

Agenda Item 5

Paper for Board 15/3/2023

Draft Group Budget 2023-24

Recommendation: To comment on the draft budget

1. Introduction

This paper sets out the budget for 2023-24 and the assumptions we are presently working to. The paper focusses on the operating activities and their associated budgets, but also includes a section on the investing activities. Consistent with the LEP review and our proposals to manage the finances on a group basis, this paper covers both the LEP and Marketing Cheshire.

2. Operating Activities

2.1. Review of 2022-23

The budget for 2022-23 approved by the boards of the LEP and Marketing Cheshire respectively sanctioned the use of operating reserves to support retaining resources while a review of LEP activities was conducted and allowing time for operations to be transitioned to a new organisation in 2023-24. The approval was on the understanding that (i) the executive would seek to mitigate the use of reserves and that (ii) a balanced budget was presented for 2023-24.

The latest forecast outturn for 2022-23 is a deficit of £287k (LEP £218k, MC £69k). The original budget deficit was £701k (LEP £586k, MC £115k) so this represents an improvement against the group budget of £414k (LEP £368k, MC £46k). The improvement has arisen from a combination of higher income, mainly associated with interest on capital funds, and lower operating costs.

2.2 Budget 2023-24

The table below summarises the group budget for 2023-24, with fuller detail provided in Appendix 1 and 2. The budget is based on a wide-ranging set of assumptions which are outlined later in this paper.

Virtually all the LEP and Marketing Cheshire's funding is provided to perform specified activities and consequently is often ring-fenced. Often it needs to be supported by certificates of expenditure signed by the s151. This reduces considerably how funds can be used and resources may not always align to issues that are considered a priority.

The current version of the group budget shows a small deficit, or use of reserves, of £10k (LEP£10k, MC £0k).

LEP/MC Budget 2023-24 - Departmental Analysis					
	GROUP SUMMARY (ex NP11)				
	Policy, Bus. Intel.	Programmes	MC	Corporate	Total
Income / Funding					
Total Income	1,589,500	371,200	1,093,900	640,800	3,695,400
Expenditure					
Commissioned Activities	150,000	-	447,500	-	597,500
Staff and related costs	904,001	367,044	540,945	327,805	2,139,796
Operating costs	198,118	1,100	81,300	195,200	475,718
Governance and overhead	126,770	1,478	24,100	140,300	292,648
Total Expenses	1,378,889	369,622	1,093,845	663,305	3,505,662
Surplus / (Deficit)	10,611	1,578	55	(22,505)	(10,262)

2.3 Operating Reserves

The LEP and Marketing Cheshire have established policies to retain operating reserves of £300k and £130k respectively, a Group total of £430k. The budget for 2022-23 planned for those reserves to dip below that level but actual performance has been better, such that we expect to end the year close to £750k. The latest version of the budget for 2023-24 would see reserves maintained at roughly that level. Given that there continues to be uncertainty over future levels of funding carrying additional reserves provides some re-assurance.

OPERATIONAL RESERVES					
LEP					
Reserves b/f at 1st April		740,000		740,000	522,250
Budgeted use of reserves				-	-
Projected Surplus/(Deficit)		(586,450)		(217,750)	(10,317)
Projected Reserves c/f at 31st March		153,550		522,250	511,933
MARKETING CHESHIRE					
Reserves b/f at 1st April		305,000	0	305,000	236,206
Budgeted use of reserves		0	0	0	0
Projected Surplus/(Deficit)		(114,568)	-	(68,794)	55
Projected Reserves c/f at 31st March		190,432		236,206	236,261

2.4 Assumptions

The key assumptions which deliver a balanced outturn in 2023-24 are:

Income/Funding

- We have been notified that Government funding from BEIS/DLUHC will reduce from £375k to £250k. Confirmation is still awaited, for the Growth Hub and for Inward Investment (DiT) so we have assumed the same value as 2022-23, respectively at £231k and £68k (i.e. flat cash).
- Retained Business Rates will be drawn into the LEP at the same level as 2022-23 to fund the LA match (£94k), the EZ programme (£300k) and support economic intelligence and

planning (£469k). The value of retained business rates drawn to support Place Marketing will increase to £200k from £100k (This funding is transferred to Marketing Cheshire to deliver the programme).

