

<b>Report to Accountability Board</b>	<b>Forward Plan reference number:</b> FP/AB/118
<b>Date of Accountability Board Meeting:</b>	<b>15<sup>th</sup> December 2017</b>
<b>Date of report:</b>	<b>1<sup>st</sup> December 2017</b>
<b>Title of report:</b>	<b>2017/18 Revenue Budget Update, 2018/19 Revenue Budget setting</b>
<b>Report by:</b>	<b>Suzanne Bennett and Adam Bryan</b>
<b>Enquiries to:</b>	<a href="mailto:suzanne.bennett@essex.gov.uk">suzanne.bennett@essex.gov.uk</a>

## 1. Purpose of report

- 1.1 The purpose of this report is to briefly update the Accountability Board (the Board) of the latest 2017/18 forecast revenue spend and present the proposed revenue budget for 2018/19 for consideration and approval if the Board be so minded.

## 2. Recommendations

- 2.1 Board is asked to:
- 2.1.1 **Note** the updated forecast spend against revenue budget for 2017/18;
  - 2.1.2 **Approve** the revenue budget for 2018/19;
  - 2.1.3 **Approve** the specific grant budgets for 2018/19; and
  - 2.1.4 **Confirm** contributions from Local Authority partners in 2018/19

## 3. Background

### 2017/18 Revenue Budget

- 3.1 A brief update was made to the Accountability Board at their last meeting in November. At that point a potential windfall gain was flagged for the Board's attention.
- 3.2 This gain is the result of the pick up on interest receipts received due to the uplift in the Bank of England base rate and the delays in the A13 Widening Project.
- 3.3 As reported to Board in November, there have been delays to the A13 Widening Project which is an LGF project led by Thurrock council. This project is part of the DfT retained schemes and DfT made a grant award of £29,704,000 which was received by Essex County Council, as the Accountable Body for the SELEP on 29<sup>th</sup> June of this year.
- 3.4 To date £7.2m of this funding has transferred and in line with the last Accountability Board meeting, a further £2.292m of spend will be supported through this grant rather than general LGF grant. However that will have no effect on the total value of cash held as it is a net nil switch between funding pots. A further £2.2m is forecast to transfer before the end of the financial year.

- 3.5 The remaining balance is being managed by the ECC Treasury Management function as part of the Accountable Body role and it is forecast that holding this cash balance will net SELEP an additional £245,000 of external interest over the previously reported position of £200,000.
- 3.6 Discussions have been held with DfT as to whether they would want the grant balance returned to them for this financial year. We have now received confirmation that there will be no clawback of grant funding at this time and the grant should roll forward into financial year 2018/19 to be applied there.
- 3.7 Due to this windfall, the SELEP Secretariat budget is now forecast to underspend by £293,000. Currently there are no additional costs that are arising in this year that this funding could be applied to and as such it will be carried forward to future years.
- 3.8 The current budget includes a withdrawal from reserve of £253,000; with this windfall gain it is now forecast that rather than a withdrawal from reserve, there will be a contribution of £40,000. The level of the reserve is addressed later in this report.

**Table 1 – Forecast Outturn as end of November for SELEP Revenue Budgets**

	<b>Forecast Outturn - £000</b>	<b>Current Budget - £000</b>	<b>Variance - £000's</b>	<b>Variance - %</b>
Staff salaries and associated costs	566	552	14	2.5%
Staff - non salaries	26	32	(6)	-18.8%
Recharges (incl'd Accountable Body)	77	74	3	4.1%
<b>Total staffing</b>	<b>669</b>	<b>658</b>	<b>11</b>	<b>1.7%</b>
Meetings and administration	41	45	(4)	-8.9%
Communications	44	40	4	10.0%
Chairman's Allowance	20	20	-	0.0%
Consultancy and Sector support	2,015	2,029	(14)	-0.7%
<b>Total other expenditure</b>	<b>2,120</b>	<b>2,134</b>	<b>(14)</b>	<b>-0.7%</b>
<b>Total expenditure</b>	<b>2,789</b>	<b>2,792</b>	<b>(3)</b>	<b>-0.1%</b>
Grant income	(2,184)	(2,184)	-	0.0%
Other OLA contributions	(200)	(200)	-	0.0%
External interest earned	(445)	(155)	(290)	187.1%
<b>Total income</b>	<b>(2,829)</b>	<b>(2,539)</b>	<b>(290)</b>	<b>11.4%</b>
<b>Net expenditure</b>	<b>(40)</b>	<b>253</b>	<b>(293)</b>	<b>-115.8%</b>
Contributions to/(from) reserves	40	(253)	293	0.0%
<b>Net over/(under)spend</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>100%</b>

