



## **Paper for the F&A Committee**

**Title: Agenda Item 7 – Budget 2021-22**

**Date: 16 March 2021**

**Strategic Purpose: Governance**

**Resource Implications: Use of financial resources**

**Board: To approve the Budget for 2021-22**

### **Introduction and Context**

The board received and discussed an early draft of the LEP and MC provisional budgets at its meeting in January. Since then, we have received confirmation of funding from some sources and continued to develop our income and cost assumptions.

As general context, the Budget delivered by the Chancellor on March 3<sup>rd</sup>, 2021 provided, among other initiatives, for some new grants to business and support with the extension of the furlough scheme until September and reduced VAT for hospitality. Future capital programmes such as the Levelling Up Fund are to be bid for directly through Local Authorities. These announcements do not translate into additional funding for LEP activities. That said, there is support for the programmes hosted by the LEP with increased funding for the Growth Hub and, potentially, the Pledge.

The Budget contained an announcement of a review of LEPs which will take place over the next few months. The future role and shape of LEPs is therefore likely to become clearer as we enter the spending review period in September. There is also a review of Destination Management Organisations. The close association of the LEP with Marketing Cheshire has benefitted both organisations but we are aware of other DMOs which have reduced their capacity to very few staff.

2021-22 is expected to be a year of transition in which the functions and funding arrangements beyond April 2022 become clearer. Our approach to setting budgets for 2021-22, described to the Board in January, has been to preserve current capacity pending the outcome of those reviews and to draw on reserves to some extent to achieve that. We will continue to use our resources flexibly to deliver on the grant funding objectives and maintain a close watch on expenditure, making cost savings when it is appropriate. During the second half of the year, when we expect greater clarity, we will shape the LEP and MC organisations accordingly with a view to ensuring balanced budgets in 2022-23.

This paper is presented in two parts. Part 1 focusses on the operating budget, while part 2 addresses our capital / EZ funds and the financing budget associated with the EZ Loans.

## Part 1 – Operating Budgets

Table 1 summarises the operating budgets for the LEP and MC.

**Table 1: Summary of Estimated Operating Budget 2021-22**

£'000	LEP	Marketing Cheshire
Government / LA Income	750	354
Management Fees / Other Income	310	
EZ Transfer	469	
Programme / Commercial Income	2,174	567
<b>TOTAL INCOME</b>	<b>(3,703)</b>	<b>921</b>
Operating Costs	(1,642)	(288)
Programme Costs	(2,234)	(628)
<b>TOTAL COSTS</b>	<b>(3,876)</b>	<b>(916)</b>
<b>BUDGET SURPLUS / (DEFICIT)</b>	<b>(173)</b>	<b>5</b>
Forecast reserves at 1.4.2021	591	236
Forecast reserves at 31.3.2022	418	241
“Target” reserves	300	160

### LEP

Income for the LEP is estimated to be £0.1M lower in 2021-22 compared with the most recent forecast for current year. Compared with January’s estimates, where income was expected to reduce by £1.2M, this represents a far less dramatic movement between the two years. However, the change is largely presentational, caused by the timing of income and payment of Accelerate Grants, £0.5M of which have been put back into 2021-22. In short, this reduced income for 2020-21 and increased income in 2021-22, thus narrowing the difference between the two years.

The underlying narrative set out in January for planning the budget for 2021-22 remains valid.

The fall of £0.1M comprises a reduction in core income of £0.4M and an increase in delivery programmes of £0.3M.

### Core Funding

The detailed assumptions for 2021-22 are outlined in appendix 1 and have been updated. We still await formal confirmation from MHCLG/BEIS that core income from MHCLG/BEIS will be the same, £500k, as in previous years with the ongoing requirement for £250k to be matched locally. In the past, this has been achieved by the Local Authorities each making equal contributions of £42k and £125k from the retained business rates. All the indications are the same approach will be adopted for 2021-22, and having raised the likelihood in January, we have written formally to Local Authorities to confirm their agreement to funding.

