

<b>Agenda Item</b>	<b>11c</b>
<b>Report No</b>	<b>CIA/09/24</b>

# The Highland Council

**Committee:** City of Inverness Area Committee

**Date:** 05 February 2024

**Report Title:** Inverness Common Good Fund  
Budget Setting for 2024/2025

**Report By:** Executive Chief Officer – Communities and Place  
Head of Corporate Finance & Commercialism

## 1. Purpose/Executive Summary

1.1 This report invites Members to set the revenue budget for the Inverness Common Good Fund (ICGF/the Fund) for the financial year 2024/2025. 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 discretionary spend;
- proposed action on the future investment of any projected surplus funds.

1.2 The proposed budget follows two Member briefings which have informed further refinement of the major reprofiling of the budget which was undertaken prior to the setting of the 2023/24 budget. The budget falls in line with priorities identified during discussion, noting the adjusted levels of income available for distribution. To support Members in their decision making, this report is presented in the following format:

- background and context;
- identified priorities and principles; and
- a budget summary classifying heads of expenditure into essential, discretionary and cost recovery.

## 2. Recommendations

2.1 Members are asked to consider and approve the Common Good Fund budget for 2024/2025 as detailed within the report and Appendices.

## 3. Implications

3.1 **Resource** - The Budget for 2024/25 shows core revenue expenditure for the year of £2.214m to be met by revenue income of £2.290m, resulting in a modest surplus of

£0.077m. It is expected that overall usable reserves may be in the region of £4.7m at 2024/25 financial year end (does not take into account any movement in the value of investments from 31 December 2023).

- 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, funds will remain compliant with all financial regulations. In the event of any unexpected costs, it may prove necessary to sell equity investments.
- 3.3 **Community (Equality, Poverty, Rural and Island)** - The proposed budget for 2024/25 prioritises discretionary support for projects supporting people experiencing socio-economic disadvantage along with encouraging vibrancy and investments that bring long term benefit to the Residents of the Burgh. Based on Member feedback, the winter payment level is maintained at £106 per claim. The budget also retains ringfencing a proportion of the grants budget for activities which address poverty and inequality.
- 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** - There is a risk to the long-term sustainability of the Fund if over reliance is placed on reserves for the financing of revenue and any capital projects. The proposed 2024/25 budget presents a modest surplus for the year.

The budget retains a sum for taking forward plans to continue to develop existing and new uses for the Town House that would generate income for the ICGF.

- 3.6 **Health and Safety (risks arising from changes to plant, equipment, process, or people)** - In applying the budget to address agreed expenditure due consideration is given to meeting all statutory requirements and complying with the Council's own policies, practices and procedures in this regard.
- 3.7 **Gaelic** - there are no Gaelic implications for this report.

#### **4. Governance Arrangements**

- 4.1 The total value of the ICGF (£31.500m at 31 March 2023) is under the governance of the Council and, through the Scheme of Delegation, devolved to the City of Inverness Area Committee. 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 31 March 2023 attached at **Appendix 1** details the assets of the ICGF, which can be summarised as follows:

<b>Asset/(liability)</b>	<b>Value £000</b>	<b>Note</b>
Investments – Adam & Co portfolio	4,947	valuation £5.119m at 31 December 2023; a decrease of £0.172m (3.5%)
Sundry debtors	160	
Loan fund deposits	407	
Sundry creditors – value	(250)	
<b>Usable reserves</b>	<b>5,264</b>	
Heritage assets (pictures and artefacts) <sup>1</sup>	1,785	
<b>Revaluation reserve (unusable reserve)</b>	<b>1,785</b>	
Plant & Equipment	80	
Land and property (including Town House)	24,371	
<b>Capital adjustment account (unusable reserve)</b>	<b>24,451</b>	
	<b>31,500</b>	

- 4.3 The estimated 2023/24 outturn, including project spend and amounts carried forward from 2022/23, to be funded from usable reserves per the Q3 23/24 Revenue Monitoring Report is £0.838m. This is detailed within the regular Revenue Monitoring Report also on the Committee Agenda.
- 4.4 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 and the Development & Infrastructure, Environment and Economy Services 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. The equity investments made on behalf of the Fund by the Council’s agents, Adam & Co, produced income of £0.117m in the financial year to 31 March 2023 (£0.085m in the current financial year per statements for nine months to 31 December 2023). These sums are reinvested by Adam & Co.
- 4.5 Statutory requirements. There are certain specific statutory requirements that apply that 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.