## **2018/19**

- 3.9 The South East LEP currently is supported by a small operational team of officers. In line with other LEPs and Government expectations, the Secretariat revenue cost is funded through a combination of grants from Government, interest earned on Local Growth Fund (LGF) and Growing Places Fund (GPF) balances and contributions from each of the upper tier authorities within the geography.
- 3.10 There are currently a number of uncertainties facing not just SELEP but all LEPs as the outcome of the LEP Review has yet to be published and the full implications of the growing roles of LEPs as a

result of the Industrial Strategy White Paper are not yet known. However, to ensure good financial probity a draft budget for financial year 2018/19 has been constructed and is being presented to the Board for their approval.

- 3.11 A major uncertainty at this time is the both the value of and the conditions attached to the Core Funding that has been provided by Government in previous years. There have been assurances that Government will continue to fund LEPs, but there are still no details issued at this time. To enable the construction of the budget it is assumed that the Core Funding will be on the same basis as previous years. That being, a total of £500,000 payable, with a match of £250,000 being made locally. Government has previously indicated that local contributions to LEPs are considered important as a demonstration of commitment by partners. Therefore, it is prudent to assume that match will be required.
- 3.12 As details are issued on future funding for LEPs, the impact of this on the revenue budget will be considered and a revised budget presented to Accountability Board if necessary.
- 3.13 As detailed above the delay to the A13 Widening Project and the increase to the Bank of England base rate have led to a windfall gain in additional interest receipts in 2017/18. The projected surplus for the year means that the general reserve is forecast to be in excess of £400,000 at the start of financial year 2018/19 (see Table 4 below for full details). The agreed policy is that £100,000 of the reserve should be held to cover any closure costs that might arise should the SELEP cease to function. This leaves a balance of £324,000. The Accountable Body's advice is that this balance should be utilised in a timely manner to gain best value for the taxpayer.
- 3.14 Currently, with the additional funds available from reserves and uplift in interest receipts due to forecast further increases in base rate, there is an additional £173,000 of funding available to be utilised by the SELEP in 2018/19. In addition, £172,000 of funding that was earmarked in 2017/18 for SEP production and the one-off support to Growth Hubs won't be required in 2018/19.
- 3.15 SELEP recognises that local areas have needed to put additional resource into place to support the local delivery of the Local Growth Fund and in financial year 2015/16 a £100,000 contribution was made from SELEP budgets to each of the upper tiers to offset this outlay. Given the continued expectations of local federated areas in respect of project support and new accountability and transparency requirements following the Mary Ney DCLG Review and as SELEP is currently in a position to offer further support given the windfall gains in external interest receipts; the draft budget includes a £150,000 contribution to the six upper tiers. This will be distributed on the allocation basis as the contributions made by local partners. Details can be found at Table 2, which shows the contributions assumed to be required to ensure Core Funding is secured; the contribution made to local areas facilitated by the carry-forward of interest receipts and the net impact on each local authority partner's budget.