The reduction in core income reflects the following key changes:-

- No longer receiving a management fee for LGF (£131k).
- A significant reduction in supplementary revenue grant (£221k), which arose from interest earnings associated with loan repayments, which are assumed not repeated in 2021-22.

- A reduction of other income (£110k), where previously we have been carrying forward balances of grants received in prior years.

The approach to maintain organisational capacity at existing levels pending the outcome of the LEP review broadly translates to a core expenditure budget roughly equal to 2020-21. With the anticipated reduction in income, and a constant cost base, the current operating deficit for 2021-22 is estimated at £113k.

#### *Programme Delivery*

We have received confirmation that budgets for Growth Hub activity will be increased significantly by BEIS in 2021-22. The confirmed figure of £612k compares with the budget allocation of £287k in 2020-21. In practice this means that most of the additional grants awarded at short notice during 2020-21, e.g. for EU Exit and Peer Networks are being maintained into 2021-22.

The Pledge, where funding is confirmed until August 2021, is awaiting confirmation of applications to various funders for increased levels of funding beyond September 2021.

Other programme funds are expected to continue at the same levels in 2021-22 as the current year. This includes funding for DiT, Digital Skills Partnership, Skills Advisory Panel and the EZ programme management. A key point with these programmes is that the funds are ringfenced and we balance the use of resources to the income levels.

In 2020-21, several projects were authorised from EZ retained balances, including £600k for Accelerate Grants, £200k for Place Marketing and £80k towards Thornton Science Park. As has been described above, the timing of the Grant payments has slipped back but the commitments remain. These initiatives will deplete the EZ funds (see Part 2) and the board should note that we have insufficient EZ funds to repeat in 2021-22.

Accelerate, which is expected to run a deficit of £60k this year, is budgeted to continue operating to a similar deficit in 2021-22. As a result, the overall programme budget for 2021-22 is a deficit of £60k.

#### *Use of LEP Reserves*

The combined budget deficit for core and programme is £173k which requires the use of operating reserves. The use of reserves is affordable, because we expect to begin the year with reserves of £591k, following a surplus (increase in reserves) in 2020-21 estimated at £295k. The surplus in 2020-21 results primarily from additional core income receivable in the year, for which expenditure has not yet been incurred:

- Supplementary Revenue Grant above budget by £106k
- Management fees for Getting Building Fund, £75k
- LRF Funding, £25k.

After the budget use of reserves the balance (£418k) remains comfortably above the minimum level of £300k.

#### *MC*

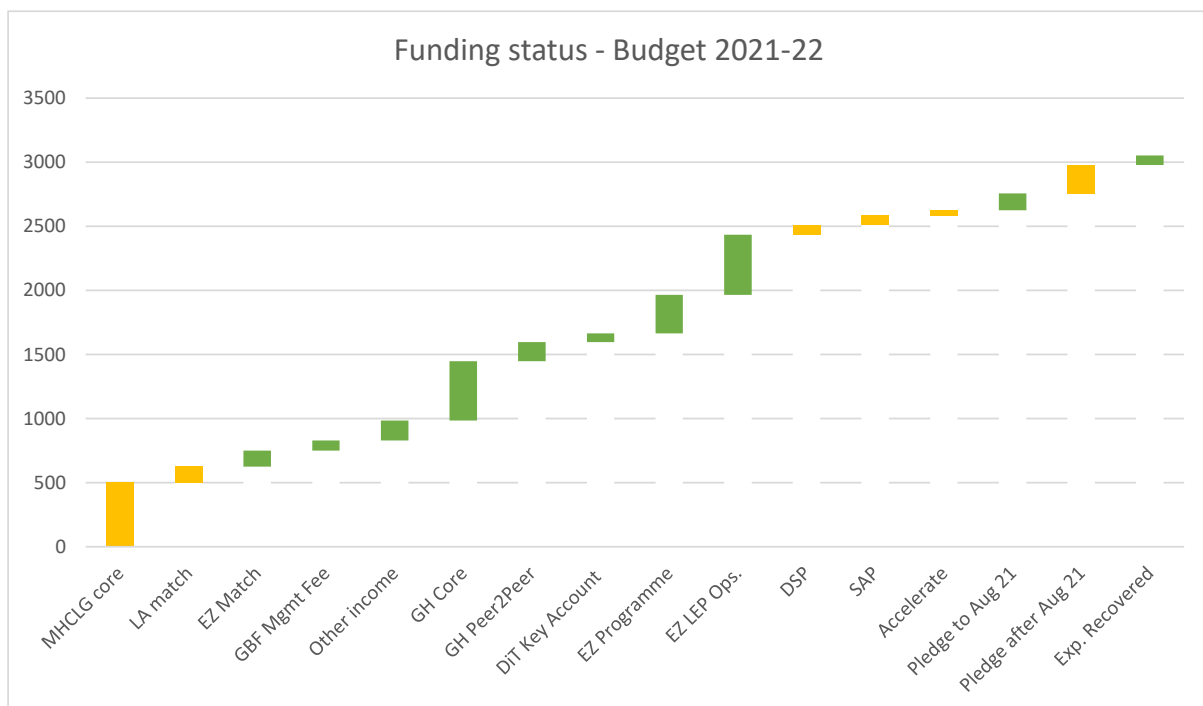
The planning and the budget for MC has moved on significantly since January and a scenario has been developed which targets sufficient commercial and partnership income (roughly one quarter of

