**Paper for: The LEP Board**

**Title: Budget 2020-21**

**Date: 26th February 2020**

**Strategic Purpose: Governance, Delivery of Strategic Objectives**

**Resource Implications: Allocation of financial resources**

**Board: For Approval**

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 table below summarises the planned income and expenditure position for 2020-21 comparing to the forecast out turn for 2019-20. For comparison the original budget for 2019-20 is also provided:



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. The budget is growing due to the number of delivery programmes in which the LEP is now participating.

Core Strategy and Policy

Core Income Budget Forecast Budget

 2019/20 2019/20 2020/21



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 balances held by CEC. This amount varies from one year to another. 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, shown as other income.

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. The table below provides a detailed breakdown of those costs.



The Staff costs increased during 2019-20 over budget with the creation of a new post to support financial management and governance, a consequence the national review of LEPs and increasing complexity of the C&W LEP. For 2020-21, no growth in staff costs is expected other than, for planning purposes, an inflationary pay increase of 2% is assumed across the LEP.

There are some notable movements in expenditure between the 2019-20 forecast and the planned budget 2020-21 because 2019-20 has seen several one-off expenditures. 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.

A cost saving arises because 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.

Having had a relatively low cost year on strategy development in 2019-20, key strategy projects for 2020-21 include work associated with sustainability, inclusive growth and sub-regional cultural assets.

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

Income for Delivery Programmes

In the past 2 years, the LEP has significantly expanded it 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.



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.



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 payable 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 latest working assumption, based on a cash flow model for the EZ investment requirements, is that £10M will be drawn on 1.4.20 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.



LEP Reserves

The table below shows the movement in the income and expenditure reserves of the LEP, which are affected by the financial (non-cash) transactions described in the previous section:



The negative reserve in 2020-21 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 £895k in the EZ fund (see next section) is taken into consideration.

Outlook for the EZ Fund

Flows of cash into and out of the EZ fund are becoming more complex. As mentioned previously the main assumptions are the continued use of funds to finance the LA Match (£125k), transfer to the LEP core for economic development activity (£468.6k) and the EZ Programme costs (staff, depreciation and consultants).

A budget provision in 2020-21 of £500k has been included, allocated £400k for business case development and £100k for “Place” marketing.

The drawdown of the loan, fees, and addition of interest is shown here for transparency. These movements will show on the LEP legal entity financial statements.

The table below presents the movements and the resulting EZ Fund balance.



**Marketing Cheshire**

Marketing Cheshire is also preparing a budget for 2020-21, which will broadly match expenditure to expected income. A key planning assumption on their part is undertaking work commissioned by the LEP.

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**February 2020**