

## AGENDA ITEM

### PAPER FOR THE LEP BOARD 13/9/2023

#### OVERVIEW OF FINANCE PERFORMANCE TO 31/7/2023

##### Summary of Activity 2023-24

This report covers the operating activities of the LEP, and separately, Marketing Cheshire for the period 1<sup>st</sup> April to 31<sup>st</sup> July 2023. Investment activities are reported in a separate section on programme funds.

##### Key Points

- **LEP Operating Surplus £176k, compared to budget deficit of £11k.**
- **LEP Operating Reserves (Net Assets) £805k, minimum required £300k**
- **MC Operating deficit £27k, compared to a budget deficit of £14k.**
- **MC Operating Reserves (Net Assets) £227k, minimum required ca. £130k.**
- **Group cash balance £1.216M**
- **EZ General Fund £2.7M, with loan instalment due 31/10/23 of £1.1M.**

##### LEP

Appendix 1 provides the detailed income and expenditure statement for the LEP (excluding NP11). NP11 is a hosted function, where income is balanced to expenditure, and we have historically reported it separate from the LEP activities. It is worth noting that the Growth Hub, Inward Investment and the majority of programmes also operate with income balanced to expenditure, because funding has to be supported by evidence of defrayed cost.

Performance year to date is better than the profiled budget, with a reported operating surplus of £176k compared to the budget deficit of £11k. The improvement of £187k, is driven by income £120k above budget and expenditure £67k below budget. Specifically, as was the case last year, income is benefitting from the higher interest being earned on capital balances, where already after 4 months the budget has been exceeded by £154k. Expenditure savings include £48k on staff and related costs, in part because we have seen increased number of departures during 2023 and with the LEP Transition still to be determined, replacement has been postponed. Our response has been to commission more external activity, where costs are running £55k ahead of budget. Recruitment costs are also running substantially behind the profiled expenditure but are expected to increase with the "live" campaign for an MD of MC (a LEP appointment). Operating costs are £31k below the budget of £190k, with underspends across all categories. Reported IT actual costs include depreciation whereas the budget is separate, so expenditure is broadly as expected. Governance and overhead costs at £44k are £45k below budget, though £7k is the depreciation adjustment. Otherwise, the underspend is accounted for by lower legal and professional costs which arises from the timing of expenditure on EZ investments.

##### Forecast 2023-24

The forecast for the year has been updated to reflect the performance of the first four months, with the most significant adjustment being to increase income by £465k. This is a combination of £400k increase for interest and £65k of funding from Careers and Enterprise Company towards additional projects for delivery by the Pledge. The project funding will be used externally and is partly behind

the increase in expenditure on commissioned activities from £150k to £365k. The remainder of the increase allows for the higher level of externally commissioned work, some of which is associated with devolution, the LEP Transition, and refreshing the evidence base for the Strategic, Inclusive Economic Plan. External cost is compensating for lower staff headcount. Staff turnover will continue to be a factor, with leavers in August and September, and several live recruitment campaigns including MD for MC and two posts for Net Zero. In summary, because of the higher income, the annual budget deficit of £32k has reversed to a projected surplus of £257k.

### Cash

Bank balances at the end of July were £861k, down from £1.358M at the year end. We have drawn down a reduced level of the available funds from Cheshire East in the early part of the year, instead seeking to utilise income drawn in previous years including deferred business rates. The interest earned on funds left with CEC is also higher than could be achieved in the LEP's accounts.

### Marketing Cheshire

Appendix 2 provides a detailed income and expenditure statement for Marketing Cheshire.

For the first 4 months of the year an operating deficit of £27k is reported which is below the budgeted position of a £14k deficit.

Total income was £296k against a budget of £310k, with an £8k shortfall on LA funding and a £8k shortfall on commercial and partnership income. However, that shortfall is then offset by an underspend in commissioned activity, which reflects the lower income. Commissioned spend is also benefitting, by £6k, from a presentational difference. Several IT applications were previously reported, and budgeted for this year, as part of the commissioned spend. However, to improve visibility of total spending on IT, all costs are reported against the IT category.

Excluding the commissioned spend, organisational expenses totalled £238k against a budget of £215k. The difference includes £6k of IT costs referred to above, and a late invoice from 2022-23, of £10k. Within the overall figures, staff salaries are running £50k below budget while consultant costs and PR expenses are £58k above budget. The budget included the costs of a Managing Director, which remains to be recruited, and in the meantime, expenditure is incurred with consultants for management support and public relations. Expenditure will be closely monitored to minimise the risk of an escalation in the overspend.