a “normal” year) to deliver a balanced budget. In arriving at this scenario, engagement has been taking place with key subscription partners and the signs for some commercial income are encouraging. It remains a risk and will be kept under regular review. As with the LEP the objective is to retain capacity, using reserves in 2021-22 if necessary, to meet the upturn and recovery anticipated in 2022-23.

## Risks and Opportunities

### LEP

- The diagram below indicates which funding streams have, at the time of writing, been confirmed (green) and those where confirmation is awaited (amber). There is a small risk that some not all the funding streams will be confirmed at the assumed levels.



### On the upside:

- Supplementary revenue grants derived from interest earned on GPF loan repayments may be higher. Because the timing and value of repayments is uncertain, or may not occur until 2022-23, no income has been budgeted.
- Opportunistic cost savings as and when staff leave, e.g. combining strategy and public affairs roles (see below).
- Additional grant funds provided to the Growth Hub to support business.
- Additional DiT funding to support inward investment marketing.

### MC

- Additional Growth Hub funding to the LEP enables MC staff to continue to work on an interim basis delivering business support, particularly for hospitality and leisure sectors.
- Commercial income, including from the VIC, falls short or exceeds the assumed levels.

- Covid restrictions are reduced by the summer and VIC income recovers more strongly than budgeted.

## **Part 2 - Capital Funds and Programmes**

Directors will be aware that the LEP oversees and administers several programme funds and that the funds are held on the LEPs behalf by the accountable body, Cheshire East Borough Council. The LEP approves the projects and programme manages the funds, the majority of which are paid directly to project applicants by CEC and do not pass through the LEP operating company accounts. However, we include them when discussing the LEP as an enterprise. That said, the LEP receives some income from the funds in the form of management fees, supplementary revenue grants arising from interest earned by CEC while the funds are idle, and transfers from the EZ retained business rates to finance in part the locally sourced match for core funding, the operational costs of the EZ programme management and a contribution towards core operating costs which support general economic regeneration activities. These income streams form part of the operating budget described in Part 1.

### Local Growth Fund

The Local Growth Fund is in its final year. We are contracted and expect claims that will exhaust the fund by 31/3/21. It is not being replaced in 2021-22. However, some monitoring of projects is expected to ensure outputs are delivered.

### Getting Building Fund

This fund was introduced by Government in 2020-21, in two tranches, the first of which has been received towards three schemes in the sub-region. The full allocation for 2020-21 of £7.7M is expected to be claimed by 31<sup>st</sup> March 2021. We anticipate the second instalment of £7.8M in April 2021 and expect it to be spent within the year.

### Growing Places Fund

GPF was initially funded in 2012 with £12.1M. In the meantime, responding to Covid-19 during 2020-21, the LEP Board agreed to two phases of business restructuring grants paid from GPF and to use GPF, rather than EZ retained business rates, to support the development of business cases. After the grants and business case costs are deducted, a fund of £9.3M remains.

