

Agenda Item	14b
Report No	CIA/12/19

HIGHLAND COUNCIL

Committee: City of Inverness Area Committee

Date: 21 February 2019

Report Title: Inverness Common Good Fund
Budget Setting for 2019/20 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 2019/20. 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 2019/20 detailed within the report and Appendices; and
- ii. to maintain a general reserve of £2m and allocate a further £1.6m as a Property Investment Fund from the remaining uncommitted reserves.

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 (£31.616m) 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 2018 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 - £22.127m
- (ii) heritage assets (pictures and artefacts)¹ – value - £2.063m
- (iii) investments (equity portfolio) – value £7.379m (valuation as at 31st December 2018- £7.363m)
- (iv) sundry debtors – value £0.034m.
- (v) loans fund deposits – value £0.082m
- (vi) sundry creditors – value (£0.069m)

3.3 City of Inverness Area Committee. The City of Inverness Area Committee (CIAC) has the power to administer the assets of the fund, where the individual sum involved does not exceed 10% of the total value of the fund. The following provisions also apply:

- (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.

4. Anticipated Revenue

4.1 Rental Income – The total income expected to be available in 2019/20 from rents, mostly from industrial estates, the Victorian Market and the Town House is expected to be £2.137m.

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 2019/20.

4.3 Cash Received from Equity Investments – The equity investments made on behalf of the ICGF by the Council's agents, Messrs Adam & Co have produced income of £0.175m in the current financial year to 31st December 2018.

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.

5. Consequences for Revenue Balances

- 5.1 As at 31st March 2018, the ICGF had investments with a market value of £7.379m, (current valuation as at 31st December 2018 - £7.363m) 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.
- 5.3 The demands on the fund in the next 2 years mean that significant withdrawals will be required from the portfolio. This sum is referred to as “Balance to be funded from Reserves” within **Appendix 2**.

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 former 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, including residents of the former Burgh 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 19/20 Budget - The draft budget for 2019/20 is set out in **Appendix 2**. This shows the budgeted expenditure from 2018/19 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 £2.303m for the year 19/20. This includes £0.239m of unspent prior commitments on Grants and Conference Support. The current balance on revenue reserves is £4.921m.
- 7.3 The total Reserves balance, as per the published Accounts is £31.616m; 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.
- 7.4 Equity and bond investments (Market Value at 31/12/2018 - £7.363m) are being used to finance capital and revenue projects over and above the general budget funded by rental receipts. Although steps have been taken to increase the proportion of investments in bonds to protect the investment balance from serious market fluctuations there continues to be some risk to the value of the overall holding due to the uncertainties facing the market, There is a risk to the ICGF if too much reliance is placed upon the investment portfolio for financing future project expenditure. The market value quoted is sensitive to market conditions, and while past performance has been positive and allowed for substantial improvements to be made to assets of the ICGF it should not be assumed on as an indicator of future results.
- 7.5 Over the next 2 years there are plans for substantial project work to be undertaken that will place significant pressure on the reserves of the ICGF. The budget proposed for 2019/20 presents a scenario whereby core expenditure is only marginally covered by rental income. This is not a sustainable position for the ICGF to find itself in and therefore measures should be considered to reduce the level of discretionary expenditure, in order to safeguard the assets of the fund.

8. Movements from current year revenue budgets

- 8.1 The movements from current year (18/19) budgeted expenditure to proposed expenditure for 19/20 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 £0.035m. Previously an allocation of £0.025m had been made.
- 8.3 Winter Payments – An increase in budget of £0.010m is proposed to cover the increasing costs of administering the scheme by the Highland Council’s Revenues & Customer Services section. Such costs reflect the 33% increase in awards when comparing 2014/15 to 2017/18 which involves a staffing resource of 0.29xHC05
- 8.4 Common Good Fund Grants – the £0.540m proposed for 19/20 comprises £0.225m for grants committed during or prior to 18/19, and £0.315m for 19/20 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.