- Supplementary revenue grant, which arises from interest earned by CEC on idle balances, continues to benefit from the higher interest rates seen in 2022-23, which are assumed will continue throughout 2023-24. Income is estimated at £300k (i.e., 3.5% on average balances of £8.3M).
- Internal charges to programmes to recover overheads will be set typically at 10% of income received. In previous years this has been variable, between 0% (for NP11) and more usually 5%, but this level does not fully reflect the costs associated with running programmes. The principle is that those programmes operating within the LEP cover their full cost.

Programme Funding

- Funding for the Digital Skills Partnership and Skills Advisory Panel will cease in August 2023. We have received notification to that effect.
- The Pledge programme will, when the current round of ESF funding concludes in August 2023, transition out of the LEP. Discussions about this transition are ongoing.
- Skills Bootcamp funding has been confirmed at £1.2M and that a management fee towards running the programme will be £155k. The programme will run on the basis that grants are paid by CEC so only the management fee is shown in the budgets.

Marketing Cheshire

- We expect that the Local Authority contributions towards Marketing Cheshire will continue in 2023-24 at the same total value as 2022-23. For reference the amounts are CWAC £172.5k, CEC £55k, and WBC 14.4k. The split between marketing projects and the VIC has been adjusted such that marketing receives £49k more than previously.
- The level of core funding determines the LEPs budget allocation for PR and Marketing most of which is used to commission activity delivered by MC. Despite the reduction in core funding the assumption remains an allocation of £130k.
- However, because Growth Hub funding is not expected to increase, the previous commitment of £60k for marketing activities cannot be repeated in 2023-24.
- Grant funding reduces by £100k because the allocation from Visit Britain will not continue into 2023-24.
- In addition to the base contribution, CWaC have yet to confirm continued funding for Destination Cheshire. £100k is assumed for 2023-24, topped up by £45k from commercial partners which equals the 2022-23 funding.
- Partnership income is expected to recover in 2022-23 to £60k which is close to pre-pandemic levels. On that basis the assumption for 2023-24 is also £60k.
- Commercial income has been recovering since the pandemic, but more slowly than partnership or VIC retail. However, the “run rate” in H2, 2022-23 supports an assumption of £115k for 2023-24.
- The VIC retail income recovered strongly in 2022-23 and at £139k (forecast) is approaching the pre-pandemic level. The budget assumption for 2023-24 of £160k takes the income back to the level seen prior to Covid.

Expenditure

The assumptions below set out some choices that have been made which lead to the budget outturn.

Staff

- Following the departure of Joe Manning and Nicola Said, the budget includes a Managing Director and Head of Marketing. One measure taken, however, in response to the cut in core funding to the LEP is not to replace Joe's capacity in the LEP structure.
- A budget provision for salary increases of 3.5% p.a. has been included for 2023-24.
- Recruitment budgets are increased from £25k to £55k to make provision for the campaign for a chair.

Operating Costs

- Most other costs are budgeted flat cash meaning that inflationary pressures will have to be absorbed.
- It is expected that the new post holders in Marketing Cheshire will be able to cover most of the media communications and PR activities, enabling an annual saving of up to £60k on commissioned expenditure. That is not, however, expected to materialise until Jan 24.
- A further saving of £15k is anticipated by releasing the current office in the RIC and substituting for a smaller office. This reflects the remote/hybrid way of working that has developed over the past two years.
- No contingency is provided. In recent years a £50k contingency has been budgeted but rarely used.
- Programme expenditures are budgeted to match to the funding. With the increased cost of staff in those programmes and the increased charge to recover overheads, it does mean available budgets for delivery are reduced.

