Agenda Item 5 (a)

Paper for Finance and Audit Committee 14/12/2021

Financial Report - Month Ended 31st October 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 OCTOBER 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	238	430	0	7,750		
Central Government NP11		260				
Local Authorities incl. Business Rates	415	573				698
Investment Loans Repaid					173	
LEP Borrowing						0
Other Delivery Programmes	102	202				
Resources Expended:						
Infrastructure Projects		(573)	(5,502)	(7,933)	(151)	(429)
Skills & Education		(296)				(600)
Business Growth & Support		(345)			0	
Northern Powerhouse 11		(260)				
Strategy, Planning and Operations	(805)					
Closing Balance	**(50)**	**(9)**	**551**	**7,457**	**4,397**	**3,802**

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

Seven Months to 31st October 2021

Core LEP (Strategy, Planning, Operations and Administration)

For the first seven months of the year the LEP reports an operating deficit of £59k, compared to a budgeted deficit of £101k. 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 better, the year is playing out somewhat differently to the plan, triggering some notable variances. Core income is £83k below budget. There are several factors contributing to this:

1. The budget included drawing in £150k in the current year (£87k for the first seven months) of deferred income. In the audit for 2020/21, it was agreed to recognise that income last year, thus increasing income and carried forward reserves last year, and thereby lowering income and utilising reserves in the current year.

2. Grant received from DLUHC/BEIS is separated into a general operating fund and a fund for strategy projects. Year to date, we have recognised only £62k towards the strategy projects, matching the costs so far incurred, although the budget recognised £117k by this stage of the year. Utilisation of the strategy budget is expected to increase in the remaining months of the year with work on Levelling Up, Net Zero and updating of our evidence base to reflect the post-covid economy.
3. The reductions referred to above have been partially offset by higher receipts for supplementary revenue grants and management fees. Combined, these sources of income are £55k above plan YTD.
4. Starting in October, we have postponed drawing into the LEP £39k per month of retained business rates, preferring instead to leave the funds available for future years and projects. This approach has been made possible because operational costs are running below the budgeted levels and to deliver an outturn closer to the budgeted use of reserves.

Despite the lower income, the deficit on core activities at £56k is better than the budgeted deficit of £66k. This is due to operating costs running £152k lower than budget. The most significant positive cost variances are:

1. £75k on staff costs which includes a combination of reasons. In part, it is 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. Where we have recruited staff, there has been a "gap" between leaver and new starter, thus generating a saving.
2. We have also limited our expenditure on temporary capacity, i.e., temporary or contract staff and consultants, yielding a £22k saving. Legal and professional services have generating savings of £15k.
3. In addition, the ongoing restrictions on working in the office, travel and face to face meetings yielded a £15k saving to budget.
4. We have yet to require any of the contingency budget generating a positive variance of £29k.

To put some of the cost saving in context, the uncertainty over receiving our core annual grant payment of £500k from DLUHC/BEIS has driven a cautious approach to recruitment and expenditure. The position eased in August with receipt of half the annual grant, and we have only recently received confirmation that the second instalment will be paid in the week before Christmas.

<u>Strategic Projects</u>

This year we budgeted to use £650k of Retained Business rates to fund £550k of Accelerate grants and £100k for Place Marketing. After a very strong few months early in the year, payments for Accelerate have reduced in the past two months. Total grants have reached £468k. DWP have recently confirmed changes to the scale of the Accelerate programme, but the LEP remains committed to providing its full £600k towards training.

<u>Delivery Programmes</u>

For our delivery programmes income is usually matched against the expenditure, which means variances of surpluses or deficits are minimal. However, the scale of programmes can vary against the plan, depending on our levels of activity, the key risk of which is we have insufficient expenditure to claim the full resource available to us. This is most relevant for the Growth Hub, which in 2021/22 has £462k of annual base funding and £150k towards peer to peer networks, and where expenditure is currently running 15% (£50k) below the budget level. The shortfall has arisen from earlier in the year when we were still getting activities "up and running". Recent monthly expenditure is close to the budgeted level.

Accelerate was budgeted to incur a £60k deficit for the full year. The programme has since been scaled back and change controls agreed with DWP. Consequently, we do not expect the deficit of £9k (budget £35k) reported up to the end of October to increase in the remainder of the year.

The income and costs of EZ programme are currently £26k below budget, but there are at least two investment projects under development and the associated consultant and legal costs will increase as they approach finalisation.

Full Year Forecast

There has been relatively little change to the forecast since the update in July, which assumed full DLUHC/BEIS core funding and adjusted for the recognition of income last year. The update is to reflect the lower forecast income to be received from business rates towards operations, which is less likely to be needed given the current level of operating expenditure.

We had also previously adjusted the forecast for an award of £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.

These funds are being used to employ an Energy Programme Manager (a £70k p.a. post) funded principally by this additional income but topped up by strategy projects funding. This post is proving challenging to fill and an option is being considered which will see the LEP securing resources from a local authority team (and paying for those services rather than employing someone).

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 £9k.

Following the forecast changes, the deficit within the core has increased from £113k to £382k, while the deficit for programmes has reduced from £60k to £13k. Overall, the deficit is forecast at £395k 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)	(59)	(395)	(173)	(222)
Closing Reserves at 31/3/22	**833**	**497**	**418**	**79**

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

December 2021

Appendix A

Summary of Management Accounts 31st October 2021

£'000	Actual YTD	Budget YTD	Variance YTD	Annual Budget	Current Forecast
Core Activity					
Core Income	693	775	-82	1329	1004
Core Expenditure:					
Staff	-479	-554	75	-950	-860
Non-Staff	-326	-403	77	-692	-726
Core Projects Income (LIS, Strategy)	62	117	-55	200	200
EZ Transfer for Grants / Core Projects	418	379	39	650	650
Core Projects Expenditure	-424	-379	-45	-650	-650
Grants			0		
Sub-Total Core +	**-56**	**-66**	**10**	**-113**	**-382**
Programmes					
DiT Income	37	40	-3	68	68
DiT Expenditure	-37	-40	3	-68	-68
Digital Skills Partnership/SAP Income	85	88	-2	150	150
Digital Skills Partnership/SAP Expenditure	-85	-88	2	-150	-150
Growth Hub Income	308	357	-49	612	612
Growth Hub Expenditure	-308	-357	49	-612	-612
The Pledge Income (in. kickstart and CEC)	193	207	-14	354	354
The Pledge Expenditure	-193	-207	14	-354	-354
Accelerate Income	9	23	-14	40	9
Accelerate Expenditure	-18	-58	40	-100	-22
Enterprise Zone Income	154	175	-21	300	300
Enterprise Zone Expenditure	-149	-175	26	-300	-300
Sub-Total Programme Income	1205	1268	-63	2174	2143
Sub-Total Programme Expenditure	-1214	-1303	89	-2234	-2156
Sub-Total Programmes +	**-4**	**-35**	**31**	**-60**	**-13**
Total Operating LEP Surplus/(Deficit) =	**-59**	**-101**	**41**	**-173**	**-395**
NP11 Income	260	303	-43	520	520
NP11 Expenditure	-260	-303	43	-520	-520