At a more detailed level, Local Authority funding is £8k below budget. Underlying this is a reduction in the amount of funding we expect towards Destination Chester. The budget included £100k contribution from CWaC, a repeat of the income provided in 2022-23. This level of income is now unlikely, and the forecast has been reduced to £50k. Commissioned activity costs will reduce accordingly.

Commercial and partnership income is £9k below budget. The key driver of income and related cost during the early months are transactions incurred preparing for UK ReIFF in May 2024, which MC organises on behalf of the LEP and Local Authorities. Partnership income is recognised once payments are received, and annual payments are spread over the course of the year. So, reported income starts slowly and increases over the year. To 31<sup>st</sup> July, £45,600 has been invoiced (out of the total budget of £70,000) and £5,200 has recognised as income. And all outstanding debt has been chased. 15 partners are signed up to paying by monthly direct debit and, when chasing debt, reminders are provided of the opportunity to move to automated payments.

VIC retail income is on budget at £60k for the first 4 months of the year. This represents a £9k (17%) improvement on the same period last year. The surplus achieved is £8k, £3k below budget, which reflects that gross margin was lower. This represents a variance in the mix of items sold.

## OVERVIEW OF PROGRAMME FUNDS TO 31/7/2023

### Summary of Activity 2023-24

£ Million	Skills Bootcamps	EZ Retained Business Rates	Growing Places Fund
Opening 1/4/23	0.190	3.677	8.948
Additions	0.649	2.762	-
Spent	0.345	0.751	-
<b>Closing 31/7/23</b>	<b>0.494</b>	<b>5.688</b>	<b>8.948</b>
Committed	0.494	2.949	3.725
"Free Cash"	-	2.739	5.223

### Skills Bootcamps

Funding for Skills Bootcamps is provided by Dept for Education and includes two programmes running concurrently, waves 3 and 4. Wave 3 was allocated £1.05M, of which £895k is provided for grant payments. Of the £1.05M, £596k was received in August 2022, to cover the management fee (£155k) and in advance of claims being made. Even though £441k provided for grants, we have now paid out £505k and are utilising funds provided in June 2023 for wave 4 to meet the ongoing claims for wave 3. Wave 3 is expected to be finalised in October, at which point we shall reconcile the amount drawn and work with DfE regarding reimbursement.

Wave 4 bootcamps started in 2023/24, and the LEP was allocated a further £1.20M of which £155k was provided for management fee and £1.045M for grant payments. DfE advanced £649k of funding of which £64k has been used on wave 3 and £91k on wave 4 bootcamps. We will use these funds to pay claims from both wave 3 and 4.

In the past two months, the LEP has increased the contracted amount of grant payments to bootcamp providers in wave 4 from £647k to £1.055M fully utilising the allocation awarded this year. This followed discussion of bootcamps with the Local Authority Leaders and Chief Executives receiving unanimous support for the programme which will now run into financial year 2024-25. It is likely that not all the associated training positions will be taken up thus reducing the requirement for grant funding, but there is also an exposure, running into 2024-25, for bootcamp trainees completing milestones in the next financial year. Arrangements will be discussed with our DfE grant manager to minimise the LEPs financial exposure to meet grant payments.

To further complicate matters, the LEP will be invited by DfE to submit a proposal for wave 5 bootcamp funding, with submissions due by end of September 2023.

### Growing Places Fund

The available balance in GPF is £8.9M. To date £1.275M of the LEPs commitment of £5M to the Life Sciences Fund 2 has been temporarily borrowed from GPF and which will ultimately be repaid from returns from the Life Sciences Fund 1.

### Enterprise Zone Retained Business Rates

The cash balance for the EZ fund as of 1<sup>st</sup> April 2023 stood at £3.7M. It comprises two elements, £2.7M of general funds and £1.0M for project grants. So far this year, the LEP has borrowed a further £2.7M to invest in project grants for a development in Cheshire West and Chester of which £751k has been claimed to date by the developer. That leaves £1.95M still to be claimed for that project along with £1.0M which remains to be claimed on the previous scheme.

The general fund has received payment of £62k from Cheshire East relating to retained business rates for 2022-23 at Alderley Park. The fund is also expecting to receive £625k from CWaC and ca. £850k from Warrington. The receipt received from Alderley Park was substantially below the estimate of £1.5M and £1.9M received in 2021-22. Analysis and enquiries of the business rates team revealed a significant number of appeals, which were lodged with the Valuation Office Agency in the few months prior to March 2023. Many of those appeals were upheld and resulted in refunds covering multiple years back to 2017, the last occasion prior to 2023, that the ratings list was reviewed. There has also been a delay to receiving the full financial benefit of Glasshouse 22-24, with some unoccupied areas, and in the case of Blocks 22-24 a delay in notifying the authorities of completion (rates will be backdated and benefit future years).

