**AUDIT and FINANCE Committee – 1st September 2021**

**SSLEP Reserves Review / Policy**

**Background**

The SSLEP currently holds the following reserves: -

**General Reserve**

This holds the accumulated balances from previous years underspending against the core budget, and is available to support future year’s spending plans, meet unexpected drops in income or increases in costs, and also to ensure the SSLEP has funding available to take new opportunities as they arise. A&F formally approve the use of this reserve, primarily as part of the annual budget setting process, subject to Executive Board ratification.

**Restricted Redundancy Reserve**

This holds funds specifically set aside to meet potential future redundancy liabilities of staff employed, or seconded staff to the SSLEP where an agreement is in place that includes a potential liability to meet redundancy or other exit costs.

**Restricted Projects Admin Reserve**

This holds funds which are earmarked to support the costs and management of the SSLEP major projects / programmes. It was established by top-slicing the major programme grants (LGF / GBF), and is used to meet the programme management costs of those schemes, legal charges, business case review costs etc. It is also used to provide funds to support schemes that have requested additional funding subject to approval by SPMG.

**Restricted Growing Places Fund Revenue Reserve**

This reserve was established initially from a GPF grant and is used to fund the revenue costs of administering the GPF. The reserve is “topped up” each year with interest earned on GPF, or interest charged on default loans.

The latest position on the above reserves is attached at Appendix 1.

**Reserves Policy**

The SSLEP has not currently got a formal reserves policy. Each of the reserves set out above have been managed and reviewed independently by A&F, SPMG and GPF as part of normal monitoring activities, particularly during the budget setting process.

Given the uncertainties around the future of SSLEP funding, it is appropriate to review the current levels and use of reserves and where appropriate set some parameters around the minimum level of reserves which should be held in order to manage risk. It would also be good practice to set some principles on how each of the reserves maybe spent in future, for example pump priming specific initiatives such as business support and sector development, use as match funding as part of bidding opportunities, and promotion of the SSLEP etc.

Reserves will also need to be held for cashflow purposes. To date this has not been an issue for the SSLEP as the major programme grant income has provided cash reserves to meet cashflow requirements, however moving forward (from 1st April 2022) this is currently unlikely to be the case.

**General Reserve**

The original estimated balance at 31st March 2022 was £354k, assuming the contribution to the 2021/22 revenue budget was in line with the draft budget. In practice, given the current guidance received around not appointing new staff and uncertainty around the LEP review, the balance is now expected to be in the region of £495k.

Current direct funding to the SSLEP to support core activities includes core grant (currently £0.5m), partner contributions, and EZ support (subject to approval) of £703k.

It is recommended that the current balance is retained, and a further review is undertaken when the outcome of the LEP review is known and the certainty of future funding is confirmed.

At that point, and assuming current direct funding continues, it is proposed that a minimum balance on this reserve be maintained at the equivalent of 30% of the annual direct funding amount, to provide an appropriate level of contingency should any of the funding streams be discontinued moving forward, e.g. based on current direct funding that would equate to circa £210k.

The balance could then be made available to support the SSLEP revenue activities included in the SSLEP delivery plan, such as direct support to services, promotion of the SSLEP, partnership working etc.

**Restricted Redundancy Reserve**

The balance on the redundancy reserve, including a budgeted in-year contribution of £20k, will be £50k. A review of the current staff members suggests that the SSLEP has currently overprovided for this potential liability, which is estimated at £10k. However, the level of the liability changes as staff achieve longer levels of service.

There is clearly an opportunity to reduce the level of this reserve, however it might be pragmatic to retain the current level of the reserve and use the balance as a contingency to mitigate / manage risk that could result if the outcome of the LEP review is not positive. There would be costs associated with winding down the LEP that would need to be met.

Assuming the outcome of the review is positive, it is proposed that an annual review of the redundancy reserve is undertaken as part of the budget setting process, and balances adjusted accordingly to future known liabilities.

**Restricted Projects Admin Reserve**

The balance on the reserve is estimated to be £580k at 31st March 2022. It is currently unlikely that additional resources will be added to the reserve. Estimated costs charged against the reserve during 2021/22 are £132k, although the future annual costs should be less than this as there will be reduced management, legal and business case review costs as the major programmes are completed. It should however be noted that monitoring of the programmes and completion of regular returns to BEIS / MHCLG will continue to 2025.

If future major programmes are managed through the SSLEP, the current approach of top slicing grant could continue to meet costs associated with those programmes.

It is proposed that a minimum balance of £300k is therefore held on this reserve to meet future liabilities in respect of managing, monitoring and reporting against contracts and services. The balance could be made available for re-investment into other LEP activities, such as pump priming, options appraisals work, match funding etc.

**Restricted Growing Places Fund Revenue Reserve**

The estimated balance on the reserve at 31st March 2022 is £255k. In recent years any in-year costs have been covered by additional income from interest charged on default loans and interest earned on balances. The low number of outstanding loans to be completed has reduced estimated legal costs, and there are currently no proposals to go undertake a further open call.It is proposed that the current balance is maintained at existing levels to meet potential future costs of running the scheme and to mitigate any exit costs relating to these loans because of the outcome of the LEP review. Should the scheme continue moving forward, part of the revenue reserve could be used to enhance the amount available for loans.

**Review**

It is proposed that a formal review is undertaken of all SSLEP reserves on an annual basis by A&F, as part of the formal budget setting process. It is also proposed that the Assurance framework is updated to include more details on the SSLEP reserves and the principles around utilising them.

**Recommendations**

That Audit and Finance:

1. Note the current position on SSLEP reserves
2. Confirm the approach to each of the individual reserves, including the principles around the use of each reserve.

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23rd August 2021