

The Highland Council

City of Inverness Area Committee – 5 March 2015

Agenda Item	20(b)
Report No	CIA/19/15

Inverness Common Good Fund Budget Setting for 2015/16 and Capital Programme

Report by Director of Finance and Inverness City Manager

Summary

This report invites Members to set the revenue budget for the Inverness Common Good Fund (ICGF) for the financial year 2015/16. It clarifies:-

- governance arrangements;
- anticipated income (primarily from tenancy rentals);
- the proposed expenditure, split into essentials (for the maintenance of buildings and the provision of basic services) and a number of additional items;
- action on the future investment of any projected surplus funds;
- the structure of payments made to the Council for services rendered in support of the fund and how these services should be supported in the coming financial year and thereafter; and
- the creation of an earmarked reserve for Property Investment.

1. Governance Arrangements

1.1 The total value of the ICGF (£33.217m) is under the governance of the Council. This is not controlled by a Trust Deed but by the principles laid down in legislation and case law and covers Investments, grants and general expenditure. This results in:

- (i) the principles of Best Value being applied
- (ii) the principal benefit of resources going to the residents of the former Burgh of Inverness; and
- (iii) funds being allocated against essential expenditure first. Surplus funds being invested in shares and property so as to consolidate and grow the ICGF for future generations.

1.2 **Appendix 1** details the projected Outturn for ICGF Revenue Budget for 2014/15. **Appendix 2** details the Balance Sheet for the ICGF as at 31 March 2014. This details the assets of the ICGF, which can be summarised as follows:

- (i) land and property (including Town House) – value - £21.272m
- (ii) heritage assets (pictures and artefacts) – value - £1.452m
- (iii) investments (equity portfolio) – value £10.905m (current valuation £10.937m)

- (iv) sundry debtors – value £0.130m
- (v) loans fund deposits – value £(0.360m)
- (vi) sundry creditors – value £0.182m

1.3 City of Inverness Area Committee. The City of Inverness Area Committee (CIAC) has the power to administer the assets of the fund and current values are summarised as follows:

- (i) Land and buildings – management of these is delivered by the Development and Infrastructure Service who advise on investment opportunities in property and manage current property assets.
- (ii) Revenue from investment properties and equity investments – Equity investments are managed by Messrs Adam & Co, through the Council's Investment Sub-Committee. **Appendix 2** details the 14/15 Income and Expenditure Account and shows that the ICGF received £1.967m in rental income from land investments in the year 2014/15 and £0.234m income from equity investments. Under pre-existing arrangements, all the Share Dividend income was re-invested by the Fund Managers, Messrs Adam & Co. The Balance Sheet also shows that the value of the portfolio at 31 March 2014 was £10.905m.
- (iii) Other property – the ICGF does hold Heritage Assets¹ and these are shown on the Balance Sheet as having a value of £1.452m.

2. Anticipated Revenue

- 2.1 Rental Income – The total income expected to be available in 2015/16 from rents, mostly from industrial estates, the Victorian Market and the Town House is expected to be £2.022m.
- 2.2 Interest and Revenue Balances – Assuming that the current low interest rates continue, it is anticipated that interest receivable on projected surplus balances will be approximately £0.005m in 2015/16.
- 2.3 Share Dividends – The equity investments made on behalf of the ICGF by the Council's agents, Messrs Adam & Co have produced income of £0.221m in the current financial year to date. The demands on the fund in the coming years which have now been identified will mean that significant withdrawals will be required from the portfolio. An accurate cash flow projection will allow the Manager to continue to exit the market at the most appropriate time.

3. Consequences for Revenue Balances

- 3.1 As at 31st March 2014, the Common Good Fund had investments of £10.905m (market value) (current valuation £10.937m) managed by external investment

¹ A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

managers (Adam & Co.).