GPF has been used to provide a loan of £3.6M support the development of the Cheshire Green industrial park. In 2020-21 we have continued to receive repayments as plots within the park are sold. The disposals mean £3M remains outstanding and are expected to continue with the loan due for repayment by September 2022.

Temporary funding of £6.6M was provided by GPF for EZ projects and now that the EZ loan facilities are in place, funds are being drawn from the loans to repay the GPF.

GPF will therefore be available for re-deployment from 2021-22 including possibly providing cover for the Life Sciences Fund 2.

### Enterprise Zone Retained Business Rates

Events during 2020-21 has had a marked impact compared to the plan for Retained Business Rates. Income fell below expectation by £380k, while commitments to invest funds increased by almost £600k. Additional investment has taken the form of increased consultant fees to support

investment into new projects and to develop proposals for the Growth Corridor. Having “freed” up funds by switching the costs of business case preparation to GPF, £600k was committed as grant to the support of the Accelerate Skills programme. At the end of 2020-21, it has been forecast that only £50k of cash outflow in respect of Accelerate grant will have occurred, and cash will outflow primarily in 2021-22. Taking account of existing commitments, the available EZ balance is close to being exhausted and which will need to rebuild over 2021-22 and 2022-23.

The outlook for EZ retained business rates income is predicated on the new projects coming on stream which have been financed by the EZ loans arranged with the Local Authorities. Drawdowns began in 2020 and interest accrues in 2020-21 and 2021-22 before repayments commence in 2022-2023. Directors should be aware that the interest will be charged to the LEP I&E accounts in the year it is incurred as a financial expense, not an operating expense.

Appendix 3 provides an updated summary of the expected annual cash flows and on which transfers to for the operating company for 2021-22 budgets will be based. The interest rate has been amended to reflect a reduction of the PWLB interest rates by 1%. This has not reduced the expected repayments, only the interest element thereby hastening the repayment of the loans.

## Appendix 1 - Key assumptions

### LEP

- Staffing and capacity levels are maintained pending the outcome of the LEP review.
- MHCLG/BEIS and local authority match remain as in previous years (£750k).
- The Local Growth Fund and associated management fees (£107k) will finish on 31/3/2021.
- Other than the Getting Building Fund, no replacement capital funds will be channelled through the LEP. The GBF management fee of £75k for 2020-21 is included in reserves and carried forward for use in 2021/22. The management fee of GBF in 2021-22 will be £80k.
- Supplementary revenue grant (arising from interest on capital balances) will be negligible, the LEP carrying little in the way of capital funds and interest rates being close to 0%.
- The transfer of EZ funds to support general economic development within the LEP core remains fixed at £469k. This is in addition to £300k for EZ programme costs and £100k for Place Marketing.
- Growth Hub baseline funding is confirmed at £462k in £2021-22. Additional grant of £150k is confirmed for Peer to Peer networks.
- Pledge funding bids are successful, securing funding beyond August 2021.
- Digital Skills Partnership, Skills Advisory Panel are all funded by ring-fenced grant and expenditure is matched to the funding provided. For 2021-22, these programmes are assumed to receive the same value of grants as in 2020-21.
- Accelerate income will not cover the current costs resulting in a deficit of £60k. Income from ESF is included but there is no certainty over training provider contributions.
- The LEP should expect to utilise some of the opening reserves. These are higher than planned which arises from income received in 2020-21 but to be spent on activities in 2021-22.
- Staff costs are based on the current (March 2021) organisation, known recruitment, estimated allocation to delivery programmes and include the agreed pay increase of 1.4% to take effect on 1/4/2021.
- To help ensure affordability, budgets for strategy and discretionary marketing have been reduced to £100k and £130k from £200k and £173k respectively, thereby saving £143k (a reduced requirement on strategies and plans and no return to MIPIM in 2022).

