



**Cheshire and Warrington Local Enterprise Partnership  
Finance and Audit Committee**

Thursday 19<sup>th</sup> December 2019, 14:30pm – 15:30pm  
Venue: Wyvern House, The Drumber, Winsford

## AGENDA

Agenda Item		Lead	Timings
1	Welcome, introductions and apologies	Chair	5 minutes
2	Conflicts of Interest	Chair	5 minutes
3	Minutes of Meeting 24 <sup>th</sup> September 2019	Chair	5 minutes
4	Matters Arising	Chair	5 minutes
5	Management Accounts October 2019 and Forecast 2019/20	Ian Brooks	15 minutes
6	Draft Budget 2019/20	Ian Brooks	15 minutes
7	Review of Risk Register	Ian Brooks	10 minutes
8	AOB	All	5 minutes
9	Date of next meeting:		
	TBC March 2020	Wyvern House, The Drumber, Winsford.	

**FORWARD LOOK  
2020/21**

<b>Standing Items</b>	<b>Review of Management Accounts Review of Corporate Risk Register</b>	
<b>March</b>	<b>Review of Terms of Reference</b>	
<b>March</b>	<b>Review of Performance of the Committee</b>	
<b>June</b>	<b>Review of Internal Audit 2019/20</b>	<b>David Rees</b>
<b>June</b>	<b>Approval of Internal Audit Plan 2020/21</b>	<b>David Rees</b>
<b>June</b>	<b>Annual Accounts, Auditors Opinion, (Re-)Appointment of Auditors</b>	<b>Mike Benson</b>
<b>June</b>	<b>Review of Reserves</b>	
<b>June</b>	<b>Review of EZ Balances</b>	
<b>September</b>		
<b>September</b>		
<b>December</b>	<b>Draft Budget 2021/22</b>	
<b>December</b>		

**Financial Report****Month Ended 31<sup>st</sup> October 2019**Income and Expenditure

A summary of the income and expenditure account is presented below:

<b>£'000</b>	<b>Actual YTD</b>	<b>Budget YTD</b>	<b>Variance YTD</b>	<b>Annual Budget</b>	<b>Current Forecast</b>
<b>Core Activity</b>					
Core Income	926	846	80	1,349 <sup>a</sup>	1,482
Core Expenditure:					
Staff	(553)	(492)	(61)	(843)	(958)
Non-Staff	(241)	(253)	12	(506)	(672)
Core Projects Income	0	0	0	300	300
EZ Transfer for Core Projects	0	0	0	0	350
Core Projects Expenditure	(97)	(175)	78	(300)	(460)
<b>Sub-Total Core</b> +	<b>35</b>	<b>(74)</b>	<b>109</b>	<b>0</b>	<b>42</b>
<b>Programmes</b>					
DiT Income	40	40	0	68	68
DiT Expenditure	(35)	(40)	5	(68)	(68)
Digital Skills Partnership/SAP Income	25	0	25	0	125
Digital Skills Partnership/SAP Expenditure	(25)	0	(25)	(0)	(125)
Growth Hub Income	152	167	(15)	287	318
Growth Hub Expenditure	(134)	(167)	33	(287)	(318)
The Pledge Income (in. kickstart and CEC)	133	123	10	212	212
The Pledge Expenditure	(133)	(123)	(10)	(212)	(212)
Enterprise Zone Income	80	80	0	138 <sup>a</sup>	218
Enterprise Zone Expenditure	(97)	(80)	(17)	(138)	(253)
<b>Sub-Total Programmes</b> +	<b>6</b>	<b>0</b>	<b>6</b>	<b>0</b>	<b>(35)</b>
<b>Total Operating LEP Surplus/(Deficit)</b> =	<b>41</b>	<b>(74)</b>	<b>115</b>	<b>0</b>	<b>7</b>
Movement in Pension Provision	0	0	0	0	0
<b>Total LEP Surplus/(Deficit)</b> =	<b>8</b>	<b>(74)</b>	<b>115</b>	<b>0</b>	<b>7</b>

NP11 Income	205	470	(265)	805	855
NP11 Expenditure	(205)	(470)	265	(805)	(855)

Notes

- a) Expressed after transfer of £593,000 EZ funds, including £125k as Local Authority "match".

### Seven Months to 31<sup>st</sup> October 2019/2020

Overall the seven months show an operating surplus of £41k. This is made up of a surplus of £35k on core activities and a surplus of £6k, due to timing differences, on programmes.

Core income shows a positive surplus of £80k. The main contributor to this has been significantly higher interest income than planned from the unutilised balances of the LGF and GPF generating £86k more income than expected. However, after significant payments were made in Q2 and Q3 towards LGF projects, the level of “additional” income is expected to fall in Q4.