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<sup>1</sup> 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.

4.6 As with all Council budgets, there is a requirement to set a balanced budget for the Common Good Fund for 2024/25.

## 5. Budget Setting Process

5.1 To support the budget setting process for 2024/25, two briefings were held with CIAC Members reviewing the priorities for the budget for the forthcoming year.

5.2 Briefing 1 focused on the background to the Common Good and the existing budget make-up including essential and discretionary spend.

5.3 Briefing 2 explored in more detail the existing discretionary elements of the budget; where there were key priorities and where Members felt it was important to continue with areas of support. Members supported the continued application of available budget to focus on the following:

- The importance of addressing poverty and inequality but balancing this with encouraging and attracting investment in the City to support economic development and vibrancy.
- Flexible thematic areas of spend that would allow the ICGF Sub Committee greater flexibility in allocating budget for City promotion and development work.
- That the Winter Payments Budget should be maintained at 2023/24 levels, protecting support to the most vulnerable.
- That a proportion (70%) of the ICGF grants budget should be ringfenced for activities that address poverty and inequality. This reflects the current spend on these areas of work but clearly sets out the purpose and intention of the fund for Inverness residents.

5.4 The Briefings supported the development of the proposed budget set out in **Appendix 2** and detailed below in sections 6 and 7 for consideration.

## 6. Anticipated Revenue

6.1 **Appendix 2 (Budget for 2024/2025)** shows core revenue expenditure for the year of £2.214m to be met by revenue income of £2.290m.

6.2 Rents & Lettings Income – The total income expected to be available in 2024/25 from rents, mostly from industrial estates and the Victorian Market, is expected to be £2.226m.

6.3 Rents for the industrial estates are expected to increase modestly. The Inverness Town House is generating modest rental income with lettings agreed to Highland Council Service Point and Hi-Trans along with Social Security Scotland and Police Scotland producing an income of £0.055m. 1-5 Church Street will maintain the current income levels.

6.4 The rental income from the industrial estates performed robustly during 2023 and both demand and rental levels continue to increase. It is widely reported that the retail sector has struggled in recent times. However, the tenants in the Victorian Market and Grant Street have remained and there are no vacant units other than within the newly refurbished Market Hall, which are being marketed with four additional units under offer. The office sector is also facing some uncertainty but the leases at Church Street give some certainty for income in 2024 and 2025.

6.5 Other Income – This income will remain at a level consistent with prior years with the exception of the contribution from Benevolent Funds for Landward Winter Payments of £0.040m (2023/24 budget - £0.059m). This contribution is discussed in further detail below.

## 7. **Proposed Expenditure**

7.1 The draft budget for 2024/25 is set out in **Appendix 2**, which also shows the 2023/24 budget. In accordance with Council policy, wherever practicable, no inflationary increase has been applied to budget heads excepting that which is required for wage inflation.

7.2 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;
- cost recovery and
- discretionary

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

7.4 Cost Recovery – the Council requires to recover costs properly incurred and the management of the ICGF under its own financial regulations. The law on the management of common good funds provides for this.

7.5 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.

7.6 Further detail on what is included in the various expense items is included in **Appendix 3**.

7.7 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.

### 7.8 **Cost Recovery:**

For the most part, the budget for expenses classified as Cost Recovery have not changed from the levels budgeted for 2023/24. The implementation of the Service Charge within the Victorian Market has allowed both the tenants and the ICGF to clearly see a split between the running costs and the rental income. With a number of tenants beginning to pay full rent and service charge, the pressure on the ICGF is beginning to reduce. The operating model for the Victorian Market is due for review during 2024/25 and will be the subject of a future paper to CIAC.

