

Paper for: The LEP Board

Title: Agenda Item 8 - Review of Annual Accounts 2022-23

Date: 13 September 2023

Strategic Purpose: Governance and Financial Management

Resource Implications: None

Board Committee: To approve the annual accounts and delegate Clare Hayward and Trevor Brocklebank to sign on behalf of the board.

1. Background

- 1.1. The annual accounts for the LEP Group for the year ended 31st March 2023 are presented for approval for sign off by the Board. This paper provides some additional context to the accounts.
- 1.2. The Group accounts are a consolidation of the LEP and Marketing Cheshire. Within the statutory reports, most of the figures presented are a combination of both companies. For the LEP company, the reports cover the wide range of operational activities and include all the accounting transactions associated with investing activities within the Enterprise Zone and accompanying loans and the Life Sciences Funds.
- 1.3. Annual budgets are only prepared for the operational activities and not for the investing activities. The reason is that the timing and /or value during the year of investment transactions is impossible to predict. This paper includes a high-level analysis of the LEP and MC performance against their respective operating budgets for 2022-23.
- 1.4. This paper also summaries the accounting reserves as at the year end.

2. Summary of Financial Operating Performance (page 10)

- 2.1. The consolidated income statement shows group turnover has increased to £6.9M from £4.7M in the previous year. The two principal reasons, both relating to LEP investing activity, were:
 - 2.1.1. The LEP company received £1.1M of income from the retained business rates account to meet the loan instalments due during the year.
 - 2.1.2. The LEP company received grant of 1.5M of grant from the Getting Building Fund which was used, in part, to repay the loan on Blocks 22-24.
- 2.2. Excluding the two events above, comparable operating turnover was £4.3M against £4.7M last year, which can be explained by a reduction in Marketing Cheshire turnover of £0.3M. The previous year had benefitted from £0.4M of Welcome Back funding.
- 2.3. The group budget for the year was £4.4M. Whilst the headline actual turnover figure of £4.3M is broadly comparable with the overall budget, the make-up is somewhat different. Turnover for skills bootcamps was £900k below budget, following a presentational change, but the shortfall was largely made up by additional interest on capital balances of £400k, additional Pledge funding of £100k and project funding of £100k. Smaller amounts of additional income over budget were received for the Growth Hub, Inward Investment, Net Zero and Skills programmes.
- 2.4. The operating result separated by the activities, with a comparison to the budgets, is shown in the table below:

	LEP Operations	LEP Investment Activity	Marketing Cheshire	Total
Surplus / (Deficit) for the Year	(111)	2,017	(44)	1,862
Budget Surplus / (Deficit) for the year	(586)	N/A	(115)	(701)

- 2.5. LEP operations achieved a deficit of £111k, compared to a budget deficit of £586k. The improvement was primarily driven by the additional interest income (ca. £400k) earned on capital balances, paid to the LEP as supplementary revenue grant and expenditure savings.
- 2.6. A “spike” in the operating surplus reported in the accounts arises from LEP investment activity and was caused by the receipt of the grant income of £1.5M against which there were no additional costs. In addition, the surplus includes income to meet the interest payable on loans (£0.3M), which is recorded as a non-operating expense.
- 2.7. Marketing Cheshire achieved a smaller deficit of £44k than budgeted by a better-than-expected retail performance in the VIC and reducing external costs.
- 2.8. Excluding the surplus on investing activities, the operating financial performance was 546k better than budgeted.
- 2.9. Non-operational other expenses relating to investment amounted to £2.3M, being interest on the loans (£0.3M) and a loss on re-valuation of the Life Sciences Fund 1 (£2.0M). This loss reflects an increase in provisions made by the fund against several of the portfolio companies, and a reduction in the valuation of other companies. The nature of the fund means that valuations are typically cautious but also volatile, and the position is regularly monitored by the investment panel with our partners GMCA and Bruntwood SciTech. After taking account of those non-operational expenses the group achieved a deficit for the year of £433k.

3. Current Level of Reserves (page 12)

- 3.1. Group reserves include the operating reserves in the LEP and Marketing Cheshire and reserves relating to investment activity.
- 3.2. The table below separates the reserves into component parts:

	Reserves from Operations	Reserves from Investment Activity	Marketing Cheshire	Total Reserves
As at 31/3/2022	740	8,818	305	9,863
Surplus / (Deficit) for the Year	(111)	2,017	(44)	1,862
Interest payable on EZ Loans		(340)		(340)
Fair Value Deficit for the year		(1,954)		(1,954)
As at 31/3/2023	629	8,541	261	9,431

- 3.3. Over the past few years, the Finance and Audit committee has approved a policy that the LEP hold an operational reserve with a minimum balance of £300k.

- 3.4. Marketing Cheshire's board have approved a similar policy to hold a minimum operational reserve of £130k.
- 3.5. This level of reserves was established on the basis that it should (i) not be the policy of the LEP to build unnecessarily high levels of reserves given its purpose to invest public funds to promote economic activity and (ii) set a level of reserves to provide sufficient resources to enable an orderly wind down of LEP/MC activities in the event of a government policy change regarding the future of LEPs.
- 3.6. Movements in reserves are a natural part of the rhythm of operating a company which can be affected by timing differences between the period when income is recognised and the period when expenditure is incurred.
- 3.7. As of 31st March 2023, the LEP draft audited accounts present total group reserves of £9.4M.
- 3.8. The year end levels of operating reserves at £629k and £261k for the LEP and Marketing Cheshire respectively comfortably exceed the previously agreed policy position of £300k and £130k.
- 3.9. Because investing reserves are tied up in the EZ loan and Life Sciences Fund, they are not included in setting the policy level of reserves. However, some assurance rests with the reserve from investments. In addition, there is a balance of retained business rates in excess of £2M held by Cheshire East which does not form part of these reported reserves.

4. Recommendation

- 4.1. The Board is requested to approve the annual accounts and delegate the Chair and Deputy Chair to sign the accounts on their behalf.

Ian Brooks

Finance and Commercial Director

September 2023