- 8.5 City Promotions - The recommendation is to set the budget at £0.068m in order to accommodate funds committed of £0.013m during 18/19 and the potential of supporting the European Pipe Band Championships along with further enhancing economic links with Augsburg.
- 8.6 Disabled Go (2013-2018) – Funding was committed for the years detailed, following the completion of this any future awards of funding would be managed within the grants budget.
- 8.7 Partnership Working – The sum of £0.060 was approved at the City of Inverness Area Committee on 22 November 2018 towards the City’s Floral Decorations. Subsequent applications are being consider later on today’s agenda. Provision has also been made for the expenditure relating to Operation Respect Winter 2019 and an application will be submitted later in the year.
- 8.8 Property Management Fees – Property management fees are calculated based on a % of income generated, with increased rents expected in 2019/20 an increase in fees is also proposed.
- 8.9 Central Support Charges – An increase of £0.020m is proposed to account for ICGF share of the Common Good Fund Officer costs.
- 8.10 Investment Advisor Fees – A budget of £0.010m is proposed for the ICGF share of the fees payable to the investment advisor to the Investment Sub-Committee.
- 8.11 Press & Public Relations – A budget of £0.010m is proposed to cover any work undertaken by the Highland Council Corporate Communications team in respect of ICGF activity.
- 8.12 Income from Rents - Projected rent for the industrial estate is expected to increase modestly, with income from other properties also expecting an increase as a result of additional lettings. A reduction in rent for the car park at the Town House has been agreed as a result of the loss of available spaces while Phase 3 of the refurbishment works are completed.1-5 Church Street and the Victorian Market are expected to maintain the current income levels.
- 8.13 Festive Lights – Installation costs recoverable by the Council have now been included. This has resulted an increase of £0.008m

9.0 Projects

- 9.1 Old High Church Clock – A revised project is being discussed with the Church of Scotland. A further report will be provided in due course meantime the project has been withdrawn from the budget. .
- 9.2 Town House Refurbishment Phase 2 – Following completion of Phase 2, no budget provision is proposed for 2019/20.
- 9.3 Town House Refurbishment Phase 3 – A budget of £1.800m is proposed to cover expenditure in relation to Phase 3 of the project in 2019/20.
- 9.4 Town House Civic Floor – Improvements to toilet facilities were not completed in 2018/19, as a result of this £0.040m is allocated for the completion of these improvements along with improvements planned for the kitchen facilities.

- 9.5 Ness Islands Structural Maintenance – Following completion of these works no budget provision is proposed for 2019/20.
- 9.6 Victorian Market Opportunities for Improvement – This generic project budget has been removed with all future projects concerning the Victorian Market being reported on a line by line basis.
- 9.7 Victorian Market Shopfront Redesign - £0.150m is allocated towards the upgrading of the shopfronts within the Market Arcade to include new lighting and flooring in 2019/20. It is proposed that this project will also be supported by the Inverness Townscape Heritage Project.
- 9.8 Victorian Market Academy Street Entrance - £0.250m is allocated towards the upgrading of this Entrance. The tenders have been returned and the cost is now £0.365m. The process is currently ongoing in terms of securing grant assistance for this project.
- 9.9 Victorian Market – Market Hall Improvements - £0.025m is allocated to provide for planning work to be undertaken so that the project can be worked towards concept stage.

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.

12. Implications

- 12.1 Resource - If the expenditure outlined above and set out in the proposed budget is spent, it would total £4.701m. For 19/20, this exceeds income by £2.303m leaving a deficit which will have to be funded by liquidating bond 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 Corporate Resources Service, funds will remain compliant with all financial regulations. In order to meet revenue expenditure requirements, it may prove necessary to sell equity 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. There is a risk to the long term sustainability of the ICGF if over reliance is placed on reserves for the financing of capital projects. The current profiling of expenditure over the next two years will leave reserves near the agreed minimum level.
- 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: 11 February 2019

Author: Derek Yule - Depute Chief Executive and Director of Corporate Resources
David Haas – Inverness City Area Manager

Background Papers:

