fees for the LGF programme and supplementary revenue grants are not expected to be repeated in 2021-22. For these reasons, we have a budgeted deficit, but the level of reserves is expected to remain above the target level and will ensure we can maintain capacity.

Ian Brooks

Finance and Commercial Director

September 2021

Appendix A

Summary of Management Accounts 31st July 2021

£'000	Actual	Budget	Variance	Annual	Current
	YTD	YTD	YTD	Budget	Forecast
Core Activity					
Core Income	409	443	-34	1329	1239
Core Expenditure:					
Staff	-279	-317	38	-950	-860
Non-Staff	-171	-231	59	-692	-726
Core Projects Income (LIS, Strategy)	18	67	-49	200	200
EZ Transfer for Grants / Core Projects	307	217	90	650	650
Core Projects Expenditure	-307	-217	-90	-650	-650
Grants			0		
Sub-Total Core +	-23	-38	15	-113	-147
Programmes					
DiT Income	21	23	-2	68	68
DiT Expenditure	-21	-23	2	-68	-68
Digital Skills Partnership/SAP Income	41	50	-9	150	150
Digital Skills Partnership/SAP Expenditure	-41	-50	9	-150	-150
Growth Hub Income	163	204	-41	612	612
Growth Hub Expenditure	-163	-204	41	-612	-612
The Pledge Income (in. kickstart and CEC)	115	118	-3	354	354
The Pledge Expenditure	-115	-118	3	-354	-354
Accelerate Income	9	13	-4	40	9
Accelerate Expenditure	-18	-33	15	-100	-22
Enterprise Zone Income	61	100	-39	300	300
Enterprise Zone Expenditure	-61	-100	39	-300	-300
Sub-Total Programme Income	717	725	-7	2174	2143
Sub-Total Programme Expenditure	-727	-745	18	-2234	-2156
Sub-Total Programmes +	-9	-20	11	-60	-13
Total Operating LEP Surplus/(Deficit) =	-32	-58	25	-173	-160