**Table 2 – Proposed SELEP/Local Partner Transactions 2018/19**

<b>Name of Authority</b>	<b>Contribution to Funding £000</b>	<b>Local area support £000</b>	<b>Net impact on budget £000</b>
East Sussex County Council	26,180	(19,635)	6,545
Essex County Council	71,760	(53,820)	17,940
Kent County Council	72,500	(54,375)	18,125
Medway Council	13,040	(9,780)	3,260
Southend-on-Sea Borough Council	8,400	(6,300)	2,100
Thurrock Council	8,120	(6,090)	2,030
<b>Total</b>	<b>200,000</b>	<b>(150,000)</b>	<b>50,000</b>

- 3.16 The proposed budget for the SELEP Secretariat for 2018/19 can be seen in Table 2. This table does not include budgets for specific grants, these are presented later in the report starting at paragraph 3.25; the total SELEP Revenue Budget including specific grants can be seen at Table 7. As seen in the Table 3, it is proposed that expenditure budgets should increase by £366,000 over the budget for 2017/18 (an increase of a third). This is supported through an increase of £319,000 to external interest receipt budgets and increasing the drawdown from reserves by £47,000.

**Table 3 – Proposed SELEP Secretariat Budget 2018/19**

	<b>18/19 Budget £000</b>	<b>17/18 Budget £000</b>	<b>Movement £000</b>	<b>Movement %</b>
Staff salaries and associated costs	761	562	198	35.31%
Staff non salaries	32	32	-	0.00%
Recharges (incl. Accountable Body)	64	64	-	0.00%
<b>Total staffing</b>	<b>856</b>	<b>658</b>	<b>198</b>	<b>30.16%</b>
Meetings and admin	51	45	6	13.33%
Chairman's allowance	20	20	-	0.00%
Consultancy and sector support	397	385	12	3.12%
Local area support	150	-	150	0.00%
<b>Total other expenditure</b>	<b>618</b>	<b>450</b>	<b>168</b>	<b>37.33%</b>
<b>Total expenditure</b>	<b>1,474</b>	<b>1,108</b>	<b>366</b>	<b>33.07%</b>
Grant income	(500)	(500)	-	0.00%
Contributions from partners	(200)	(200)	-	0.00%
External interest received	(474)	(155)	(319)	205.81%
<b>Total income</b>	<b>(1,174)</b>	<b>(855)</b>	<b>(319)</b>	<b>37.31%</b>
<b>Net expenditure</b>	<b>300</b>	<b>253</b>	<b>47</b>	<b>18.76%</b>
<b>Contributions to/from reserves</b>	<b>(300)</b>	<b>(253)</b>	<b>(47)</b>	<b>18.58%</b>
<b>Final net position</b>	<b>0</b>	<b>-</b>	<b>0</b>	<b>0.00%</b>

**Table 4 – SELEP General Reserve Forecast Position**

	<b>£000</b>
Opening balance as at 1st April 2017	(384)
Forecast surplus 2017/18	(40)
<b>Forecast balance as at 31st March 2018</b>	<b>(424)</b>
<b>Proposed utilisation of funds</b>	
Monies to be held for closure costs	100
Local area support	150
Resource to support LEP Review/Governance	150
<b>Total</b>	<b>400</b>

- 3.17 As previously highlighted, there are currently a number of uncertainties facing LEPs but at time of writing it would appear that Government's intention is that LEPs play a key strategic role in the development of Local Industrial Strategies in those areas that aren't covered by Combined Authorities. Additionally Government has recognised that an increasing role for LEPs means that a more robust Governance Framework is necessary to ensure full transparency and accountability across the board. In order to meet expectations it will be necessary for the very small SELEP team to expand accordingly and increase its resource using its own means.
- 3.18 The developing role of LEPs nationally requires a strong representation of SELEP to ensure that the model developed is one that will work for all of the South East. It is essential that the South East has a voice at the table to provide counter-balance to those areas of the country who have a longer working relationship and are well versed in securing both Government support and funding. As this element of the Managing Director role increases, it is considered necessary to now fill the Deputy Director post that had been held as a vacancy. This post will take on much of the operational level tasks for the Managing Director.
- 3.19 The increasing requirements around Governance also have a resourcing implication. As raised by the Accountable Body, and also by CIPFA, to Government, good governance has a cost. Included in the budget therefore, is an additional officer who will be responsible to for ensuring that Governance processes are being followed and properly evidenced. The responsibility for good governance must sit at the highest level of the LEP, with the Chair and the Managing Director supported by the Accountable Body, but by having an additional member of staff to support the workstream it will ensure the Governance requirements are met.
- 3.20 It is currently proposed that these posts are offered as fixed term contracts in the first instance as the ongoing funding position continues to be unknown.
- 3.21 The staffing budget also includes the full year costs of the Strategy Manager and Capital Programme Support role that were part year only in 2017/18. In total, the full year effect of these roles and the two new roles total an additional £179,000 of cost in 2018/19 when compared to current forecast staff costs in 2017/18.
- 3.22 The budget also includes provision for a number of pieces of one-off consultancy work to support particularly important workstreams, this is valued at £189,000. The types of workstream that could be supported would be the economic narrative around the Lower Thames Crossing; enabling work for Local Industrial Strategies; follow-ons to the Energy Strategy programme which SELEP is leading

