

Agenda Item	7c
Report No	CIA/7/21

THE HIGHLAND COUNCIL

Committee: City of Inverness Area Committee

Date: 18 February 2021

Report Title: Inverness Common Good Fund
Budget Setting for 2021/2022 and Capital Programme

Report By: Executive Chief Officer Resources and Finance
And Executive Chief Officer – Communities and Place

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 2021/2022. It clarifies: -

- governance arrangements;
- the assessed impact of the Coronavirus Pandemic
- 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:

The Common Good Fund budget for 2021/22 detailed within the report and Appendices.

3. Implications

3.1 **Resource** - If the expenditure outlined above and set out in the proposed budget is spent, it would total £4.700m. For 2021/2022, this exceeds income by £2.482m leaving a deficit which will have to be funded by liquidating bond investments. It is expected that overall liquid reserves may be in the region of £3m at 2021/22 financial year end. The previously agreed works to the Town House are nearing completion and together with the

refurbishment of the Market Hall and Fish Hall at the Victorian Market (the latter agreed at CIAC 21 November 2019) will provide the relevant properties, many more years of strength and stability.

- 3.2 **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.
- 3.3 **Community (Equality, Poverty, Rural and Island)** - In scrutinising any 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, by assessing for impact, 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.

- 3.4 **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.
- 3.5 **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 Fund 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.
- 3.6 **Gaelic** - Projects will be undertaken in compliance with the Council's Policies in relation to the promotion of the Gaelic Language and Culture.

4. Governance Arrangements

- 4.1 The total value of the ICGF (£30.562m) 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. Available surplus funds being invested in shares and property so as to consolidate and grow the ICGF for future generations.

4.2 The Common Good Fund Balance sheet at 31st March 2020 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 - £23.505m
- (ii) heritage assets (pictures and artefacts)¹ – value - £2.063m
- (iii) investments (equity portfolio) – value £5.338m (valuation as at 31st December 2019 - £7.599m)
- (iv) sundry debtors – value £0.013m
- (v) loans fund creditor– value (£0.138m)
- (vi) sundry creditors – value (£0.219m)

4.3 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 Housing and Property 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. Cash Received from Equity Investments – The equity investments made on behalf of the Fund by the Council's agents; Messrs Adam & Co have produced income of £0.211m in the current financial year to 31st March 2020. This sum is reinvested by Adam & Co.

4.4 Statutory requirements. There are certain specific statutory requirements that apply need to be taken into consideration when property transactions are concerned:

- (i) Section 104 Community Empowerment (Scotland) Act 2015 – requirement to conduct community consultation before a decision to dispose (sale, lease of 10 years or more or provision of beneficial entitlement of 10 years or more) or change the use of an asset is made
- (ii) Section 75 Local Government (Scotland) Act 1973 – requirement to obtain Court authority when seeking to dispose of or appropriate Common Good land where a question of alienability arises.

5. Anticipated Revenue

5.1 Impact of Coronavirus Pandemic – **Appendix 2 (Draft Budget for 2021/2022)** shows core revenue expenditure (including £0.528m expenditure committed in 2020/2021) for the year of £2.759m to be met by revenue income of £2.218m. It should be noted that due to Covid-19 the level of rental defaults in 20/21 was greater than a usual year: a number of tenants sought rental breaks or assistance. The standard approach has been to grant postponement of rent only. The rental arrears will therefore be collected later in the year and into the next financial year.

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.

5.2 Rental Income – The total income expected to be available in 2021/22 from rents, mostly from industrial estates, the Victorian Market and the Town House, is expected to be £2.213m.

6. Consequences for Revenue Balances

6.1 As at 31st March 2020, the ICGF had investments with a market value of £5.338m, (current valuation as at 31st December 2020 - £6.281m) managed by external investment managers (Adam & Co.).

6.2 Close expenditure monitoring takes place through regular meetings led by the Inverness City Area Manager and appropriate officers in support of Common Good Fund Budgets. The governance is also assisted by regular project monitoring reports being made to this Committee. Towards the end of the 2020/21 financial year the estimated outturn position will be reviewed to assess the level of investments required to be liquidated. This is expected to be approximately £0.905m (being core budget underspend of £0.438m contributing to expected project spend in the year of £1.343m)

6.3 As mentioned in the Budget setting report presented to City Area Committee on 20 February 2020, the redevelopment of the Victorian Market Hall/Fish Hall is impacting on the revenue balances generated as a result of the compensation packages for current tenants and the reduced rental received.