Core expenditure is running £49k ahead of plan after seven months. There is an overspend on staff costs of £61k. For the most part, this relates to differences in costs (including the proportion of salaries allocation to programmes) compared to budget, which was explained in the report at Q1. Professional Fees and consultants are also running ahead of budget by £74k, explained by the costs of HR consultants conducting a review of HR procedures and pay and grading and consultant support for our IT review. Offsetting the areas of overspend is a significant underspend (£76k) to profile for marketing and PR expenses and £7k for travel related costs.

### Full Year Forecast

The full year forecast has been updated since the completion of the October management accounts. It remains that the LEP will achieve a small surplus for the year, which will pass to general reserves.

In estimating the out turn, we expect interest income to be significantly lower in the second half of the year compared to the first half. We continue to draw down income each month from core funds. Core LEP staff costs are expected to continue at about the current “run rate” for the remainder of the year, but we anticipate a strong upturn in non-staff costs over Q3 and Q4. In particular, this arises from several important initiatives in the LEP, including the recruitment costs associated with the Chair, Deputy Chair and DCEO posts, increased marketing and PR costs arising from website redesign and MIPIM, and costs of the IT upgrade.

Previous forecasts had anticipated full expenditure of £400k on business case development, £100k for the Cheshire and Warrington Urban Development Fund (Evergreen 2) and £100k for Place Marketing. This figure has been dialled back to £350k actual spend for 2019/20, with a further £150k committed. After a competitive tender process, the estimated running costs of Evergreen 2 are now expected to be considerably lower. This places a reduced cash requirement on the EZ funds in the current financial year.

Movements in the pension provision cannot be estimated. However, the most recent valuation provided by the Cheshire Pension Fund offers the prospect that the LEP may be able to crystallise the pension liability in Q4. If this is affordable, the risk of future fluctuations in pension assets and liabilities will be removed from the LEP.

The table below shows the movement in the reserve:

	Forecast £'000	Budget £'000	Variance £'000
<b>Opening Reserves at 1/4/19</b>	<b>270</b>	<b>356</b>	<b>(86)</b>
Operating Surplus/(Deficit)	7	0	7
Movement in Pension Provision	0	0	0
<b>Closing Reserves at 31/3/20</b>	<b>277</b>	<b>356</b>	<b>(79)</b>

### Outlook for the EZ Fund

Having received confirmation of business rates obtained in 2018/19 by the Local Authorities, receipts to the EZ “fund” were higher than forecast. Discussions have been ongoing with Local Authorities to establish a £30M loan facility to support a pipeline of development projects. Initially interest will “roll-up” into the loan with both the capital and interest being repaid from future retained business rates. The table below assumes the costs of the loan arrangement fee and an initial drawdown in Q4 2019/20

The table below provides an indication of how the fund is being utilised:

	<b>Forecast £'000</b>	<b>Budget £'000</b>	<b>Variance £'000</b>
<b>Opening Balance at 1/4/19</b>	<b>1,014</b>	<b>1,014</b>	<b>0</b>
Receipts	920	756	164
EZ Local Authority “Match”	(125)	(125)	0
Drawn by LEP	(642)	(607)	(35)
LEP Core Programmes (Board approved)	(350)	0	(350)
<b>Closing Balance at 31/3/20</b>	<b>817</b>	<b>1,038</b>	<b>(221)</b>
Deferred Liabilities on EZ funds:			
Arrangement fee EZ loan	(75)	0	(75)
Accrued loan interest	(80)	0	(80)
<b>Imputed Balance at 31/3/20</b>	<b>662</b>	<b>1,038</b>	<b>(376)</b>

**Ian Brooks**

**Finance and Commercial Director**

**December 2019**



## Cheshire and Warrington LEP

### Draft Budget 2020-21

#### Income and Expenditure

The LEP policy is to develop, as far as is reasonably possible, a balanced budget, investing the financial resources provided to it and at its' disposal. The summary income and expenditure position for 2020-21 is therefore:

	BUDGET	FORECAST	BUDGET
	2019/20	2019/20	2020/21
<b>TOTAL INCOME</b>	<b>2,292,110</b>	<b>3,066,686</b>	<b>3,347,800</b>
<b>TOTAL EXPENDITURE</b>	<b>2,292,110</b>	<b>3,059,786</b>	<b>3,347,800</b>
<b>NET INCOME (EXPENDITURE)</b>	<b>0</b>	<b>6,900</b>	<b>0</b>

The activities of the LEP can be described as “core” strategy and policy development and delivery programmes and the following sections provide the detail of those budgets.