Central Support Charges have been increased by £0.010m to reflect wage inflation for the last two financial years, plus that anticipated for 2024/25.

### 7.9 **Essential Spend:**

The budget for expenses classified as Essential show a total anticipated increase of £0.035m from the levels budgeted for 2023/24. The breakdown of this variance is discussed in 7.10 below.

#### 7.10 Essential spend variances:

*Table 2*

<b>Area of Spend</b>	<b>Variance</b>	<b>Reason</b>
Victorian Market Service Charges	+£0.029m	Service charges cover cost such as cleaning, utilities, general repairs and maintenance.  Tenants are beginning to pay full service charge, however tough market conditions mean that we will not be able to fully recover costs until 2025/26.
Victorian Market Maintenance	No Change	Final fit outs have been concluded with all available units having full extraction. This also includes an allocation for the reinstatement of the Victorian Market Model Railway with a maximum sum of £30k being allocated.
Town House Maintenance	+£0.040m	To pay for essential works to attract new tenants.
Town House Utilities and Cleaning	No Change	An element of this will be recoverable through tenancies.
Town House Future Planning	No Change	To develop existing and new uses.
Other Properties	-£0.034m	Savings provided for a reduction.

#### 7.11 Discretionary spend – General Approach for 2024/25 Budget

All discretionary spend items have been set utilising the framework agreed by Members and applied within the 2023/24 budget.

*Table 3*

<b>Area of Discretionary Spend</b>	<b>Total Budget</b>	<b>Description</b>
Winter Payments Scheme	£0.223m	A payment of £106 per person has been budgeted for 2024/25, being the level agreed for 2023/24. It is expected that there will be over 2,000 <sup>2</sup> applicants in 2024/25. The total costs of the scheme, including administration are £0.223m.  It is expected that the Landward Winter Payments for 2024/25, which are estimated to be £0.054m, will partly be funded from contributions from the Benevolent Funds. This funding of £0.040m (restricted to

<sup>2</sup> 1,694 grants were awarded in 2022/23. At the start of January 2024, there had been 1,409 applicants for the 2023/24 scheme, which is open until 29 February 2024.

		available reserves) is included in the total budget for Winter Payments of £0.223m.
Common Good Fund Grants	£0.161m Of which: £0.121m Poverty and Inequality £0.040m other	The total budget for common good funds grants for 2024/25 is £0.161m.
(Formerly City Vibrancy)		City Vibrancy has broken down to allow for more effective budget scrutiny. In addition, provision has been made for non essential hospitality expenditure derived from twinning and freemanship along with national civic events
Civic Hospitality	£0.075m	
Civic Contingency Fund	£0.020m	
Town Twinning	£0.010m	
Conference Development & Hospitality	£0.024m	
City Promotions	£0.025m	
Partnership Working	£0.143m	
Community Events	£0.177m (plus £0.020m contingency)	The budget for community events in 2024/25 is £0.177m. As in previous years, it will be for the Member Working Group to determine which events are prioritised for 2024/25, based upon the budget agreed. <sup>3</sup>  Contingency to cover risk around income expectation
CCTV	<u>£0.050m</u>	Service to support CCTV for the City

<sup>3</sup> The 2023/24 Community Events Budget supported the following events with the associated budgets: Inverness Highland Games (£0.036m), Bonfire Night (£0.036m), Christmas Lights Switch On (£0.008m) Red Hot Highland Fling (£0.097m)

