

Agenda Item	12c
Report No	CIA/11/18

HIGHLAND COUNCIL

Committee: City of Inverness Area Committee

Date: 22 February 2018

Report Title: Inverness Common Good Fund
Budget Setting for 2018/19 and Capital Programme

Report By: Inverness City Area Manager

1. Purpose/Executive Summary

1.1 This report invites Members to set the revenue budget for the Inverness Common Good Fund (ICGF) for the financial year 2018/19. 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;

2. Recommendations

2.1 Members are invited to agree:

- i. the Common Good Fund budget for 2018/19 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.

3. Governance Arrangements

3.1 The total value of the ICGF (£32.443m) 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.

3.2 The Common Good Fund Balance sheet at 31st March 2017 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 - £22.097m
- (ii) heritage assets (pictures and artefacts) – value - £2.063m
- (iii) investments (equity portfolio) – value £7.702m (valuation as at 31st December 2017- £8.148m)
- (iv) sundry debtors – value £0.249m.
- (v) loans fund deposits – value £0.623m
- (vi) sundry creditors – value (£0.291m)

3.3 City of Inverness Area Committee. The City of Inverness Area Committee (CIAC) has the power to administer the assets of the fund and are administered subject to the following:

- (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.

4. Anticipated Revenue

4.1 Rental Income – The total income expected to be available in 2018/19 from rents, mostly from industrial estates, the Victorian Market and the Town House is expected to be £2.116m.

4.2 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 2018/19.

4.3 Share Dividends – The equity investments made on behalf of the ICGF by the Council's agents, Messrs Adam & Co have produced income of £0.144m in the current financial

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.

year to 31st December 2017. 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.

5. Consequences for Revenue Balances

- 5.1 As at 31st March 2017, the Common Good Fund had investments with a market value of £7.702m, (current valuation as at 31st December 2017 - £8.148m) managed by external investment managers (Adam & Co.).
- 5.2 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.

6. Proposed Expenditure

- 6.1 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
- 6.2 Essential – this is competent as it is for the upkeep of property either in the ownership or the control of the ICGF (Council).
- 6.3 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.
- 6.4 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.
- 6.5 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, "Local Voices, Highland Choices", is established.
- ## **7. Proposed Budget – Application and Inflationary Increase**
- 7.1 18/19 Budget - The draft budget for 2018/19 is set out in **Appendix 2**. This shows the budgeted expenditure from 2017/18 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.

- 7.2 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 £1.915m for the year 18/19. This includes £0.243m of unspent prior commitments on Grants and Conference Support. The current balance on revenue reserves is £5.494m.
- 7.3 The total Reserves balance, as per the published Accounts is £32.443m; 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 £7.702m are being used to finance capital and revenue projects over and above the general budget funded by rental receipts.

8. Movements from current year revenue budgets

- 8.1 The movements from current year (17/18) budgeted expenditure to proposed expenditure for 18/19 are highlighted in the third column in **Appendix 2**. The main movements in revenue budget headings can be summarised as follows:
- 8.2 Victorian Market - following the approval of the VM Action Plan, the budget has been adjusted to reflect the appointment of the VM manager and the establishment of a marketing and promotions budget of £0.025m. Previously an allocation of £0.014m had been made.
- 8.3 Common Good Fund Grants – the £0.550m proposed for 18/19 comprises £0.235m for grants committed during or prior to 17/18, and £0.315m for 18/19 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 Inverness Common Good Fund Sub-Committee for monitoring during the financial year.
- 8.4 Income from Rents - Projected rent for the industrial estate is expected to increase modestly. The Townhouse, 1-5 Church and the Victorian Market are expected to maintain the current income levels. Income from other properties, is expected to increase due to some additional lettings. A Budget line of £0.009m has been included to reflect income from the Inverness Angling Club for rental of the Ness Fishings.
- 8.5 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 29th March and 31st October 2018.
- 8.6 Partnership Working – The allocation is sufficient to include expenditure on all partnership initiatives. £0.102m was approved at the City of Inverness Area Committee held on 30th November 2017. Provision has also been made for the expenditure relating to Operation Respect Winter 2018 and an application will be submitted later in the year.
- 8.7 Conference Support Grants – the proposed budget allocation comprises £0.008m for grants committed during or prior to 17/18, and £0.040m for 18/19 grant approvals.
- 8.8 Events and Festivals – £0.340m was approved at the City of Inverness Area Committee on 14th September 2017. An update report on the Inverness Events and Festivals Strategy and Action Plan is planned to be presented to Committee on 30th August.