3 Retained Business Rates Summary

- 3.1 Retained business rates are of increasing importance to the LEP finances and to the resources available for sub-regional economic activity.
- 3.2 The table below is consistent with our current assumptions, but carries a risk that the impact of the Valuation Office Agency re-assessment of business rates has yet to be factored in.
- 3.3 The use of retained business rate income is subject to an agreement signed between us, the three LAs and DLUHC that makes clear that it is income to be spent on economic development, but that decisions on the way it is deployed are to be taken jointly by the LEP and the three LAs. Discussions are ongoing with Local Authorities as part of the LEP review as to the most effective use of the fund.

<u>Summary Retained Business Rates</u>			
		2022-23	2023-24
<u>Income</u>			
Alderley Park		1,908	1,544
Ellesmere Port / Protos		565	499
Birchwood		646	845
Total Income		3,119	2,888
<u>"Fixed" Expenditure</u>			
Loan Repayments		1,135	1,135
LA Match		94	94
EZ Running Costs		300	260
Total "Fixed" Expenditure		1,529	1,489
<u>Flexible EZ resource</u>			
Place Marketing to MC		100	200
LEP Core and Policy Funding		469	470
Programme Office Funding		-	
Projects / Business Case Fund		598	100
Total Flexible Expenditure		1,167	770
Unallocated Balance		424	629

4 Investing Activities

The LEP company carries a substantial financial asset and reserve (over £9M) arising from its receipt of LGF grant which was invested in Life Sciences Fund 1. During 2022-23, the LEP received a second, one off, grant from Getting Building Fund, which was used to substitute the loan previously drawn to provide support for Blocks 22-24. There are discussions ongoing about how to re-deploy the GBF funds which will have financial implications, but the ideas are not sufficiently well developed to assess their impacts.

More generally, the investing activity of the LEP has four impacts on the income and expenditure for the LEP.

- Income from Retained Business Rates (used to meet loan repayments)
- Interest expense on the LEP's borrowing (Loans used for the Enterprise zone)
- Income from returns from the Life Sciences Fund 1
- Movements in the underlying value of the Investments within the Life Sciences Funds (which cause financial surpluses or deficits).

No budget is included for the Life Sciences Fund 1 returns, because the fund is not yet in a realisations phase, or value movement, which is impossible to forecast.

Income received from Business Rates is matched to the required value of the loan instalment, paid annually on October 31st. In 2022-23, the loan payment totalled £1.121M, and is expected to be the same in 2023-24. Interest expense accrued and paid is estimated to be £390k for 2023-24.

The investment activity also has impacts on the balance sheet.

- New borrowing under the EZ facilities which, when paid to developers as grant, increases the intangible asset relating to our “right” to receive future business rates. The Vortex project, where grant has now been approved to a maximum of £2.7M, will be paid out during 2023-24. Other projects are in the pipeline.
- As business rates are received, and used for the EZ loan repayments, the intangible asset is reduced accordingly.
- New borrowing from Growing Places Fund to meet the LEP’s commitments to the Life Sciences Fund 2, which are recorded as an investment.