across the South; or the next phases of work supportive of the Thames Estuary Growth Commission.

- 3.23 It is assumed that the match for Core Funding will be made in the same way as previous years. That is, through a cash match of £200,000 from local partners and £50,000 in non-cash match through time volunteered by business members of the Strategic Board outside of Board meetings. However, strong representations have been made by SELEP to Government that the funding to SELEP should properly reflect its size in comparison to other LEPs. A letter to Jake Berry, the minister for Northern Powerhouse and Local Growth, can be found at Appendix 1.
- 3.24 At time of writing, the value of and conditions to any revenue funding from Government are unknown, therefore Local Authority partners are asked to confirm contributions at the same level as previous years. Should the grant funding to SELEP change materially, a further report will be made to Accountability Board and contributions may vary. Contributions will not be requested until grant funding requirements are confirmed.

### Specific Grants

- 3.25 The number of specific grants made to LEPs has been increasing over the last years as Government expands the roles of LEPs. It is presumed that a number of the specific grants in place for this year will continue into 2018/19 but details of values and so forth have not been confirmed. In particular, no funding has as yet been confirmed for the functioning of the Growth Hubs. However, verbal assurances have been given and Growth Hubs are mentioned a number of times in the Industrial Strategy White Paper. Without confirmation of values it is not possible to set budgets at this time, but as soon as that information is made available, a further report will be made to Accountability Board. This also applies to the grant made by the Careers Enterprise Company for support for Enterprise Advisors in schools.
- 3.26 As a result of the uncertainty for a number of specific grants expected in 2018/19, currently budgets can only be presented for two incomes streams, Growing Places Fund Revenue funding and Enterprise Zone Commercial Funding.
- 3.27 The proposed budget for the GPF Revenue Funding can be seen below at Table 5.

**Table 5 – Proposed GPF Revenue Funding Specific Grant Budget**

	<b>18/19 Budget £000</b>	<b>17/18 Budget £000</b>	<b>Movement £000</b>	<b>Movement %</b>
Recharges (incl. Accountable Body)	50	0	50	0.0%
Consultancy and Sector support	500	739	(239)	0.0%
<b>Total Expenditure</b>	<b>550</b>	<b>739</b>	<b>-189</b>	<b>-25.6%</b>
Grant Income	(550)	(739)	189	0.0%
<b>Total income</b>	<b>(550)</b>	<b>(739)</b>	<b>189</b>	<b>-25.6%</b>
<b>Net position</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.0%</b>

- 3.28 As agreed at Strategic Board in June 2017 an annual drawdown of £500,000 will be made from the GPF Revenue Grant to fund the Sector Support Funding programme. The programme will continue on the same basis as this financial year. In addition, it is currently planned to recharge £50,000 of the Accountable Body recharges to the GPF Revenue Grant to reflect the work done supporting the GPF Capital and Revenue programmes.