- 8.9 Commemorative Bedding – This is the cost of providing Carpet Beds at the Castle Banks (Castle Street). Total cost is £0.006m for installation and £0.002m for annual maintenance.
- 8.10 Ness River Angling Fees – The Fishery Assessment of £0.020m is paid annually by the ICGF and recovered by monthly instalments from Inverness Angling Club.

9.0 Other Projects

- 9.1 Old High Church Clock - The Common Good Fund own the clock and clock faces but not the steeple. The clock is requiring a full upgrade which will involve a full refurbishment of the clock mechanism, upgrade of lighting to LED and refurbishment of clock faces. Also included will be the cleaning of the steeple internally and upgrade emergency lighting to allow safe access for our contractors to undertake the works.
- 9.2 Town House Civic Floor – Various works to be undertaken in readiness to welcome the Public through a programme of Town House Tours.
- 9.3 Cavell Gardens Improvement Works – The Cavell Gardens war memorial has been showing signs of disrepair. Upgrade works will include replacement paving and steps/risers to the main body of the memorial, replacement wreath holders, associated works to damaged stonework, and upgraded lighting. This formed Phase 2 of works to the memorial. Phase 1, the installation of Victoria Cross panels was completed October 2017.

10. Third Party Applications

- 10.1 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 Inverness Common Good Fund Sub Committee and where appropriate, are reported to the CIAC for decision.

11. Investment Strategy

- 11.1 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.
- 11.2 Victorian Market – The Action Plan is prioritised with the help of Market Retailers and the Victorian Market Management Stakeholder Group. The retention of an “Opportunities for Improvement” Fund will allow the development of projects which will act to enhance the Victorian Market and provide for co-ordination with other projects such as project to improve Inverness Railway Station. Opportunities will also be sought to match fund, e.g. with the Townscape Heritage Project.

12. Implications

- 12.1 Resource - If the expenditure outlined above and set out in the proposed budget is spent, it would total £4.296m. For 18/19, this exceeds income by £1.915m 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.
- 12.2 Legal -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.

- 12.3 Community (Equality, Poverty and Rural) - 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.

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.

- 12.4 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.
- 12.5 Risk - The decision making process along with the administration of the agreed budgets addresses all known risk implications.
- 12.6 Gaelic – Projects will be undertaken in compliance with the Council's Policies in relation to the promotion of the Gaelic Language and Culture.

Designation: Depute Chief Executive and Director of Corporate Resources and Inverness City Area Manager

Date: 07 February 2018

Author: Derek Yule - Depute Chief Executive and Director of Corporate Resources
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Background Papers:

APPENDIX 1

STATEMENT OF ACCOUNTS

2015/16 £	Inverness Common Good Fund	2016/17 £
	Income and Expenditure Account	
	<u>Expenditure</u>	
113,324	Staff costs	125,365
224,335	Property costs	201,101
4,142,302	Other costs	1,817,426
544,893	Grants and contributions	569,798
181,087	Administration charges	208,748
5,205,941	Total expenditure	2,922,437
	<u>Income</u>	
2,019,337	Rents	2,180,762
66,703	Miscellaneous income	79,008
1,325	Interest on revenue balances	369
251,143	Income on investments	189,103
606,716	Grants and contributions	211,000
2,945,224	Total income	2,660,242
(2,260,717)	Surplus/(deficit) for the year	(262,195)
(448,045)	Revaluation gains/(losses)	428,000
(350,720)	Unrealised gains/(losses) on investments	1,142,560
(3,059,482)	Total comprehensive income and expenditure	1,308,364