- 3.2 Close monitoring takes place of capital projects through regular meetings led by the Inverness City Manager and involving the Ward Manager for Inverness West and Inverness Nesside and the Project Manager assigned by the Development and Infrastructure Service to support Common Good Fund Projects. The governance is also assisted by regular project monitoring reports being made to the Committee.

4. Proposed Expenditure

- 4.1 Competency – principal regard must be given to the interests of the residents of the City who reside within the boundaries of the former Burgh and to the need to maintain property assets. Expenditure has been broken down into:-

- essential; and
- discretionary

Essential – this is competent as it is for the upkeep of property either in the ownership or the control of the ICGF (Council).

Discretionary – this falls into two classes being:-

- expenditure that is planned but not absolutely essential for the upkeep of ICGF owned/managed properties; and
- grants – here the test falls back on whether or not that expense brings sufficient benefit to the residents of the Burgh.

The expenditure proposed within this report meets the test of competency as detailed, benefiting a broad cross-section of the residents of the City, including residents of the former Burgh.

- 4.2 Grants (including Hospitality) – when projects are funded, outcomes are identified before recommendations are made to fund and appropriate Business Plans are put in place. Benefits to the City and, especially with the larger projects, a strong link to the Single Outcome Agreement and the Council's Programme are established.

5. Proposed Budget – Application and Inflationary Increase

- 5.1 15/16 Budget - The draft budget for 2015/16 is set out in **Appendix 3**. This shows the budgeted expenditure from 2014/15 together with a roll forward budget. In accordance with Council policy, wherever practicable, no inflationary increase has been applied to budget heads. The variance column shows the movement from the prior year on each heading.

- 5.2 Impact on available funds – It should be noted that if the expenditure headings are to be set at the levels proposed in **Appendix 3**, this will require a total transfer from reserves of £3.432m for the year 15/16. This includes £0.122m of unspent prior commitments on Grants, Subventions and Civic and Conference

Hospitality. The current balance on revenue reserves is £6.367m.

The total Reserves balance, as per the published Accounts is £33.217m, however this reflects Local Authority Accounting Practice where revaluations are treated as “Unusable Reserves”. In reality the ICGF assets are all realisable, although this would neither be prudent or practical to do so. The earlier report on Strategy highlights that the current value of cash investments of £10.905m as being the fund that is used to finance capital and revenue projects over and above the general budget funded by rental receipts.

6. Movements from current year revenue budgets

- 6.1 The movements from current year (14/15) budgeted expenditure to proposed expenditure for 15/16 expenditure are highlighted in the variance column in **Appendix 3**. The main movements in revenue budget headings can be summarised as follows:
- 6.2 Common Good Fund Grants – the £0.472m proposed for 15/16 comprises £0.122m for grants committed during or prior to 14/15, £0.350m for 15/16 grant approvals. The reduction of £0.300m is due to expenditure during 14/15 to meet commitments made prior to April 2014. Budgetary provision of £0.472m was made for these commitments; projects have variously been successfully completed at anticipated or reduced cost, amended or abandoned. Detailed reports on grants expenditure have been provided to the Grants Sub-Committee for monitoring during the financial year.
- 6.3 A report on grants expenditure is to be made to the Grants Sub-Committee in May 2015. The report is to include options for Members to consider imposing a normal limit on grant expenditure provided to third parties.
- 6.4 Income from Rents - the projected budget allocation is increased by £0.053m. This includes estimated the outcome of pending rent reviews and foreseeable changes in tenancies. There is a concomitant increase in the Property Management fee of £0.003m.
- 6.5 Events and Festivals – the budget allocation for 14/15 was increased by £0.050m to cover expenditure for the one-off 2014 Homecoming Festival and Masters’ World Championship. The 15/16 budget is reduced by £0.050m in accordance with the anticipated expenditure for the established annual portfolio of events.
- 6.6 Partnership Working - BID - the projected budget allocation is increased by £0.042m. The revised allocation is sufficient to include expenditure on all partnership initiatives. A separate report details the funding applications from BID. Provision has also been made for the expenditure on the only application relating to Operation Respect Winter 2015 which will be submitted later in the year). Members may note that according to information provided to the Grants Sub-Committee in February 2015 the average Council contribution to projects is reduced from 81% for all previous projects prior to 62.5% for 2015/16.