- 3.29 Accountable Body charges have been earmarked to be charged to the GPF revenue grant in previous years, but this was not properly reflected in the budget set last year. The charges from the Accountable Body are not currently forecast to increase in 2018/19 but further discussions will be necessary as the governance requirements increase and the Accountable Body is expected to provide additional assurances to Government.
- 3.30 The Harlow Enterprise Zone revenue support is due to complete at March 2018 so no further drawdown will be required.
- 3.31 In 2017/18 funding was made available for Enterprise Zones to buy in some support to build their commercial offers. This funding was only available to the latest round of Enterprise Zones. £27,000 was awarded to the North Kent Enterprise Zone and has been passed to Maidstone Borough Council and Medway Council. A further round was opened in the summer of 2017 and again North Kent Enterprise Zone was successful in securing funding. Currently a grant determination has not been issued for the £23,000 awarded and it is likely to transfer from DCLG at the very end of this financial year, meaning that it won't be able to be disbursed to partners until financial year 2018/19. The conditions of the grant should allow this take place. Table 6 below shows the proposed budget for the grant.

**Table 6 – Proposed Enterprise Zone Commercial Zone Specific Grant Budget**

	<b>18/19 Budget £000</b>	<b>17/18 Budget £000</b>	<b>Movement £000</b>	<b>Movement %</b>
Consultancy and Sector support	23	27	(4)	0.0%
<b>Total Expenditure</b>	<b>23</b>	<b>27</b>	<b>-4</b>	<b>-14.8%</b>
Grant Income	(23)	(27)	4	0.0%
<b>Total income</b>	<b>(23)</b>	<b>(27)</b>	<b>4</b>	<b>-14.8%</b>
<b>Net position</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.0%</b>

- 3.32 Table 7 shows the total revenue budget proposed for the SELEP, consisting of the Secretariat budget and the specific grants.

**Table 7 – Proposed SELEP Total Revenue Budget**

	<b>18/19 Budget £000</b>	<b>17/18 Budget £000</b>	<b>Movement £000</b>	<b>Movement %</b>
Staff salaries and associated costs	761	562	198	35.31%
Staff non salaries	32	32	-	0.00%
Recharges (incl. Accountable Body)	114	64	50	78.18%
<b>Total staffing</b>	<b>906</b>	<b>658</b>	<b>248</b>	<b>37.76%</b>
Meetings and admin	51	45	6	13.33%
Chairman's allowance	20	20	-	0.00%
Consultancy and sector support	920	1,151	(231)	-20.07%
Local Area Support	150	-	150	0.00%
<b>Total other expenditure</b>	<b>1,141</b>	<b>1,216</b>	<b>(225)</b>	<b>-18.50%</b>
<b>Total expenditure</b>	<b>2,047</b>	<b>1,874</b>	<b>23</b>	<b>1.25%</b>
Grant income	(1,073)	(1,266)	193	-15.24%
Contributions from partners	(200)	(200)	-	0.00%
External interest received	(474)	(155)	(319)	0.00%
<b>Total income</b>	<b>(1,747)</b>	<b>(1,621)</b>	<b>(126)</b>	<b>7.77%</b>
<b>Net expenditure</b>	<b>300</b>	<b>253</b>	<b>47</b>	<b>0.00%</b>
<b>Contributions to/from reserves</b>	<b>(300)</b>	<b>(253)</b>	<b>(47)</b>	<b>0.00%</b>
<b>Final net position</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.00%</b>

#### **4. Financial Implications**

- 4.1 The report is co-authored by the Accountable Body and advice has been given that the high level of reserves should be addressed, in a timely and appropriate manner. The proposed budget for 2018/19 is considered appropriate and recognition of the increasing resource needed as a result of increasing governance requirement is welcome. A further report should be made to Accountability Board on receipt of further details for grant funding from Government in 2018/19 if there are material changes to the funding that impact this budget.

#### **5. Legal Implications**

- 5.1 None at present.

#### **6. Staffing and other resource implications**

- 6.1 None at present.

#### **7. Equality and Diversity implications**

- 7.1 None at present.

#### **8. List of Appendices**

- 8.1 Letter from SELEP Chairman to Jake Berry MP, Minister for Northern Powerhouse and Local Growth

#### **9. List of Background Papers**



9.1 None

(Any request for any background papers listed here should be made to the person named at the front of the report who will be able to help with any enquiries)

Role	Date
<b>Accountable Body sign off</b>  Lorna Norris  On behalf of Margaret Lee	  06/12/2017