## 8. Consequences for Revenue Balances

- 8.1 As at 31 March 2023, the ICGF had investments with a market value of £4.947m, (valuation as at 31 December 2023 - £5.119m). The investments are managed externally by Adam & Co.
- 8.2 The total Reserves balance at 31 March 2023, as per the Audited Accounts was £31.500m (**Appendix 1**). This reflects Local Authority Accounting Practice where revaluations of assets 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 Close expenditure monitoring takes place through regular meetings led by the Senior Community Development Manager for Inverness and South and appropriate officers in support of Common Good Fund Budgets. The governance is also assisted by regular monitoring reports being made to this Committee.
- 8.4 There are no planned major capital projects and so whilst always remaining a possibility should unexpected expenditure be necessarily incurred, there are no plans to drawdown from cash held within investments.
- 8.5 Now that the programme of major projects is complete, care should be taken to allow investments to consolidate and recover. The proposed revenue budget allocations have been prepared with this in mind.
- 8.6 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. The impact of the War in Ukraine is an example of how unpredictable income and the value of investments can be.
- 8.7 The budget proposed for 2024/25 presents a modest surplus. 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 with the intention of increasing the in-year surplus.
- 8.8 Noting that Discretionary spend profiles could be subject to change, as with the 2023/24 budget year, a review of the budget may be required later in the year and will be subject to review regularly through the presentation of Revenue Monitoring Reports to the Committee.

Designation: Executive Chief Officer – Communities and Place  
Head of Corporate Finance & Commercialism

Date: 19 January 2024

Author: David Haas – Senior Community Development Manager for Inverness & South  
Lara Harrison – Accountant  
Jackie McLaughlin – Principal Accounting Technician

Background Papers: N/A

Appendix 1 – 2022/23 Balance Sheet



Appendix 2 – Budget 2024/25

Appendix 3 – Expense Head Descriptions

## APPENDIX 1

STATEMENT OF ACCOUNTS  
Inverness Common Good Fund

31/03/2022 £000	Balance Sheet As at	31/03/2023 £000
	<u>Non current assets</u>	
24,556	Investment properties	24,371
5,635	Investments at valuation	4,947
1,785	Heritage Assets	1,785
17	Plant and Equipment	80
<u>31,993</u>		<u>31,183</u>
	<u>Current assets</u>	
96	Sundry debtors	160
539	Loans fund deposits	407
<u>635</u>		<u>567</u>
	<u>Current liabilities</u>	
<u>(360)</u>	Sundry creditors	<u>(250)</u>
<b><u>32,268</u></b>	<b>Total assets</b>	<b><u>31,500</u></b>
	<b>Usable reserves</b>	
5,911	Revenue funds	5,264
	<b>Unusable reserves</b>	
1,784	Revaluation reserve	1,784
24,573	Capital adjustment account	24,452
<u>26,357</u>		<u>26,236</u>
<b><u>32,268</u></b>	<b>Total reserves</b>	<b><u>31,500</u></b>