31/03/2016 £	Balance Sheet	31/03/2017 £
	<u>Non current assets</u>	
21,669,000	Investment properties	22,097,000
7,207,886	Investments at valuation	7,702,224
2,063,374	Heritage Assets	2,063,374
30,940,260		31,862,598
	<u>Current assets</u>	
270,732	Sundry debtors	248,959
99,293	Loans fund deposits	623,108
370,025		872,067
	<u>Current liabilities</u>	
(175,185)	Sundry creditors	(291,200)
(175,185)		(291,200)
31,135,100	Total assets	32,443,465

Usable reserves		
5,496,791	Revenue funds	5,494,351
Unusable reserves		
2,063,374	Revaluation reserve	2,063,374
21,669,000	Capital adjustment account	22,097,000
1,905,935	Available for Sale Reserve	2,788,740
<u>25,638,309</u>		<u>26,949,114</u>
<u>31,135,100</u>	Total reserves	<u>32,443,465</u>

APPENDIX 2
INVERNESS COMMON GOOD FUND
BUDGET 2018-19

	2018/19 £000	2017/18 £000	Movement £000
EXPENDITURE			
Victorian Market	216	198	18
Victorian Market Management	45	0	45
Town House Maintenance	100	100	0
1-5 Church Street Maintenance	20	20	0
Other Properties	104	110	(6)
Civic and Conference Hospitality	132	132	0
Ness Islands & Bank Maintenance	35	35	0
River Ness Fishings	20	0	20
Festive Lights	65	65	(0)
Town Twinning	9	9	0
Winter Payments	105	105	0
Inverness Common Good Fund Grants	550	569	(19)
Conference Support	48	59	(11)
City Promotions	34	34	0
Disabled Go Project (2013-18)	8	8	0
Castle Wynd Conveniences	23	23	0
Partnership Working	112	109	3
Events & Festivals	340	320	20
CCTV	90	90	0
Property Management Fees	124	124	0
Central Support Charge	60	60	0
Other Charges	0	14	(14)
Town House Other Costs	0	11	(11)
Inverness Steeple	10	10	0
Commemorative Bedding	8	0	8
TOTAL EXPENDITURE	2,258	2,205	53
FUNDED BY:			
Rents			
Industrial Estates	1,500	1,471	29
Victorian Market Rents	247	247	0
Town House	258	258	0
1-5 Church Street	75	75	0
River Ness Fishing Rights	10	0	10
Other Properties Rents	26	10	16
Other Income			
Fishing Assessment Dues	20	0	20
Contribution to Grants from Reserves	235	240	(5)
Contribution to Conference Support from Reserves	8	19	(11)
Interest on Revenue Balances	1	1	0
TOTAL FUNDING	2,380	2,321	59
AVAILABLE TO FUND PROJECT SPEND	122	116	7

INVERNESS COMMON GOOD FUND PROJECT SPEND**PROJECT SPEND**

Town House Refurbishment - Phase 2	100	1,040	(940)
Town House Refurbishment - Phase 3	1,116	0	1,116
Ness Islands - Structural Maintenance Programme	162	298	(136)
Inverness City Arts Project	0	27	(27)
Victorian Market - Opportunities for Improvement	150	150	0
Lotland Street Starter Unit/ Alternative	165	170	(5)
Victorian Market - Internal Layout Redesign	40	0	40
Old High Church Clock	30	0	30
Victorian Market - Front Entrance Redesign	200	0	200
Cavell Gardens Improvement Works	55	0	55
Town House - Civic Floor	20	0	20
TOTAL	<u>2,038</u>	<u>1,685</u>	<u>353</u>
FUNDS AVAILABLE FOR PROJECT SPEND	122	116	7
BALANCE TO BE FUNDED BY RESERVES	<u>(1,915)</u>	<u>(1,569)</u>	<u>(346)</u>