- 6.7 Castle Wynd Public Conveniences – a new cost centre is created subject to approval of funding of £0.016m. The City Promotions cost centre, which was formerly used for expenditure on the public conveniences, is reduced by an equal sum.
- 6.8 Winter Payments – the proposed budget allocation is reduced by £0.015m. This is based on estimated total expenditure at the time of writing (ahead of the application deadline of 28 February 2015). The funding allocation was increased to £0.100m in September 2014 when the criteria for the scheme was changed.
- 6.9 Civic and Conference Hospitality - the proposed budget allocation comprises £0.012m for hospitality commitments made during 14/15, and a budget allocation of £0.120m for 15/16. The increase of £0.012m in the overall commitment is due to prior commitments (there were none the previous year).
- 6.10 Subvention - Conference Grants – the proposed budget allocation comprises £0.014m for grants committed during or prior to 14/15, £0.040m for 15/16 grant approvals. The reduction of £0.009m is due to a lower allocation for prior commitments.
- 6.11 Disabled Go Project (2013-18) – a new cost centre is proposed with an annual allocation of £0.008m. The grants allocation relating to forward commitments prior to 14/15 has been reduced accordingly.
- 6.12 Industrial Estates – this expenditure cost centre is reduced by £0.005m and effectively removed, as it is no longer used.

7. Third Party Applications

- 7.1 Third Party applications for funding have not been included in the terms of this report. These applications are dealt with under the governance of the ICGF Grants Sub Committee and where appropriate, are reported to the CIAC for decision.

8. Investment Strategy

- 8.1 Previous briefings to Members have indicated that, following work to the Town House and 1-5 Church Street, the sum of £3.6m would remain in realisable reserves. It is proposed that £2m is retained as a general reserve, with the remaining sum earmarked as a Property Investment Fund. If the Committee agrees, then a strategy for this Fund will be developed for consideration at the next meeting.
- 8.2 Victorian Market – work is being undertaken to build on opportunities to enhance the Market. The sum set aside will allow this to be progressed, with Members and stakeholders within the business community, including the Market Tenants being briefed and consulted as appropriate. Progress is planned to be reported to Committee in June.

9. Implications

- 9.1 Equalities Policy – in the application of funding, whether it be through the provision of improvements to facilities or the supply of funds to third party organisations who are running projects, care is taken to ensure that the relevant projects give close attention to the need to provide facilities for as broad a range of the community as possible, including those who are physically disadvantaged. Also, wherever possible, projects incorporate consideration for the increasing number of people coming to live in our City who will not necessarily have English as their first language. Care is also taken to ensure that any projects targeted at a particular age sector of the population are supported by a strong business case for doing so.
- 9.2 Climate Change/Carbon Clever – in the application of funds, in particular relating to the improvement/refurbishment of buildings, attention is given to the need to reduce energy consumption. A balance has to be achieved between the costs of providing additional materials for doing so set against the benefit. Whilst the works proposed to be undertaken to the Town House will largely be external, an assessment will be made as to whether or not any actions can be undertaken which will improve the heat retention capabilities of the Town House.
- 9.3 Legal and Financial Implications – the application of funds will fall within the competency guidelines set out both in statute and in common law in relation to Common Good Funds. Additionally, through the governance being applied by the Finance Service, funds will remain compliant with all financial regulations. In order to meet revenue expenditure requirements, it may prove necessary to sell share investments.
- 9.4 Expenditure – If the expenditure outlined above and set out in the proposed budget is spent, it would total £5.459m. For 15/16, this exceeds income by £3.285m leaving a deficit which will have to be funded by cash investments. The expenditure proposed will provide the relevant properties, many more years of strength and stability.
- 9.5 Rural Implications – Principal benefit of any grant awards rests with the residents of the former Burgh. However when applications are made which impact areas outside the Burgh, consideration is given as how this reflected benefit impacts those communities. Projects which improve the wellbeing of communities are looked on favourably so long as they have a strong Business Plan.