6.4 The demands on the Fund in the next year mean that significant withdrawals will be required from the portfolio. This sum is referred to as “Balance to be funded from Reserves” and is £2.482m (**Appendix 2**).

6.5 To summarise: assuming no fluctuation in investment values from £6.281m at 31.12.20, after drawing down £0.905m to fund projects in 2020/21; and £2.482m for 2021/22 (£0.541m to cover the ‘core’ budget shortfall, £1.941m to cover project spend) then the estimated reserves position at the end of 2021/22 would be approximately £3m.

7. Proposed Expenditure

7.1 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

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

7.3 Discretionary – this falls into two classes being: -

- expenditure that is planned but not absolutely essential for the upkeep of the Fund 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.

- 7.4 The budgeted 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.
- 7.5 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 Programme, “Local Voices, Highland Choices”, is established.
- 7.6 Welfare/Community support - Members have already indicated a wish to continue the commitments to assist the most vulnerable in the City and Area with further scope to provide support within the context of presenting demands and any other sources of national funding that may be available. There have been a number of discussions over the last year regarding targeting Common Good Funding to those most in need.
- 7.7 The Committee have already requested an increase in the budget for the Winter Payments scheme which has been reflected within the draft budget. Further discussions have suggested greater targeting of the Common Good Grants budget to projects supporting those most in need.

8. Proposed Budget – Application and Inflationary Increase

- 8.1 2021/22 Budget - The draft budget for 2021/22 is set out in **Appendix 2** which also shows the 2020/21 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.
- 8.2 The total Reserves balance, as per the Unaudited Accounts is £30,562m; however, this reflects Local Authority Accounting Practice where revaluations are treated as “Unusable Reserves”. In reality, the Fund’s assets are all potentially realisable, although this would neither be prudent or practical to do so.
- 8.3 Equity and bond investments (Market Value at 31/12/2020 - £6.281m) 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 Fund 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 Fund it should not be assumed on as an indicator of future results.
- 8.4 Over the next year the plans for substantial project work on some of the Fund’s assets will continue and will place significant pressure on the reserves of the Fund. The budget proposed for 2021/22 presents a scenario whereby core expenditure is not covered by rental income (taking project costs and income from reserves out of consideration), the shortfall is £0.541m. This is not a sustainable position for the Fund to find itself in. In order to safeguard the assets of the Fund and to create some capacity to invest for Fund recovery, expenditure in the discretionary areas continues to be closely monitored and wherever practical, reduced. Due to the ongoing impact of the Covid-19 Pandemic, discretionary spend profiles are expected to be subject to change and as with the 2020/21 budget year, a review of the budget may be required later in the year.

9. Movements from current year revenue budgets

- 9.1 The movements from current year (2020/21) budgeted expenditure to proposed expenditure for 2021/22 are highlighted in the third column in **Appendix 2**. The main movements in revenue budget headings can be summarised as detailed below.
- 9.2 Common Good Fund Grants – 2021/22 grants of £0.275m for approval and £0.441 for grants committed during or prior to 2020/21. In respect of unspent grants, projects have variously been successfully completed as anticipated or at 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.
- 9.3 City Promotions - The recommendation is to set the budget at £0.042m and the potential of supporting the return of events to the City along with further promotional activity to support attracting footfall to the City and Area in line with any Covid-19 Guidelines.
- 9.4 Partnership Working BID – This budget supports joint project work with Inverness Business Improvement District and Loch Ness and Inverness Tourism BID
- 9.5 Property Management Fees – Property management fees of 6% will be charged on rental income generated.
- 9.6 Income from Rents - Rent for the industrial estate is expected to increase modestly. Victorian Market rents will show a decrease during the redevelopment. 1-5 Church Street will maintain the current income levels.

10. Events and Festivals (E&F)

Following the Coronavirus Pandemic, the Events and Festivals Programme was cancelled. Members agreed to allocate sums from the underspent E&F Budget to support recovery activity in 2020/21 by increasing the budgets for grants, winter payments. There is a separate report within this Committee agenda giving Members options for progressing the Events and Festivals programme and an allocation in principle for 2021/22 of £0.303m has been made accordingly within **Appendix 2**.