#### Core Income

<b>Core Income</b>			
EZ match funding	125,000	125,000	125,000
LA Subscriptions	125,000	125,000	125,000
BEIS Core Funding	250,000	250,000	250,000
BEIS Core Strategy Funding	250,000	250,000	390,000
MHCLG Additional Funding	200,000	200,000	-
Supplementary Grant (Interest) on GPF, LGF & EZ balances	96,900	196,800	120,000
EU Technical assistance	7,500	7,500	
LGF3 1% Management Fee	108,200	108,200	107,200
Overhead recovery from delivery programmes	18,000	41,000	41,000
Other Income		10,000	120,000
Use of General Reserves	-	-	-
EZ income	468,600	468,600	468,600
<b>SUB TOTAL - CORE INCOME</b>	<b>1,649,200</b>	<b>1,782,100</b>	<b>1,746,800</b>

The key assumption underpinning core income is that the contributions to the LEP from Local Authorities and BEIS remain at 2019-20 levels (£625k). These amounts are only confirmed at the start of the financial year. It is also assumed that the LEP, as in recent years, draws from the EZ retained business rates a match of the LA contribution (£125k) and support to policy and organisational activity (£468.6k).

The LEP also receives, as supplementary grant, interest earned on the balances held by CEC. The largest contributor arises from the allocation of LGF money at the start of the year which is then invested in projects throughout the year. The level of income from this source is expected to reduce in 2020-21 because the remaining balance of LGF has reduced as we near the end of the programme. The LEP obtains a management fee for LGF (£107.2k) for which 2020-21 is the final year.

Budget income is benefitting by £260k carried forward from previous years' allocations towards strategy funding and governance.

#### Income for Delivery Programmes

In the past 2 years, the LEP has significantly expanded its delivery activities, bringing the Growth Hub in house, hosting the Pledge, and securing funding for the Skills Advisory Panel and Digital Skills Partnership.

Retained business rates from the EZ fund the programme costs for development of the EZ and provide additional programme funds, currently being used to develop business cases and marketing of Cheshire and Warrington, supporting the delivery of the Local Industrial Strategy.

In 2020-21, we expect Accelerate to be added to the delivery portfolio, and for income for delivery to approach half of the LEP total income.

	BUDGET	FORECAST	BUDGET
	2019/20	2019/20	2020/21
<b><i>Delivery Programmes</i></b>			
DiT Contribution towards Inward Investment post	68,000	68,000	68,000
DCMS Contribution - Digital Skills Partnership	75,000	75,000	75,000
DfE Contribution - Skills Advisory Panel	75,000	75,000	75,000
Growth Hub	287,000	287,000	287,000
Pledge		211,586	212,000
EZ Programme	137,910	218,000	184,000
EZ Transfer for projects		350,000	500,000
Accelerate			200,000
<b>SUB TOTAL - DELIVERY PROGRAMME INCOME</b>	<b>642,910</b>	<b>1,284,586</b>	<b>1,601,000</b>

#### Core Expenditure

Core expenditure covers those staff involved on strategy and policy development, marketing and PR and the small leadership and administrative team and the expenditures associated with those activities and the general operational overheads of running the LEP.

Staff costs have increased with the creation of a new posts to support financial management and governance, a consequence the national review of LEPs and increasing complexity of the C&W LEP. For planning purposes only an inflationary pay increase of 2% is assumed across the LEP.

2019-20 will see several one-off expenditures, reflected in the forecast, which are not repeated in the 2020-21 budget. These include costs associated with:

- the recruitment of a new chair, deputy chair and deputy chief executive/chief executive of Marketing Cheshire,
- Upgrading the IT network for the significantly higher number of personnel now working on the delivery activities within the LEP, to support remote and mobile working and improve collaboration,
- Provision of slightly more office space and equipment to accommodate the larger organisation.

The LEP has historically been paying £23k per annum towards pension liabilities for past employees who were admitted members of the Cheshire Pension Fund. It is expected that this liability can be crystallised in 2019-20 avoiding the need for further contributions.



Marketing and PR costs include rebuilding the website, attendance at MIPIM and expenditure with Marketing Cheshire to deliver various marketing activities on behalf of the LEP.

Key strategy projects for 2020-21 include work associated with natural capital and sustainability, inclusive growth and sub-regional cultural assets.

	BUDGET	FORECAST	BUDGET
	2019/20	2019/20	2020/21
<b>Core Expenditure</b>			
Staff Remuneration	815,700	958,000	973,000
Consultants	23,000	80,000	25,000
Pension lump sum	23,000	23,000	0
Training/ Development/ Recruitment	23,200	80,000	50,000
Rent/ Rates	26,600	40,000	30,200
Marketing, comms, stakeholder eng & MIPIM	200,000	173,000	173,000
Subscriptions	24,000	24,000	25,000
Overview and Scrutiny	0	0	15,000
<b>Operational Costs</b>			
Stationery / Postage / Consumables/incl relocation & refurb	10,000	10,000	13,900
Subsistence / Travel	40,000	30,000	30,000
Communications (telephone bills etc)	4,000	7,500	7,500
IT Support & equipment	30,000	65,000	40,000
<b>Professional Services</b>			
LEP Legal & Professional	7,000	50,500	25,000
Accountancy / Audit	4,500	4,500	4,500
Bank charges	200	200	200
Insurance	3,000	4,500	4,500
Accounting Body Charge	65,000	65,000	80,000
Contingency	50,000	15,000	50,000
<b>Programme Support/Development Expenditure</b>			
Programme Development	100,000	0	30,000
Strategy (e.g. LIS)	200,000	110,000	170,000
<b>SUB TOTAL CORE EXPENDITURE</b>	<b>1,649,200</b>	<b>1,740,200</b>	<b>1,746,800</b>
<b>Core Surplus / (Deficit)</b>	<b>0</b>	<b>41,900</b>	<b>0</b>