**INVERNESS COMMON GOOD FUND  
BUDGET 2024-25**

**APPENDIX 2**

	Classification	Annual Budget	Annual Budget	Variance £000
		2024/25 £000	2023/24 £000	
Victorian Market Operations	Cost Recovery	35	145	(110)
Victorian Market Management	Cost Recovery	65	95	(30)
Victorian Market Service Charge	Essential	174	145	29
Victorian Market Maintenance	Essential	120	120	-
Victorian Market Marketing	Essential	50	50	-
Town House Maintenance	Essential	140	100	40
Town House Utilities and Cleaning	Essential	150	150	-
Town House Future Planning	Essential	30	30	-
Other Properties	Essential	75	109	(34)
Ness Islands & Bank Maintenance	Essential	36	36	-
River Ness Fishings	Essential	20	20	-
ICGF Bowling Clubs	Essential	51	51	-
Winter Payments (incl contribution from Benevolent Funds)	Discretionary	223	217	6
ICGF Grants - Poverty and inequality	Discretionary	121	121	-
ICGF Grants - other	Discretionary	40	40	-
Civic Hospitality	Discretionary	75	79	(4)
Civic Contingency Fund	Discretionary	20	-	20
Town Twinning	Discretionary	10	-	10
Conference Development and Hospitality	Discretionary	24	24	-
City Promotions	Discretionary	25	25	-
Partnership Working BIDS	Discretionary	143	88	55
Community Events	Discretionary	177	177	-
Community Events contingency	Discretionary	20	-	20
Commemorative Bedding	Discretionary	7	7	-
CCTV	Discretionary	50	50	-
Festive Lights	Cost Recovery	73	73	-
Property Management Fees	Cost Recovery	143	143	-
Central Support Charge	Cost Recovery	97	87	10
Investment Advisor Fees	Cost Recovery	10	10	-
Press & Public Relations	Cost Recovery	10	10	-
<b>TOTAL EXPENDITURE</b>		<b>2,214</b>	<b>2,202</b>	<b>12</b>
<b>FUNDED BY:</b>				
<b>Rents &amp; Lettings</b>				
Industrial Estates		1,860	1,763	97
Industrial Estates - lease premiums		-	50	(50)
Victorian Market		177	150	27
Town House new tenants		55	-	55
Town House car park		-	24	(24)
1-5 Church Street		95	95	-
River Ness Fishing Rights		8	8	-
Other Properties Rents		30	28	2
		2,226	2,118	107
<b>Other Income</b>				
Fishing Assessment Dues		20	20	-
Refund VAT Invest Mngt Fees		4	4	-
Contribution from Benevolent Funds for Landward Winter Payments		40	59	(19)
Interest on Revenue Balances		1	1	-
<b>TOTAL INCOME</b>		<b>2,290</b>	<b>2,202</b>	<b>88</b>
<b>IN YEAR SURPLUS/(DEFICIT)</b>		<b>77</b>	<b>-</b>	<b>76</b>
<b>Expected usable reserves 23/24</b>		<b>4,598</b>		
To be added to/(funded by) reserves per Budget		77		
<b>Expected usable reserves 24/25 *</b>		<b>4,675</b>		

## APPENDIX 3

Expense Head	Classification	Description
<b>Essential Spend and Recovery of Costs</b>		
Victorian Market Operations	Cost Recovery	Caretaker salaries, cleaning, security and utilities charges. Should decrease going forward as covered by service charges
Victorian Market Management	Cost Recovery	Market manager wages etc
Festive Lights	Cost Recovery	Annual costs of putting up/taking down festive lights
Property Management Fees	Cost Recovery	Recharge from THC for management of investment properties
Central Support Charge	Cost Recovery	Charge from THC for administration of ICGF. Includes charges for CGF and finance officers etc
Investment Advisor Fees	Cost Recovery	Adam & Co fees; based on value of portfolio
Press & Public Relations	Cost Recovery	To meet costs of supporting media work relevant to civic events of the city
Victorian Market Maintenance	Essential	Maintenance charges not covered by service charges. Will include costs such as roof repairs and fit out of new units. One-off costs which cannot be attributed to units/tenants.
Victorian Market Service Charges	Essential	ICGF allocation of service charges for the Victorian Market.
Victorian Market Marketing	Essential	Marketing required to attract new tenants
Town House Maintenance	Essential	Any ad hoc repairs which should be expected for a building of the Town House's age etc.
Town House Utilities and Cleaning	Essential	Rates, utilities, cleaning following THC exit from Town House
Town House Future Planning	Essential	To provide for a feasibility study and to allow for actions enabling immediate extended use of existing facilities.
Other Properties	Essential	Common Good Fund properties where expenditure is not expected but is possible e.g. maintenance issues. Includes Cavell Gardens, Dunbar Hospital, Cromwell Tower, Grant Street properties, amenity grounds etc.
Ness Islands & Bank Maintenance	Essential	Managed through a Service Level Agreement setting out standards for all usual amenities functions relating to grounds maintenance.
River Ness Fishings	Essential	To meet obligations as owners of the fishing rights to the River Ness
ICGF Bowling Clubs	Essential	Lease requirement to maintain bowling greens.