STATEMENT OF ACCOUNTS

2016/17	Inverness Common Good Fund	2017/18
£		£
	Income and Expenditure Account	
	<u>Expenditure</u>	
125,365	Staff costs	199,253
201,101	Property costs	200,386
1,817,426	Other costs	2,202,430
569,798	Grants and contributions	600,693
208,748	Administration charges	209,932
2,922,437	Total expenditure	3,412,693
	<u>Income</u>	
2,180,762	Rents	2,220,246
79,008	Miscellaneous income	50,084
369	Interest on revenue balances	2,834
189,103	Income on investments	147,346
211,000	Grants and contributions - INC	167,933
230,390	Realised gain on sale of investments	251,051
2,890,632	Total income	2,839,494
	Gain on disposal of asset	
(31,805)	Surplus/(deficit) for the year	(573,200)
428,000	Revaluation gains/(losses)	30,000
1,142,560	Unrealised gains/(losses) on investments	(33,091)
(230,390)	Realised gains recycled through CIES	(251,051)
<u>1,308,365</u>	Total comprehensive income and expenditure	<u>(827,342)</u>
31/03/2017	Balance Sheet	31/03/2018
	<u>Non current assets</u>	
22,097,000	Investment properties	22,127,000
7,702,224	Investments at valuation	7,378,550
2,063,374	Heritage Assets	2,063,374
<u>31,862,598</u>		<u>31,568,924</u>
	<u>Current assets</u>	
248,959	Sundry debtors	34,179
623,108	Loans fund deposits	81,883
<u>872,067</u>		<u>116,063</u>
	<u>Current liabilities</u>	
(291,200)	Sundry creditors	(68,864)
<u>(291,200)</u>		<u>(68,864)</u>
32,443,465	Total assets	31,616,123
	Usable reserves	
5,494,351	Revenue funds	4,921,151
	Unusable reserves	
2,063,374	Revaluation reserve	2,063,374
22,097,000	Capital adjustment account	22,127,000
2,788,740	Available for Sale Reserve	2,504,598
<u>26,949,114</u>		<u>26,694,972</u>
32,443,465	Total reserves	31,616,123

APPENDIX 2
INVERNESS COMMON GOOD FUND
BUDGET 2019-20

	2019/20 £000	2018/19 Revised £000	Movement £000	2018/19 Estimated Outturn £000
EXPENDITURE				
Victorian Market Maintenance	48	48	0	48
Victorian Market Operations	193	167	26	176
Victorian Market Management	49	45	4	45
Town House Maintenance	100	100	0	100
1-5 Church Street Maintenance	20	20	0	20
Other Properties	104	104	0	104
Civic and Conference Hospitality	132	132	0	140
Ness Islands & Bank Maintenance	35	35	0	35
River Ness Fishings	20	20	0	20
Festive Lights	73	65	8	65
Town Twinning	9	9	0	9
Winter Payments	142	132	10	132
Inverness Common Good Fund Grants	540	518	22	518
Conference Support	42	48	(6)	48
City Promotions	68	44	24	44
Disabled Go Project (2013-18)	0	8	(8)	8
Castle Wynd Conveniences	23	23	0	23
Partnership Working	112	112	0	104
Events & Festivals	340	340	0	340
CCTV	90	90	0	90
Property Management Fees	140	124	16	137
Central Support Charge	80	60	20	80
Inverness Steeple	10	10	0	10
Commemorative Bedding	8	8	0	8
Investment Advisor Fees	10	0	10	10
Press & Public Relations	10	0	10	0
TOTAL EXPENDITURE	2,398	2,263	135	2,315
FUNDED BY:				
Rents & Lettings				
Industrial Estates	1,530	1,500	30	1,500
Victorian Market Rents	249	247	2	247
Town House	241	258	(17)	259
1-5 Church Street	75	75	0	87
River Ness Fishing Rights	10	10	0	10
Other Properties Rents	32	26	6	26
Other Income				
Fishing Assessment Dues	20	20	0	20
Contribution to Grants from Reserves	225	203	22	203
Contribution to Conference Support from Reserves	2	8	(6)	8
Contribution to City Promotions from Reserves	13	0	13	0
VAT on Management Fees	0	0	0	5
Interest on Revenue Balances	1	1	0	1
TOTAL FUNDING	2,398	2,348	50	2,366
AVAILABLE TO FUND PROJECT SPEND	0	85	(85)	51

INVERNESS COMMON GOOD FUND PROJECT SPEND

PROJECT SPEND

Town House Refurbishment - Phase 2	0	100	(100)	100
Town House Refurbishment - Phase 3	1,800	1,116	685	500
Ness Islands - Structural Maintenance Programme	0	132	(132)	142
Victorian Market - Opportunities for Improvement	0	150	(150)	0
Victorian Market - Shop Front Redesign	150	40	110	30
Old High Church Clock	0	30	(30)	30
Victorian Market -Academy St Entrance	250	200	50	100
Cavell Gardens Improvement Works	5	55	(50)	50
Town House - Civic Floor	40	20	20	0
Whin Park Improvement Works	33	33	0	33
Victorian Market - Market Hall Improvements	25	0	25	0
TOTAL	<u>2,303</u>	<u>1,876</u>	<u>428</u>	<u>985</u>
FUNDS AVAILABLE FOR PROJECT SPEND	0	85	(85)	51
BALANCE TO BE FUNDED BY RESERVES	<u>(2,303)</u>	<u>(1,791)</u>	<u>(512)</u>	<u>(934)</u>