

The Highland Council

City of Inverness Area Committee – 23 February 2017

Agenda Item	13(b)
Report No	CIA/12/17

Inverness Common Good Fund Budget Setting for 2017/18 and Capital Programme

Report by Director of Finance and Inverness City Area Manager

Summary

This report invites Members to set the revenue budget for the Inverness Common Good Fund (ICGF) for the financial year 2017/18. 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.

1. Governance Arrangements

1.1 The total value of the ICGF (£31.135m) 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 The Common Good Fund Balance sheet at 31st March 2016 is attached at **Appendix 1** details the assets of the ICGF, which can be summarised as follows:

- (i) land and property (including Town House) – value - £21.669m
- (ii) heritage assets (pictures and artefacts) – value - £2.063m
- (iii) investments (equity portfolio) – value £7.208m
(valuation as at 31st December 2016- £8.166m)
- (iv) sundry debtors – value £0.271m.
- (v) loans fund deposits – value £0.099m

(v) sundry creditors – value £0.175m

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.
- (iii) Other property – the ICGF does hold Heritage Assets¹ and these are shown on the Balance Sheet as having a value of £2.063m.

2. Anticipated Revenue

- 2.1 Rental Income – The total income expected to be available in 2017/18 from rents, mostly from industrial estates, the Victorian Market and the Town House is expected to be £2.061m.
- 2.2 Interest on Revenue Balances – Assuming that the current low interest rates continue, it is anticipated that interest receivable on projected surplus balances will be approximately £0.001m in 2017/18.
- 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 £0.146m in the current financial year to 31st December 2016. The demands on the fund in the next 2 years 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 2016, the Common Good Fund had investments with a market value of £7.208m, (current valuation as at 31st December 2016- £8.166m) managed by external investment managers (Adam & Co.).
- 3.2 Close monitoring takes place of capital projects through regular meetings led by the Inverness City Area Manager and the Principal 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 this Committee.

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.

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 Council's Programme, Highland First, is established.

5. **Proposed Budget – Application and Inflationary Increase**

5.1 17/18 Budget - The draft budget for 2017/18 is set out in **Appendix 2**. This shows the budgeted expenditure from 2016/17 together with a roll forward budget. In accordance with Council policy, wherever practicable, no inflationary increase has been applied to budget heads. The third column shows the movement from the prior year budget 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 2**, this will require a total transfer from reserves of £1.302m for the year 17/18. This includes £0.259m of unspent prior commitments on Grants and Subventions. The current balance on revenue reserves is £5.497m.

The total Reserves balance, as per the published Accounts is £31.135m; however this reflects Local Authority Accounting Practice where revaluations are treated as "Unusable Reserves". In reality the ICGF assets are all potentially realisable, although this would neither be prudent or practical to do so. Cash investments of £7.208m are being 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 (16/17) budgeted expenditure to proposed expenditure for 17/18 expenditure are highlighted in the third column in **Appendix 2**. The main movements in revenue budget headings can be summarised as follows:
- 6.2 Common Good Fund Grants – the £0.569m proposed for 17/18 comprises £0.254m for grants committed during or prior to 16/17, and £0.315m for 17/18 grant approvals. In respect of unspent grants, 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 Income from Rents - the projected budget allocation is decreased by £0.017m. This includes estimations on the outcome of pending rent reviews and foreseeable changes in tenancies.
- 6.5 Castle Wynd Public Conveniences – Budget provision is proposed noting that discussions are underway with Community Services regarding Public Toilet provision within the City. This will provide facilities between 1st April and 31st October 2017.
- 6.6 Partnership Working – The allocation is sufficient to include expenditure on all partnership initiatives. A separate report, detailing the funding applications from BID was made to the Grants Sub Committee. Provision has also been made for the expenditure on the only application relating to Operation Respect Winter 2017 which will be submitted later in the year. Members may note that according to information provided to the Grants Sub-Committee on 30th January 2017, the average Council (ICGF) contribution to projects has reduced from 55% in 2016/17 to 53% for 2017/18.
- 6.7 Conference Support Grants – the proposed budget allocation comprises £0.019m for grants committed during or prior to 16/17, and £0.040m for 17/18 grant approvals.

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 Grants Sub Committee and where appropriate, are reported to the CIAC for decision.

8. Investment Strategy

- 8.1 It is proposed that £2m continues to be retained as a general reserve, with £1.6m earmarked as a Property Investment Fund. This was originally agreed when the 2015/16 ICGF budget was set at the CIAC held on 5 March 2015.