The core expenditure budget for 2020-21 is balanced with expected income.

#### Expenditure for Delivery Programmes

Put simply, income is drawn down to match defrayed expenditure and for the most part this ensures a balanced outcome. In respect of the forecast for 2019-20, the deficit arises in the EZ programme where costs are being incurred to support developing the EZ loan facility.

	BUDGET	FORECAST	BUDGET
	2019/20	2019/20	2020/21
<b>Delivery Programmes</b>			
DiT Inward Investment post	68,000	68,000	68,000
DCMS Contribution - Digital Skills Partnership	75,000	75,000	75,000
DfE Contribution - Skills Advisory Panel	75,000	75,000	75,000
Growth Hub	287,000	287,000	287,000
Pledge		211,586	212,000
EZ Programme	137,910	253,000	184,000
EZ Funded Projects	0	350,000	500,000
Accelerate			200,000
<b>SUB TOTAL DELIVERY PROGRAMMES EXPENDITURE</b>	<b>642,910</b>	<b>1,319,586</b>	<b>1,601,000</b>
<b>Delivery Programmes Surplus / (Deficit)</b>	<b>0</b>	<b>-35,000</b>	<b>0</b>

### Financial (Non-Cash) Transactions

Beyond the day to day operations of the LEP, the financial statements will report on certain financial transactions which, in 2019-20 and 2020-21, have no direct cash implications.

The LEP is negotiating a loan to support EZ development. Interest on the loan is reported as an expense in the year when it is incurred, but the interest is being added to the loan principal until such times as additional business rates flow to enable repayment.

The working assumption, based on a cash flow model for the EZ investment requirements, is that £10M will be drawn on 1.2.20 to cover existing commitments and increase over 2020-21 to £22M at 31.3.21.

In previous years there has been a movement in the pension value associated with the actuarial assumptions applied to the fund. If, as is mentioned earlier, the LEP has crystallised its' liability in 2019/20, this should be £0 in both years.

	BUDGET	FORECAST	BUDGET
	2019/20	2019/20	2020/21
<b>Non-Cash transactions</b>			
Interest Charge on EZ Loan		80,000	774,400
Pension Adjustment	0	0	-

### LEP Reserves

The table below shows the movement in the income and expenditure reserves of the LEP, which are affected by the financial transactions in the previous section:

	BUDGET	FORECAST	BUDGET
	2019/20	2019/20	2020/21
Reserves b/f at 1st April	269,911	269,911	196,811
Budgeted use of reserves	-	-	
Projected Surplus/(Deficit) 2019/20 per Oct 2018 Management A/cs		(73,100)	
Projected Surplus/(Deficit) per Budget 2020/21			(774,400)
Projected Reserves c/f at 31st March	<b>269,911</b>	<b>196,811</b>	<b>(577,589)</b>

The negative reserve is not a cause for concern. It will, after initially increasing, reduce once income is received into the LEP from the retained business rates. The policy position of the LEP is that, in

combination with balances in the EZ Fund, reserves should be £300k. This is achieved when the balance of £896k in the EZ fund (see next section) is considered.

#### Outlook for the EZ Fund

Flows of cash into and out of the EZ fund are becoming more complex with the introduction of the loan facility and accumulation of interest. The table below presents the movements and the resulting EZ Fund balance.

	<b>BUDGET</b>	<b>FORECAST</b>	<b>BUDGET</b>
	<b>2019/20</b>	<b>2019/20</b>	<b>2020/21</b>
<b>EZ FUNDS</b>			
Opening Balance		<b>1,013,668</b>	<b>737,238</b>
Income		920,170	1,436,204
LA Match, EZ Programme, Transfer to Core		(771,600)	(777,600)
EZ Funded Projects		(350,000)	(500,000)
Loan Draw Down		10,080,000	12,774,400
Loan Fee		(75,000)	-
Accrued Loan Interest		(80,000)	(774,400)
Grant Investments		(10,000,000)	(12,000,000)
Closing Balance		<b>737,238</b>	<b>895,842</b>

**Ian Brooks**

**Finance and Commercial Director**

**December 2019**