Gross business rate receipts were therefore substantially reduced and, while some additional reliefs arose consequently, the combined surplus over the pre-existing baseline was reduced to negligible amount. The short and longer-term implications will be addressed below.

The immediate impact for LEP finances is that the total income from retained business rates for 2023-24 is now expected to be £1.5M rather than £2.8M. The combined total of loan repayments (£1.12M) due in October and operational requirements (£1M) including LA Match, LEP policy and programme costs, and agreed funding for Place Marketing amounts to approximately £2.1M for the year. The previously expected surplus of £600k would, all other things being equal, lead to a projected deficit of £700k.

The risk of retained business rates has been top of our corporate risk register and as such, prudent management of the general fund, with a starting position of a surplus more than £2M means the LEP was well positioned withstand the shortfall. Further the impact of 2023-24 will be largely offset by a lower requirement for funding for operational support, utilising instead funds drawn into LEP in prior years and deferred. The net deficit in 2023-24 is estimated at £150-£200k.

In the medium term, the concern is whether retained business rates income from Alderley Park will stay at the lower level. Forecasts are inherently difficult to make affected by multiple variables. We were already aware that the VOA had more generally reduced valuations at Alderley Park by around 30% for the new ratings list taking effect in 2023-24. And because the LEPs receipts are based on a surplus over a baseline, the effect will be felt disproportionately by the LEP. However, there are sources for reassurance. 2022-23 is likely to be unusual, coinciding as it does with the end of a ratings period. As mentioned above, we have yet to receive the full benefit of Glasshouse and Blocks 22-24 coming through the business rates calculations. Taken in isolation the income estimates for these developments remain sufficient to repay loans drawn to support the development. 2022-23 has the cumulative impact of refunds covering several years, so the annual reduction is less marked, and future appeals are less likely to be successful because rating valuations have been reduced. Finally, the baseline will also be reduced to reflect the lower valuation. We will work with CEC and seek independent advice regarding future forecasts.

Appendix 1

LEP - Actuals & Budget 2023-24 - Departmental Analysis						
July 2023		4				
Cost Centre	LEP - (without NP11)				Annual Totals	
	Actual	Budget	Actual YTD	Budget YTD	Budget	Forecast
<b>Income / Funding</b>						
Central Govt.	63,754	67,933	254,858	271,733	783,000	765,000
LA Funding	15,624	15,625	62,508	62,500	187,500	187,500
Interest on idle funds	72,712	25,000	254,125	100,000	300,000	700,000
Other Funding	55,760	40,917	170,313	163,667	491,000	556,000
Retained Business Rates	77,266	85,833	313,472	343,333	1,030,000	1,000,000
Commercial/Partnership	-	-	-	-		
Overhead Recovery	3,125	1,815	12,500	7,260	25,000	25,000
<b>Total Income</b>	<b>288,241</b>	<b>237,123</b>	<b>1,067,776</b>	<b>948,493</b>	<b>2,816,500</b>	<b>3,233,500</b>
<b>Expenditure</b>						
<b>Commissioned Activities</b>	56,307	17,325	125,336	69,301	150,000	365,000
Staff Costs	143,493	150,292	577,022	601,167	1,774,804	1,725,000
Salaries recovery	(5,000)	(3,933)	(20,000)	(15,731)	(47,192)	(60,000)
Salaries Taxable Benefits	-	-	-	-		
Travel and Other Staff Exp.	913	1,856	2,030	7,426	22,300	15,000
Training/Recruitment	-	4,583	3,823	18,333	55,000	70,000
<b>Staff and related costs</b>	<b>139,406</b>	<b>152,799</b>	<b>562,874</b>	<b>611,196</b>	<b>1,804,912</b>	<b>1,750,000</b>
Consultants	-	3,750	-	15,000	45,000	45,000
Marketing / PR	27,963	31,083	111,745	124,333	373,000	373,000
Research / Subscriptions	2,277	3,000	9,347	12,000	64,018	64,000
Rent	2,235	2,267	7,995	9,067	27,200	27,000
Office running costs / Insurance	591	1,708	2,663	6,833	20,500	20,500
Mobile phones	571	970	2,256	3,880	11,700	11,700
IT	5,478	4,600	25,235	18,401	55,000	75,000
<b>Operating costs</b>	<b>39,114</b>	<b>47,379</b>	<b>159,241</b>	<b>189,515</b>	<b>596,418</b>	<b>616,200</b>
Legal & Professional	578	12,233	14,322	48,931	147,000	150,000
Audit	500	833	2,000	3,333	10,000	10,000
Bank	11	25	108	100	300	300
Miscellaneous	-	417	-	1,667	34,511	2,000
Accounting Body Charge	6,975	6,917	27,675	27,667	83,000	83,000
Contingency	-	-	-	-		
Depreciation	-	1,833	-	7,333	22,000	-
<b>Governance and overhead</b>	<b>8,064</b>	<b>22,258</b>	<b>44,105</b>	<b>89,031</b>	<b>296,811</b>	<b>245,300</b>
<b>Total Expenses</b>	<b>242,892</b>	<b>239,760</b>	<b>891,557</b>	<b>959,042</b>	<b>2,848,141</b>	<b>2,976,500</b>
<b>Surplus / (Deficit)</b>	<b>45,349</b>	<b>(2,637)</b>	<b>176,219</b>	<b>(10,549)</b>	<b>(31,641)</b>	<b>257,000</b>

