



Cheshire and Warrington Enterprise Partnership Finance & Audit Committee Board Meeting Minutes

29th June, 2021 by MS Teams

Present:

Stephen Kinsey (Chair), Chris Hindley, Tony Bochenski

In attendance:

Ian Brooks, Paul Goodwin (CEC), Michael Todd (CEC), Mike Benson (Murray Smith), Nicola Tucker (Murray Smith), Emma Cadell (Murray Smith)

Apologies:

Alex Thompson (CEC), Philip Cox

PART A – Public Session

Agenda Item 1: Apologies and Introductions

1.1 SK welcomed members and attendees to the meeting extending a warm welcome to Tony Bochenski who has joined the committee. Tony gave a short introduction to his career in legal, banking and finance, and his current involvement with the LEP. Apologies were noted as above.

Agenda Item 2: Conflicts of Interest

2.1 No conflicts of interest were declared in relation to Agenda Items.

Agenda Item 3: Minutes of the Meeting 16th March 2021

3.1 The minutes were accepted.

Agenda Item 4: Actions and Matters Arising

4.1 The actions set out in the minutes of 16th March were confirmed as complete, although the committee noted that Philip Cox had given apologies.

Agenda Item 5: Annual Accounts 2020/21

5.1 IB introduced the draft accounts by drawing the committee's attention to three major changes which have transformed the LEP balance sheet when compared to prior years:

- Recognition of the LEP's investment in the Greater Manchester and Cheshire Life Sciences Fund
- Draw down of project loans under the EZ Loan Facilities, and
- Consolidation of Marketing Cheshire

5.2 IB reminded the committee that it, and the full board, had received papers detailing the inclusion of the Life Sciences Fund at previous meetings. Recognition of the investment has added £10M to the income and expenditure reserves. The corresponding entries are £8M of investments at current value, £1.6M owed by CEC shown in debtors, and the fair value loss of £0.4M. Each year the value of the investments is re-assessed and any change in value recorded through the fair value reserve.

5.3 IB explained that the movements in fair value had been substantial in the past two years. A significant loss was reported in March 2020, following the general reduction in company values when the pandemic started, but valuations had largely recovered by March 2021. Apart from general market conditions, volatility in valuation cannot be ruled out given the investments are in early-stage life science technology, where success or failure at specific milestones can impact heavily on a company's value. In response to a question from SK, IB confirmed that the fund follows established valuation techniques and is regulated by various authorities. IB confirmed to CH that the fund is invested in approximately 30 companies to provide, hopefully, sufficient opportunities of successes to mitigate against the risks of failure of some companies within the portfolio.

5.4 IB explained that for the preparation of the LEP draft accounts, valuations currently reflect management figures provided by the fund managers. Audited financial statements are expected after 30th June 2020 and may, if different, require the LEP accounts to be amended.

5.5 With regard to the EZ loan facility, the balance sheet shows that £8M has been borrowed in respect of two projects, Glasshouse and Blocks 22-24. IB explained that the auditors had examined the loan agreements with reference to the provisions of the accounting standards, FRS102, and concluded that the grants and associated future flow of business rates could be recognised as intangible assets. The corresponding entries to the £8M loan are intangible assets of £5M and £3M included within debtors. The debtor arises because the full value of the project loan is drawn on Blocks 22-24 and held by CEC until each grant instalment is claimed by the developers. CEC will pay the instalments thus reducing the debtor and increasing the intangible asset value. Because the intangible asset and debtor carry values equal to the amount of the loan, the transactions have no direct impact on the LEP reserves, other than the cost of interest on the loan.

5.6 TB reminded the committee that the facilities are non-recourse and the local authorities' security for repayment is limited to the future flow of business rates.

5.7 IB explained that the LEP has reached two of the criteria (assets and number of employees) that now require it to consolidate Marketing Cheshire. In the accounts this means Marketing Cheshire has been added into the consolidated balance sheet and income statement. The company accounts for Marketing Cheshire will be independently scrutinised by the Finance and Audit committee of Marketing Cheshire before recommending them to the Marketing Cheshire board for approval in September.

5.8 Because the Income Statement in the LEP consolidated accounts now includes Marketing Cheshire, IB provided more detail about the LEP company performance in 2020-21. Turnover increased from £3.3M to £4.1M. Additional funds for the Growth Hub (+ £360k), the Pledge (+£40k including NHS Catalyst), the Getting Building Fund (GBF) management fee (+£75k) and funding from the Local Resilience Forum (LRF) (+£50k) contributed to the increase. In addition, grants towards training provided by the Accelerate Programme (+£150k) and towards other projects were funded from retained business rates.

5.9 Costs of the Growth Hub, Pledge and Accelerate programmes increased in line with the increased funding, so the additional turnover for those programmes had little effect on operational outturn. However, the GBF management fee and LRF income have been fully recognised in 2020-21 but will be spent mostly in 2021-22. This had the effect of contributing towards an operational surplus in the year. In addition, control of the operational and administrative cost base contributed to a larger overall surplus.

5.10 IB explained that on a like of like basis, before investing activities, the operating surplus was £284k compared to £26k in the prior year. The surplus increased cumulative operational reserves to £580k.

5.11 Discussion then focussed on a matter relating to income recognition and the LEP approach to core funds received for the development of strategy and plans. Historically, the LEP has deferred recognising the income provided for these activities until costs have been incurred. The auditors' opinion was the evidence for this approach was weak when examining the basis on which funds are provided by MHCLG/BEIS against the accounting standards for income recognition. In addition, addressing the matter had taken on increased importance after the values had increased markedly in 2020-21. This reflected that, because of the pandemic, expenditure of the earmarked allocation had not been fully spent. After considering management's view and discussing several alternatives the committee and deputy s151 officer concluded that the income should be recognised in 2020-21 accounts.