11. Projects

- 11.1 Town House Refurbishment Phase 3 – A budget of £0.400m is proposed to cover expenditure in relation to Phase 3 of the project in 2021/22.
- 11.2 Town House Civic Floor – Improvements to the toilet facilities will not be completed in 2020/21, as a result of this £0.020m will be carried forward plus £0.010m for 21/22 for allocation for the completion of these improvements along with improvements planned for the kitchen facilities.
- 11.3 Victorian Market – Market Hall/Fish Hall Redevelopment - £1.370m was allocated in 2020/21 for project delivery. Work commenced on 18th January 2021. It is expected that £0.200m will be spent in 20/21. The main part of the project will be delivered by April 2022 at which point only the retention payment will be outstanding. Consequently, the planned expenditure for 2021/22 is £1.435m.

11.4 Victorian Market – Market Hall/Fish Hall redevelopment – Compensation - £0.034m has been allocated for payment to current tenants as part of compensation arrangements, as of December 20. These are calculated in accordance with the decision taken at Committee on 21 November 2019.

12. Third Party Applications

12.1 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.

13 Fraser Park Bowling Club (part), Waterloo Bowling Club and Planefield Bowling Club

13.1 The 3 Bowling Clubs mentioned together with Glenurquhart Bowling Club have historically been held on the general fund account and leased by the Council on broadly identical terms which included the requirement that the Council was responsible for all maintenance of the Bowling Greens and surrounding areas (ditches, edging, drains, banking, paths, shrubberies together with all materials, chemicals, fertilisers etc).

13.2 The leases are now due for renewal and there is provision for the Bowling Clubs to request a further 25-year lease be granted on the existing terms. This provision has been exercised by the Clubs. As part of the preparatory work, title investigations were conducted, and it was clarified that Planefield and Waterloo Bowling Clubs should be reclassified in full as Common Good with Fraser Park being part Common Good and part general fund for the following reasons:

- Planefield – title is derived in full from the Royal Charter of James Vi dated 1 January 1591
- Waterloo – title derived in part from the Royal Charter mentioned above and part from an acquisition dated 17 May 1910. As this acquisition was neither for statutory purposes nor held under a special trust it is considered to be land of the Burgh and therefore, Common Good
- Fraser Park – the Common Good part derives title from the gift of land by Alexander Fraser dated 14 November 1930 which also comprises Fraser Park playing fields. The non-Common Good part derives title from an acquisition in 1928 for statutory housing purposes.

13.3 As a result of this clarification, discussions have now started with the representative for the Bowling Clubs with a view to agreeing a Service Level Agreement which will detail the expectations of all parties – maintenance requirement of the Council and community benefit provisions by the Bowling Clubs. These discussions are in their early stages and Members will be kept up to date with progress.

Due to the reclassification of these assets, the responsibility for the maintenance of the 3 Inverness Clubs will pass to the Common Good Fund and a full costing of what this entails is being prepared.

13.4 The possibility of identifying property that should be reclassified as Common Good was always expected as and when title investigations fall to be carried out. Although Glenurquhart Bowling Club is not considered Common Good as it does not fall within the Burgh of Inverness it is being included in the negotiations and will also be subject to a Service Level Agreement for consistency however, it will remain an asset of the Council general fund.

Designation: Liz Denovan Executive Chief Officer Resources and Finance
Inverness City Area Manager

Date: 2 February 2021

Author: David Haas – Inverness City Area Manager
Jackie McLaughlin – Principal Accounting Technician
Sara Murdoch – Common Good Fund Officer

Background Papers:

APPENDIX 1

31/03/2019 **Balance Sheet**

31/03/2020

	<u>Non current assets</u>	
22,478,000	Investment properties	23,505,000
7,117,430	Investments at valuation	5,338,105
2,063,374	Heritage Assets	2,063,374
<u>31,658,804</u>		<u>30,906,479</u>
	<u>Current assets</u>	
12,958	Sundry debtors	4,860
4,694	Inventories	8,025
833	Cash	0
123,826	Loans fund deposits	0
<u>142,312</u>		<u>12,885</u>
	<u>Current liabilities</u>	
(189,414)	Sundry creditors	(219,217)
0	Loans fund deposits	(138,236)
<u>(189,414)</u>		<u>(357,453)</u>
<u>31,611,702</u>	Total assets	<u>30,561,911</u>
	Usable reserves	
7,070,328	Revenue funds	4,993,537
	Unusable reserves	
2,063,374	Revaluation reserve	2,063,374
22,478,000	Capital adjustment account	23,505,000
<u>24,541,374</u>		<u>25,568,374</u>
<u>31,611,702</u>	Total reserves	<u>30,561,911</u>

APPENDIX 2

**INVERNESS COMMON GOOD FUND
BUDGET 2021-22**

	2021/22 £000	2020/21 £000	Movement £000	
EXPENDITURE				
Victorian Market Maintenance	48	48	0	Essential
Town House Maintenance	100	100	0	Essential
1-5 Church Street Maintenance	5	5	0	Essential
Other Properties 2021	104	87	17	Essential
Other Properties (c/f)	24	0	24	Essential
Ness Islands & Bank Maintenance	35	35	0	Essential
River Ness Fishings	10	20	(10)	Essential
Inverness Steeple	5	10	(5)	Essential
Bowling Clubs	50	0	50	Essential
Civic and Conference Hospitality	125	125	(0)	Discretionary
Town Twinning	9	9	0	Discretionary
Winter Payments	200	235	(35)	Discretionary
Inverness Common Good Fund Grants 2021	275	305	(30)	Discretionary
Inverness Common Good Fund Grants (c/f)	441	334	107	Discretionary
Conference Support	40	40	0	Discretionary
Conference Support (c/f)	33	0	33	Discretionary
City Promotions	42	42	0	Discretionary
Castle Wynd Conveniences	22	22	0	Discretionary
Partnership Working BIDS	151	112	39	Discretionary
Partnership Working BIDS (c/f)	30	0	30	Discretionary
Events & Festivals	253	143	110	Discretionary
Events and Festivals management	50	50	0	Discretionary
Commemorative Bedding	11	28	(17)	Discretionary
Victorian Market Operations	235	198	37	Cost Recovery
Victorian Market Management	53	52	1	Cost Recovery
Festive Lights	73	73	0	Cost Recovery
CCTV	90	90	0	Cost Recovery
Property Management Fees	140	140	0	Cost Recovery

Central Support Charge	85	82	3	Cost Recovery
Investment Advisor Fees	10	10	0	Cost Recovery
Press & Public Relations	10	10	1	Cost Recovery
TOTAL EXPENDITURE	2,759	2,404	355	

FUNDED BY:

Rents & Lettings

Industrial Estates	1,667	1,617	50
Victorian Market	128	128	0
Town House Rents	258	246	12
1-5 Church Street	96	96	0
River Ness Fishing Rights	10	10	0
Other Properties Rents	34	32	2

Other Income

Fishing Assessment Dues	20	20	0
Contribution from Town Centre Fund	0	250	(250)
VAT on Management Fees	4	4	0
Interest on Revenue Balances	1	1	0
	2,218	2,404	-186

IN YEAR SURPLUS/(DEFICIT)

	(541)	0	(541)
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Unspent Commitments included in above

Grants	441	334	107
Conference Support	33	2	31
Other Properties	24	0	24
City Promotions	0	3	(3)
Partnership Working BID	30		
TOTAL FUNDING	528	339	159

INVERNESS COMMON GOOD FUND PROJECT SPEND

Town House Refurbishment - Phase 3	400	1,400	(1,000)
Bowling Clubs	42	0	42

Victorian Market - Shop Front Redesign	0	75	(75)
Cavell Gardens Improvement Works	0	5	(5)
Town House - Civic Floor	30	40	(10)
Whin Park Improvement Works	0	33	(33)
Victorian Market - Market/Fish Hall Redevelopment	1,435	1,370	65
Compensation Payments - Victorian Market	34	110	(76)
TOTAL	<u>1,941</u>	<u>3,033</u>	<u>(1,092)</u>
FUNDS AVAILABLE FOR PROJECT SPEND	(541)	(0)	(541)
BALANCE TO BE FUNDED BY RESERVES	<u>2,482</u>	<u>3,033</u>	<u>(551)</u>