Recommendation

The Committee is invited to agree:

- i. the Common Good Fund budget for 2015/16 detailed within the report;
- ii. to develop detailed cash flow forecasts for major project expenditure to permit the most appropriate investment exit strategy to be agreed with the Fund Manager; and
- iii. to maintain a general reserve of £2m and reallocate the remaining uncommitted sum of £1.6m to a Property Investment Fund.

and to note that officers will continue to monitor projected cash flow for the Common Good Fund, in particular through the Capital Projects Monitoring Report, with an emphasis on the utilisation of surplus revenue either within projects or as an opportunity for investment.

Designation: Director of Finance and Inverness City Manager

Date: 20 February 2015

Authors: Derek Yule, Director of Finance and David Haas,
Inverness City Manager

**MONITORING STATEMENT 2014/15
INVERNESS COMMON GOOD FUND
FOR PERIOD ENDING 31 JAN 2015**

Appendix 1

	ACTUAL YEAR TO DATE	ANNUAL BUDGET	ESTIMATED OUTTURN	ESTIMATED VARIANCE
	£000	£000	£000	£000
INCOME				
Rents				
Industrial Estates	1,264	1,395	1,395	0
Victorian Market	227	282	282	0
Town House	0	253	253	0
Other Properties	30	39	39	0
	1,521	1,969	1,969	0
Other Income				
Contribution to Grants from Reserves		384	384	0
Interest on Revenue Balances	0	5	5	0
TOTAL INCOME	1,521	2,359	2,359	0
EXPENDITURE				
Industrial Estates	1	5	5	0
Victorian Market	141	185	185	0
Town House Maintenance	73	100	100	0
Other Properties	88	130	130	0
Civic and Conference Hospitality	91	120	108	(12)
Ness Islands & Bank Maintenance	0	27	27	0
Festive Lights	1	65	65	0
Town Twinning	0	9	4	0
Winter Payments	52	100	85	(15)
Inverness Common Good Fund Grants	503	772	600	(172)
City Promotions	38	50	50	0
Subventions	6	63	20	(43)
BID Partnership	83	70	92	22
Events & Festivals	314	370	365	0
CCTV	92	90	92	0
Property Management Fees	98	118	118	0
Central Support Charge	60	60	60	0
Other Charges	12	14	14	0
Town House Other Costs	5	11	11	0
TOTAL EXPENDITURE	1,658	2,359	2,130	(220)
Income Less Expenditure	(137)	(0)	(229)	(220)
PROJECTS				
Town House Refurbishment	109	100	109	9
CGF contribution to re-wiring of Town House	51	51	51	0
Refurbishment 1-5 Church Street	119	917	200	(717)
Streetscape Riverside Flood Prevention Project	800	800	800	0
Victorian Market Windows Replacement	48	40	48	8
Inverness City Arts Project	19	225	50	(175)
TOTAL PROJECTS	1,146	2,133	1,258	(875)

STATEMENT OF ACCOUNTS

Appendix 2

2012/13
£
Inverness Common Good Fund
Income and Expenditure Account

2013/14
£

	<u>Expenditure</u>	
124,586	Staff costs	121,955
299,663	Property costs	292,866
1,458,669	Other costs	1,507,316
600,137	Grants and contributions	798,487
172,671	Administration charges	57,560
2,655,726	Total expenditure	2,778,184
	<u>Income</u>	
1,869,492	Rents	1,966,814
27,893	Miscellaneous income	31,569
2,181	Interest on revenue balances	1,752
221,400	Income on investments	233,862
-	Grants and contributions	38,768
2,120,966	Total income	2,272,765
	Other Operating Income and Expenditure	
8,150	Gain on disposal of asset	-
(526,610)	Surplus/(deficit) for the year	(505,420)
(511,150)	Revaluation gains/(losses)	367,405
1,309,658	Unrealised gains on investments	378,947
271,898	Total comprehensive income and expenditure	240,932