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 September. Tenancies' continue to be managed efficiently by the Council and all current vacancies are being marketed to minimise any rental voids. This has impacted on the income projection for the Market.

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 being undertaken to the Town House are largely external, ongoing assessments 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 £3.364m. For 17/18, this exceeds income by £1.043m 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.

9.6 Risk Implications – The decision making process along with the administration of the agreed budgets addresses all known risk implications.

Recommendation

The Committee is invited to agree:

- i. the Common Good Fund budget for 2017/18 detailed within the report and Appendices; and
- ii. 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 Area Manager

Date: 9 February 2017

Authors: Derek Yule, Director of Finance and
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STATEMENT OF ACCOUNTS

APPENDIX 1

2014/15 Inverness Common Good Fund

2015/16

£

£

Income and Expenditure Account

	<u>Expenditure</u>	
107,294	Staff costs	113,324
307,507	Property costs	224,335
1,691,484	Other costs	4,142,302
1,687,086	Grants and contributions	544,893
60,014	Administration charges	181,087
3,853,385	Total expenditure	5,205,941
	<u>Income</u>	
2,082,233	Rents	2,019,337
80,331	Miscellaneous income	66,703
0	Interest on revenue balances	1,325
277,460	Income on investments	251,143
211,286	Grants and contributions	606,716
2,651,310	Total income	2,945,224
(1,202,075)	Surplus/(deficit) for the year	(2,260,717)
723,856	Revaluation gains/(losses)	(448,045)
1,456,014	Unrealised gains/(losses) on investments	(350,720)
977,795	Total comprehensive income and expenditure	(3,059,482)

Balance Sheet

	<u>Non current assets</u>	
22,117,045	Investment properties	21,669,000
9,853,586	Investments at valuation	7,207,886
2,063,374	Heritage Assets	2,063,374
34,034,005		30,940,260
	<u>Current assets</u>	
310	Sundry debtors	270,732
522,273	Loans fund deposits	99,293
522,583		370,025
	<u>Current liabilities</u>	
(362,005)	Sundry creditors	(175,185)
(362,005)		(175,185)
34,194,583	Total assets	31,135,100
	Usable reserves	
6,379,514	Revenue funds	5,496,791
	Unusable reserves	
2,063,374	Revaluation reserve	2,063,374
22,117,045	Capital adjustment account	21,669,000
3,634,650	Available for Sale Reserve	1,905,935
27,815,069		25,638,309
34,194,583	Total reserves	31,135,100

Inverness Common Good Fund
Appendix 2
Budget 2017-18

INCOME	2017/18 £000	2016/17 £000	Movement £000
Rents			
Industrial Estates	1,471	1,471	0
Victorian Market	247	259	(12)
Town House	258	263	(5)
1-5 Church Street	75	85	(10)
Other Properties	10	0	10
	<u>2,061</u>	<u>2,078</u>	<u>(17)</u>
Other Income			
Contribution to Grants from Reserves	240	157	83
Contribution to Conference Support from Reserves	19	24	(5)
Interest on Revenue Balances	1	5	(4)
TOTAL INCOME	<u>2,321</u>	<u>2,264</u>	<u>57</u>

EXPENDITURE

Victorian Market	198	185	13
Town House Maintenance	100	100	0
1-5 Church Street Maintenance	20	20	0
Other Properties	110	110	0
Civic and Conference Hospitality	132	102	30
Ness Islands & Bank Maintenance	35	35	0
Festive Lights	65	65	0
Town Twinning	9	9	0
Winter Payments	85	85	0
Inverness Common Good Fund Grants	569	472	97
Conference Support	59	84	(25)
City Promotions	34	58	(24)
Disabled Go Project (2013-18)	8	8	0
Castle Wynd Conveniences	23	23	0
Partnership Working	109	106	3
Events & Festivals	320	320	0
CCTV	90	90	0
Property Management Fees	124	124	0
Central Support Charge	60	60	0
Other Charges	14	14	0
Town House Other Costs	11	11	0
Inverness Steeple	10	10	0
TOTAL EXPENDITURE	<u>2,185</u>	<u>2,091</u>	<u>94</u>
Income Less Expenditure	<u>136</u>	<u>173</u>	<u>(37)</u>

PROJECTS

Town House Refurbishment	690	1,805	(1,115)
Refurbishment 1-5 Church Street	0	80	(80)
Ness Islands - Structural Maintenance Programme	225	225	0
Inverness City Arts Project	114	114	0
Victorian Market - Opportunities for Improvement	150	10	140
TOTAL PROJECTS	<u>1,179</u>	<u>2,234</u>	<u>(1,055)</u>