5.12 The impact of the decision will be an increase of income by £312k with a corresponding increase in the operational surplus and reserves. The cumulative figure for reserves would rise to £892k. IB expressed concern that reserves could be misinterpreted as funds available for future projects when, in fact, they were already earmarked for specific activities. The committee supported PG's proposal that for management accounts, a proportion of the reserves should be reported as "designated" or "earmarked" reserves and a list of commitments maintained.

5.13 The remainder of the discussion concerning the draft accounts noted that a few minor changes would be required for the strategic and directors reports and that the disclosures on salaries required some modifications.

5.14 To conclude, the discussion identified several amendments still to be made to the draft accounts and that confirmation of the Life Sciences figures remained outstanding. It was agreed that once these changes had been made an updated set of the draft accounts would be circulated to committee members before giving formal approval to recommend the accounts to the full LEP Board. The updates are expected to be completed within a few days.

ACTION: IB

Agenda Item 6: Annual Assurance Report of the F&A Committee to the Board

6.1 The draft report summarising the activities of the committee during the year to March 2021 was presented to members for comment. The purpose is to provide assurance to the directors that the committee is covering its remit and to support the directors' declarations when approving the audited accounts for signature.

6.2 The committee approved the report which will be included with board papers for July.

ACTION: IB

Agenda Item 7: Annual Report of Internal Audit 2020-21

7.1 MT presented the final report of internal audit activity and review for 2020-21. The main items of assurance were to review whether the LEP has complied with the Local Assurance Framework and conditions stipulated for the Growth Hub grants.

7.2 The committee thanked the internal auditors, noted the contents of the report and its recommendations. SK proposed that the report was provided to the full board in July.

ACTION: IB

7.3 MT provided a verbal update on internal audit activity since the year end.

Agenda Item 8: Review of Management Accounts 31st May 2021

8.1 IB presented a paper covering the first two months of financial activity for the LEP. The committee was reminded that the budget for the year anticipated a deficit and that after two months the actual deficit of £26k was broadly in line with the profile (£29k deficit).

8.2 At this early stage of the year, the majority of variances between budget and actual results can be attributed to timing variances and, as such, the full year forecast remains as budgeted. An updated forecast will be prepared for the September meeting, once we have more information available on any changes to planned activities, costs or changes to assumptions.

ACTION: IB

8.3 The one concern raised related to the delay by MHCLG to remit the core funding for 2021-22 to the LEP. IB was able to provide an assurance that the cash flow consequences can be managed in the short term, but that the department is being routinely sent reminders.

8.4 The committee noted the report.

8.5 IB presented an overview of the position with respect to capital programme funds explaining that, with the exception of Growing Places Fund, cash balances currently showing are contracted or committed. The cash available in the Growing Places Fund will increase with repayments and we are receiving some enquiries from projects for possible funding. Such enquiries are worked up by officers before, in the first instance, being considered by Strategy Performance Board. The committee noted the positions with respect to capital programme funds.

8.6 IB presented a paper covering the annual review of reserves. The accounting reserves held by the LEP have been transformed by an order of magnitude following the inclusion of investing activities (Life Science Fund and EZ Loan), so IB presented an analysis that allowed for comparison of the operating reserve with previous years and previous forecasts and on which basis the reserves policy had been based.

8.7 On a like for like basis operating reserves had increased from £296k to £580k, which compared reasonably well with the forecasted year end estimate of £591k. In addition, non-earmarked retained business rates added a further £456k. The combined sum of £1.03M comfortably exceeds the previously agreed LEP policy to maintain a minimum of £300k.

8.8 The committee noted that the decision taken regarding income recognition (referred to in paragraphs 5.11 and 5.12 would increase reserves to £1.33M, albeit, that a proportion of those reserves would be earmarked.

8.9 The committee reviewed possible risks and their financial consequences determining that a minimum level of operating reserves of £300k remained a reasonably prudent figure and confirmed the existing policy for 2021-22.

Agenda Item 9: Review of Corporate Risk Register

9.1 The committee reviewed the current corporate risk register which, when summarised, supports the statement of key risks included in the Strategic Report included within the Annual Report and Accounts. IB explained that there was little change to the risk evaluation compared to recent prior reviews but informed the committee about an ongoing issue with the Growth Hub website, which has caused the temporary "taking down" of the website. The LEP website was still operational.

9.2 The committee requested that the executive re-evaluate the business continuity risk, with extra regard to disruption to IT services.

ACTION: IB

Agenda Item 10: Any Other Business

10.1 No items were raised.

PART B

Mike Benson, Nicola Tucker and Emma Caddell left the meeting.

Agenda Item 11: Re-appointment of Auditors

11.1 IB presented a paper to the committee summarising the existing relationship between the LEP and current auditors, Murray Smith. The chair sought views from members on the performance of the auditors over the previous year and the committee noted the constructive interaction during the year to address the LEPs new areas of activity in a proactive way.

11.2 While fees had increased, the rises were considered to be proportionate with the growth and increasing complexity of the LEP.

11.3 The committee agreed to re-appoint Murray Smith for a further year.

Date of Next Meeting

14th September 2021, 3.00pm-5.00pm either Wyvern House or by Teleconference.