Appendix 2

MC - Actuals & Budget 2023-24 - Departmental Analysis							
July 2023							
Cost Centre	Marketing Cheshire				Annual Totals		
	Actual	Budget	Actual YTD	Budget YTD	Budget	Forecast	
<b>Income / Funding</b>							
Central Govt.	(5)	1,250	8,735	5,000	15,000	15,000	
LA Funding (incl. Local Match)	28,614	30,538	93,195	101,483	353,900	303,900	
Other Funding	27,916	27,916	111,672	111,673	335,000	335,000	
Commercial/Partnership	29,307	36,523	79,449	88,191	390,000	390,000	
Overhead Recovery	2,500	(208)	3,422	3,292	20,000	20,000	
<b>Total Income</b>	<b>88,332</b>	<b>96,020</b>	<b>296,473</b>	<b>309,639</b>	<b>1,113,900</b>	<b>1,063,900</b>	
<b>Expenditure</b>							
<b>Commissioned Activities</b>	<b>30,770</b>	<b>39,118</b>	<b>85,769</b>	<b>107,814</b>	<b>467,500</b>	<b>417,500</b>	
Staff Costs	28,837	40,729	112,705	162,917	535,944	382,000	
Staff - External Costs	-	3,933	15,000	15,731	-	15,000	
Salaries recovery	-	-	-	-	-	-	
Salaries Taxable Benefits	238	-	689	-	-	1,000	
Travel and Other Staff Exp.	150	167	303	667	2,000	2,000	
Training/Recruitment	651	250	651	1,000	3,000	3,000	
<b>Staff and related costs</b>	<b>29,875</b>	<b>45,079</b>	<b>129,348</b>	<b>180,315</b>	<b>540,944</b>	<b>403,000</b>	
Consultants	8,375	-	32,937	-	-	75,000	
Marketing / PR	6,471	-	25,021	-	-	55,000	
Research / Subscriptions	545	100	1,443	400	1,200	2,000	
Rent	2,813	2,667	10,253	10,667	32,000	32,000	
Office running costs / Insurance	618	708	2,145	2,833	8,500	8,500	
Mobile phones	77	83	251	333	1,000	1,000	
IT	5,579	3,217	32,130	12,867	38,600	66,000	
<b>Operating costs</b>	<b>24,478</b>	<b>6,775</b>	<b>104,181</b>	<b>27,100</b>	<b>81,300</b>	<b>239,500</b>	
Legal & Professional	790	375	803	1,500	4,500	1,500	
Audit	-	458	1,500	1,833	5,500	5,500	
Bank	1,742	1,133	2,277	4,533	13,600	11,000	
Miscellaneous	19	42	26	167	500	500	
<b>Governance and overhead</b>	<b>2,550</b>	<b>2,008</b>	<b>4,606</b>	<b>8,033</b>	<b>24,100</b>	<b>18,500</b>	
<b>Total Expenses</b>	<b>87,673</b>	<b>92,980</b>	<b>323,903</b>	<b>323,262</b>	<b>1,113,844</b>	<b>1,078,500</b>	
<b>Surplus / (Deficit)</b>	<b>659</b>	<b>3,039</b>	<b>(27,430)</b>	<b>(13,624)</b>	<b>56</b>	<b>(14,600)</b>	