Appendix 1 – LEP Department Analysis

	LEP													LEP Total
	Policy	Programme	Corporate	Core	Growth Hub	DiT	DSP	SAP	Bootcamps	Pledge	EZ	EZ Projects	NP11	
Income / Funding														
Central Govt.	125,000		125,000	250,000	257,000	68,000	23,000	-	155,000				500,000	1,253,000
LA Funding (incl. Local Match)	170,000		17,500	187,500										187,500
Interest on idle funds		65,000	235,000	300,000										300,000
Other Funding	115,000		6,000	121,000						185,000				306,000
Retained Business Rates	520,000		50,000	570,000							260,000	200,000		1,030,000
Commercial/Partnership			-											-
Overhead Recovery	(93,000)	(6,500)	207,300	107,800	(25,700)	(6,800)	(2,300)	-	(38,750)	(9,250)			(25,000)	-
Total Income	837,000	58,500	640,800	1,536,300	231,300	61,200	20,700	-	116,250	175,750	260,000	200,000	475,000	3,076,500
Expenditure														
Commissioned Activities	150,000		-	150,000									295,286	445,286
Staff Costs	502,390	56,922	317,998	877,310	198,682	60,223	20,743	-	115,366	171,013	129,407	-	179,714	1,752,458
Salaries recovery			(47,192)	(47,192)										(47,192)
Travel and Other Staff Exp.	5,000		2,000	7,000	4,000	800				3,000	3,500			18,300
Training/Recruitment			55,000	55,000										55,000
Staff and related costs	507,390	56,922	327,805	892,117	202,682	61,023	20,743	-	115,366	174,013	132,907	-	179,714	1,778,565
Consultants	-		45,000	45,000										45,000
Marketing / PR	130,000		43,000	173,000								200,000		373,000
Research / Subscriptions	36,000		-	36,000	28,018									64,018
Rent			27,200	27,200										27,200
Office running costs / Insurance			20,500	20,500										20,500
Mobile phones	3,000		4,500	7,500	600	200	100			1,000	300			9,700
IT			55,000	55,000										55,000
Operating costs	169,000	-	195,200	364,200	28,618	200	100	-	-	1,000	300	200,000	-	594,418
Legal & Professional			20,000	20,000							127,000			147,000
Audit			10,000	10,000										10,000
Bank			300	300										300
Miscellaneous			5,000	5,000		(23)	(143)		884	737	(207)			6,248
Accounting Body Charge			83,000	83,000										83,000
Contingency			-	-										-
Depreciation			22,000	22,000										22,000
Governance and overhead	-	-	140,300	140,300	-	(23)	(143)	-	884	737	126,793	-	-	268,548
Total Expenses	826,390	56,922	663,305	1,546,617	231,300	61,200	20,700	-	116,250	175,750	260,000	200,000	475,000	3,086,817
Surplus / (Deficit)	10,610	1,578	(22,505)	(10,317)	0	0	(0)	-	(0)	0	0	-	(0)	(10,317)

Appendix 2 – Marketing Cheshire Departmental Analysis

	MARKETING CHESHIRE				
	Projects	Grants	VIC	Admin	MC Total
Income / Funding					
Central Govt.		15,000			15,000
LA Funding (incl. Local Match)	167,650	100,000	86,250		353,900
Interest on idle funds					-
Other Funding	135,000				135,000
Retained Business Rates	200,000				200,000
Commercial/Partnership	185,000	45,000	160,000		390,000
Overhead Recovery		(20,000)		20,000	-
Total Income	687,650	140,000	246,250	20,000	1,093,900
Expenditure					
Commissioned Activities	287,500	100,000	60,000		447,500
Staff Costs	321,818	-	128,130	38,804	488,753
Salaries recovery	(40,000)	40,000		47,192	47,192
Travel and Other Staff Exp.				2,000	2,000
Training/Recruitment				3,000	3,000
Staff and related costs	281,818	40,000	128,130	90,996	540,945
Consultants				-	-
Marketing / PR					-
Research / Subscriptions				1,200	1,200
Rent			25,000	7,000	32,000
Office running costs / Insurance				8,500	8,500
Mobile phones				1,000	1,000
IT			3,600	35,000	38,600
Operating costs	-	-	28,600	52,700	81,300
Legal & Professional				4,500	4,500
Audit				5,500	5,500
Bank			10,800	2,800	13,600
Miscellaneous				500	500
Accounting Body Charge					-
Contingency					-
Depreciation					-
Governance and overhead	-	-	10,800	13,300	24,100
Total Expenses	569,318	140,000	227,530	156,996	1,093,845
Surplus / (Deficit)	118,332	-	18,720	(136,996)	55