### Marketing Cheshire

- Staff and capacity are maintained pending the outcome of LEP/DMO reviews.
- The budget includes some commercial and VIC income, at roughly 25% and 40% of pre-Covid levels.
- CWAC continue to subsidise the VIC (£135k).
- Local Authorities renew existing SLAs.
- Government Grant to DMOs continues (£112k). This funding is subject to successful applications and bids primarily to DCMS.
- Commercial staff are retained throughout the year such that MC is best placed to recommence subscription and commercial work in 2022-23, subject to a return of business confidence in the visitor economy.

Appendix 2 – Detailed LEP Budget

£'000	LEP "Core"	Growth Hub/DiT	Pledge	Accelerate	Skills	EZ	Total
Government / LA Income	750						750
Management Fees / Other Income	310						310
EZ Transfer	469						469
Programme / Commercial Income		680	354	40	150	950	2,174
<b>TOTAL INCOME</b>	<b>1,529</b>	<b>680</b>	<b>354</b>	<b>40</b>	<b>150</b>	<b>950</b>	<b>3,703</b>
Staff Costs	(950)	(492)	(291)	(87)		(119)	(1,939)
Other Operating Costs	(767)						(767)
Other Programme Costs		(151)	(45)		(143)	(831)	(1170)
Overhead Recovery /(Charge)	75	(37)	(18)	(13)	(7)		0
<b>TOTAL COSTS</b>	<b>(1,642)</b>	<b>(680)</b>	<b>(354)</b>	<b>(100)</b>	<b>(150)</b>	<b>(950)</b>	<b>(3,876)</b>
<b>BUDGET DEFICIT</b>	<b>(113)</b>	<b>0</b>	<b>0</b>	<b>(60)</b>	<b>0</b>	<b>0</b>	<b>(173)</b>
Forecast reserves at 1.4.2021							591
Forecast reserves at 31.3.2022							418
"Target" reserves							300



Appendix 3 – Enterprise Zone Retained Business Rates Cash flow (without inflation).

Enterprise Zone - Cash Flow						
	Income	Interest	Capital	Available	Operations	Net Balance
<b>Year Ended</b>						
31-Mar-20						796,182
31-Mar-21	1,056,000	254,070	-	1,056,000	1,298,600	553,582
31-Mar-22	1,300,000	516,330	-	1,300,000	1,543,600	309,982
31-Mar-23	3,608,533	532,976	1,192,426	1,883,131	893,600	1,299,513
31-Mar-24	3,608,533	494,580	1,230,822	1,883,131	893,600	2,289,043
31-Mar-25	3,608,533	454,947	1,270,455	1,883,131	893,600	3,278,574
31-Mar-26	3,608,533	414,038	1,311,364	1,883,131	893,600	4,268,104
31-Mar-27	3,608,533	371,811	1,353,591	1,883,131	893,600	5,257,635
31-Mar-28	3,608,533	328,224	1,397,178	1,883,131	893,600	6,247,166
31-Mar-29	3,608,533	283,233	1,442,169	1,883,131	893,600	7,236,696
31-Mar-30	3,608,533	236,793	1,488,609	1,883,131	893,600	8,226,227
31-Mar-31	3,608,533	188,857	1,432,218	1,987,457	893,600	9,320,084
31-Mar-32	3,608,533	142,768	1,463,035	2,002,731	893,600	10,429,215
31-Mar-33	3,608,533	95,691	1,458,189	2,054,653	893,600	11,590,268
31-Mar-34	3,608,533	48,724	1,047,733	2,512,076	893,600	13,208,744
31-Mar-35	3,608,533	14,635	436,292	3,157,606	893,600	15,472,750
31-Mar-36	3,608,533	417	12,784	3,595,332	893,600	18,174,482
31-Mar-37	3,608,533	-	-	3,608,533	893,600	20,889,415
31-Mar-38	3,608,533	-	-	3,608,533	893,600	23,604,348
31-Mar-39	3,608,533	-	-	3,608,533	893,600	26,319,281
31-Mar-40	3,608,533	-	-	3,608,533	893,600	29,034,214
31-Mar-41	3,608,533	-	-	3,608,533	893,600	31,749,147