2012/13
£
Balance Sheet

2013/14
£

	<u>Non current assets</u>	
20,719,000	Investment properties	21,272,000
-	Community assets	-
10,342,005	Investments at valuation	10,904,801
1,638,000	Heritage	1,452,405
32,699,005		33,629,206
	<u>Current assets</u>	
97,375	Sundry debtors	130,250
375,853	Loans fund deposits	-
473,228		130,250
	<u>Current liabilities</u>	
(196,379)	Sundry creditors	(182,168)
-	Loans fund deposits	(360,501)
(196,379)		(542,669)
32,975,855	Total assets	33,216,787
	Usable reserves	
6,872,496	Revenue funds	6,367,076
	Unusable reserves	
1,638,000	Revaluation reserve	1,452,405
20,719,000	Capital adjustment account	21,272,000
3,746,359	Available for sale reserve	4,125,306
26,103,359		26,849,711
32,975,855	Total reserves	33,216,787

Inverness Common Good Fund

Appendix 3

Budget 2015-16

INCOME	2015/16 £000	2014/15 £000	Variance £000
Rents			
Industrial Estates	1,435	1,395	40
Victorian Market	284	282	2
Town House	253	253	-
Other Properties	50	39	11
	<u>2,022</u>	<u>1,969</u>	<u>53</u>
Other Income *			
Interest on Revenue Balances	5	5	-
Contribution to Grants from Reserves (underspend from previous year)	122	275	(153)
Contribution to Subvention from Reserves (underspend from previous year)	14	23	(9)
Contribution to Civic and Conference Hospitality from Reserves (underspend)	12		
Additional Contribution to Revenue Budget from Reserves		87	(87)
Total Income	<u>2,175</u>	<u>2,359</u>	<u>(196)</u>
EXPENDITURE			
Industrial Estates	0	5	(5)
Victorian Market	185	185	-
Town House Maintenance	100	100	-
Other Properties	130	130	-
Civic and Conference Hospitality	132	120	12
Ness Islands & Bank Maintenance	27	27	-
Festive Lights & Decorations	65	65	-
Town Twinning	9	9	-
Winter Payments	85	100	(15)
Inverness Common Good Fund Grants	472	772	(300)
Subvention - Conference Grants	54	63	(9)
City Promotions	34	50	(16)
Disabled Go Project (2013-18)	8	0	8
Castle Wynd Conveniences	16	0	16
Partnership Working - BID	112	70	42
Events & Festivals	320	370	(50)
CCTV	90	90	-
Property Management Fee	121	118	3
Central Support Charges	60	60	-
Other Charges	14	14	-
Town House Other Costs	11	11	-
TOTAL EXPENDITURE	<u>2,045</u>	<u>2,359</u>	<u>(314)</u>
CONTRIBUTION TO PROJECTS	<u>130</u>	<u>0</u>	<u>130</u>
PROJECTS			
Town House Refurbishment	1,551	100	1,451
Town House Refurbishment - Historic Scotland Funding	(175)	0	(175)
CGF contribution to re-wiring of Town House	0	51	(51)
Refurbishment 1-5 Church Street	1,713	917	796
Streetscape Riverside Flood Prevention Project	0	800	(800)
Inverness Castle	100	0	100
Inverness City Arts Project	175	225	(50)
Victorian Market Windows Replacement	0	40	(40)
Victorian Market - Opportunities for Improvement	50	0	50
TOTAL PROJECTS	<u>3,414</u>	<u>2,133</u>	<u>1,281</u>
Amounts transferred from Reserves	3,432	2,518	914

* Stock Market Income is all reinvested