From the Finance & Audit Committee of
Cheshire & Warrington LEP Audit Committee

1 November 2016

Dear Fellow Board Member,

In Relation to Accounts Year Ending March 2016
and Application of the Going Concern Test

The Finance & Audit (F&A) Committee of Cheshire & Warrington LEP have reviewed the accounts for our Company in respect of the financial year ending March 2016 along with the external auditor Mike Benson of Murray Smith who is satisfied that he can sign off the Accounts subject to the two matters below being cleared by the F&A committee and the wider Board.

In relation to the trading year ended March 2016 there are no matters requiring highlighting per se.

A key role of the F&A committee is to ensure the fiduciary responsibilities of the Board are tested for compliance, transparency and absolute clarity for Board members. In that regard, there are two matters for which further clarification of the position is required by the Full Board ahead of recommending the accounts for adoption.

1. Going Concern Test

   As part of adoption and signing off the accounts, the F&A committee, on a statutory basis along with the external auditor, are required to confirm that the Cheshire & Warrington LEP (incorporated company) can fulfil a "going concern" test. This test is to ensure that in the view of the Board the company can continue to trade for at least the next 12 months and on a reasonable and prudent basis is able to confirm that it will be able to discharge its financial liabilities to creditors and its employees.

   This presents some challenges compared to a trading company, given the vagaries of income streams reliant largely upon how "reasonable" it is to assume continuing government funding for which there are currently no legally binding commitments and other possible short term changes that are unknown.

The F&A committee has determined to apply a "going concern" test which applies to the sudden loss of funding from the government, however unlikely that may be.

It is important that the Board notes that the LEP has a very high proportion of staffing costs to income – £870k is required for remuneration and on costs from £1.1m of income, some 79%. While this is quite understandable for a company of this type, it is particularly high and the F&A is aware of the financial, legal and moral responsibilities to our employees when considering the financial position of the LEP.

The current cash position combined with the remaining 2016/2017 forecast assume reserves will be held totalling between £200k-£220k by the year end and budget FY2017/2018 is forecasting a shortfall of income to expenditure of £55k which would reduce year end reserves to approximately £150k by March 2018.

Our CEO, Philip Cox has now confirmed (by means of a separate detailed spreadsheet) that total windup costs of the LEP relating to employment responsibilities (as at 31 March 2017) are calculated at £143k so in the unlikely event of sudden cessation of funding there would be sufficient to discharge this liability.

It is the view of the F&A therefore that cash reserves must not fall below £150k cash, which provides sufficient liquidity to ensure there is sufficient working capital to run the Cheshire & Warrington LEP. This has been noted in the F&A minutes as an action to be discharged by the Executive team.

The F&A <u>strongly recommends</u> that the Board supports this position and should ensure any future budget and/or specific financial commitments sign offs do not cause funds to fall *below* this level and that this level be reviewed annually by the F&A to ensure sufficient liquidity is maintained.

2. The use of GPF money in relation to the development of Enterprise Zone (EZ) requires specific clarification.

   Philip Cox has stated that he hopes there will be no need to draw down GPF capital money to bridge income from the EZ, which is forecast to be £389k for 2016/2017 from tenants "already moving in" and a further £489k in

2017/2018. However, any funds from EZ are received several months after the year end and this may require use of GPF to bridge a cashflow issue.

The GPF money is from the GPF capital fund and our auditor is happy that this is placed on the balance sheet as a liability, but the costs associated with EZ then capitalised as an investment. This will be amortised to the Profit & Loss account as income is received from the EZ. Any GPF money will need to be repaid at some point. This treatment has been discussed and confirmed as acceptable to Murray Smith.

The F&A has probed closely the scenario in which income does not accrue from the EZ and therefore the status of the repayment of the funds to the GPF capital fund.

Philip Cox has confirmed that the liability for repayment would not fall upon the incorporated company (LEP), but rather would raise potential questions from DCLG as to the use of GPF capital money for revenue operating costs of the EZ. The Section 151 officer would need to explain the same. It is pointed out that DCLG are very keen that LEPs support EZs and have agreed in advance that this kind of loan is a legitimate use of GPF.

From the point of view of the F&A, this does not appear to affect the solvency as a going concern of the LEP, but leaves potential criticism of the nature and use of funds in the unlikely event this situation unravels.

Given the two points above and agreement to the specific action on the Executive & Board relating to reserves not falling below £150k so as to ensure the ability of the LEP to discharge its liabilities in the event of loss of income, the F&A recommends signing off the 2015/2016 accounts subject to the Board requesting further clarification as to how the Executive will discharge and monitor these two issues.

Yours sincerely,

Martin Ashcroft
Chair
Finance & Audit Committee
Cheshire & Warrington LEP