

The Highland Council

City of Inverness Area Committee – 3 June 2014

Agenda Item	16a
Report No	CIA/27/14

Inverness Common Good Fund Review of Investment Strategy and Capital Planning

Joint Report by Director of Finance and Acting Head of Community and Democratic Engagement

Summary

This report confirms the existing investment strategy for the City of Inverness Common Good Fund (ICGF), the current governance arrangements and sets out a revised investment strategy in the context of existing and potential financial commitments.

1. Background

- 1.1 The focus of the Investment Strategy Review has been on ensuring that the Council remains in the best position to deliver Market Value returns along with providing opportunity to use the ICGF to support the development of a strong and vibrant economy for the City. The principal beneficiaries of the ICGF will remain the residents of the Burgh of Inverness.
- 1.2 In producing the revised Investment Strategy particular attention has been given to:
 - Current and potential financial commitments
 - The retention of sufficient income to allow for a discretionary grants programme to assist in the delivery of local projects
 - Support for activity which brings economic benefit to the City and which would not be funded by the Council.
 - The need to provide advice and guidance to prospective applicants for funding in the context of the ISR and other funding options.
- 1.3 The pressure on available funds for discretionary grants has been recognised. Applicants for sums in excess of £0.030m have been contacted and all are aware of the ISR. Officers will ensure that applicants are given advice on other potential sources of funding as appropriate.

2. Governance Arrangements

- 2.1 The total value of the ICGF is under the governance of the Highland Council. This is not controlled by Trust Deed, but by principles laid down in legislation and case law.

2.2 In order to ensure the efficient and effective management of the assets, the Council has agreed that the City of Inverness Area Committee (CIAC) has the power to administer the assets of the Fund.

2.3 Administration of the assets comprises of the following:-

- (i) Land and Buildings – to ensure that assets are adequately managed and maintained;
- (ii) Investment Properties – to ensure that commercial tenancies deliver a market value return. Advice is also given on the investment requirements of the property portfolio, and on potential sales and purchases;
- (iii) Equity Investments – stocks and shares are managed through the Investment Sub-Committee, with day to day management undertaken by the Fund Managers (Messrs Adam & Co);
- (iv) Heritage Assets – these are tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

2.4 Whilst the CIAC is responsible for the administration of the Fund, any significant decisions regarding the acquisition or disposal of assets require to be taken by the Highland Council.

3. Progress

3.1 At the CIAC held on 3 March 2014, Members agreed to retain the existing Investment Property Portfolio noting that it produced a strong market value return to the ICGF. It was also agreed that existing financial commitments will need to be accounted for in preparation of the final Investment Strategy. This report follows on and details

- An analysis of cashflow and existing expenditure commitments
- Considers options for investment
- Considers links to the Council's programme to enhance economic activity
Considers strategy options and how these link to, and support, existing Council services including alternative sources of funding for projects, including external sources

4. Cash Flow and Existing Expenditure Commitments

4.1 Whilst it is advantageous to provide a cash flow statement, at this stage in the review it is felt that this would not be beneficial. Decisions about the financing of the Town House Renovation project will have a material effect on future cash flow and expenditure plans, and the Investment Sub Committee will consider an investment approach to financing this project, including a disinvestment into cash or bonds at its meeting on 27 May.

- 4.2 In addition, the Committee could consider its approach to reinvestment of dividends. At present these amount to around £233,000 and are currently reinvested in cash investments, thereby adding to capital growth. An alternative option is explored further in Section 5 of this report.
- 4.3 Other than capital expenditure the cash flow of the Common Good Fund is effectively the Revenue Budget. This would only change if a different investment strategy were to be adopted.
- 4.4 Whilst reference is made to revenue and capital expenditure this relates to the type of expenditure planned. The Common Good Fund has limited resources and all expenditure requires to be met from rental income.
- 4.5 At present the ICGF has the following commitments. Although some of these are revenue commitments, and others capital, the only source of funding available is the Cash Investment Portfolio. These commitments can only be funded through the sale of stocks and shares to realise the cash necessary for either capital or revenue expenditure.

	£000	Fund Balance £000
Cash Investments value as at 31.12.13		10,850
Revenue Commitments		
Grants committed but not drawn down		387
Capital Commitments		
Town House Refurbishment	100	
CGF contribution to re-wiring of Town House	51	
Refurbishment 1-3 Church Street	917	
Streetscape Riverside Flood Prevention Project	800	
Victorian Market Windows Replacement	40	
Inverness City Arts Project	<u>225</u>	
		2,133
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Balance		8,330
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Later in the year, the CIAC will consider proposals for the proposed Town House Renovation project. This will require approximately £7.25m to be made available over the next five years. As can be seen from the Table above, this will significantly reduce the existing Fund balance to £1.08m, resulting in reduced scope to support any new projects in the foreseeable future. Any funding contributions from grants etc will obviously reduce this sum.

- 4.6 Appendix 1 outlines the existing budget for the Common Good Fund. This sets out the budget in a different manner, illustrating the various sources of income, their contribution to maintenance of assets, and grants and donations provided

annually by the Fund.

- 4.7 The analysis also illustrates what is deemed “essential expenditure”. Whilst the absolute sum may be reviewed, this reflects commitments that the Fund has to maintain assets within its portfolio. The current budget for 2014/15 includes £0.385m that is to be funded from cash investments, reflecting previous decisions taken by this Committee. This expenditure has been excluded from the Appendix in order to demonstrate the core annual budget for the Fund.
- 4.8 The analysis then goes on to illustrate how the existing budget is split. This reflects the current strategy of the Committee to support a range of events, promotions and grants across the City.

5. Options for Investment

- 5.1 As outlined in paragraph 4.5 the ICGF will have minimal funds available over the next 5 years for discretionary investment. The ability of the ICGF to invest will be dependent on the:
- Performance of remaining Equity Share Holdings
 - Outcome of the review of revenue expenditure and;
 - The outcome of the Tender process, and success of third party funding applications, in respect of the Town House works contract
- 5.2 Previous reports have highlighted other options that the Committee may wish to pursue, particularly in terms of property investment. Reports have also stressed that the Fund does not possess significant cash to support capital expenditure or revenue expenditure in excess of budget. Where this has occurred, investments have been cashed to provide the financial resource required.
- 5.3 The Committee has the option to create a fund to provide for investment opportunities or applications from external bodies for significant funding. This could be achieved in either of two ways, or a combination of both. Firstly the Committee could reduce the level of existing budgets to create the capacity for investment. The absolute sum would depend on the Committee’s support for this option, the level of budget reduction, and the level of investment required.
- 5.4 The second option would be to invest all, or some, of the investment income currently reinvested in cash investments. As highlighted above this currently equates to around £233,000 per annum however if cash investments are used to finance the renovation of the Town House, then this option will reduce significantly in the future. It would also mean that capital growth in cash investments would reduce substantially, and this would have a material impact on the funding of the Town House refurbishment. As such it cannot be recommended at this stage.
- 5.5 Dependent on the above, a City Investment Fund will be established. The remit of the fund could be to:-

- promote links with the Council's programme on economic development
- provide opportunities for investment in properties within the City
- provide significant funding for projects within the City
- promote the production of renewable energy
- invest in proposals that generate income

5.6 For example, an investment of £200,000 per annum could create a fund of £1m within five years if no expenditure proposals were met in this time.

6. Resource; Legal; Equalities; Climate Change/Carbon Clever; Gaelic and Risk Implications

6.1 Legal and Resource 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 implied 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.

6.2 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.

6.3 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 proposed to be undertaken to the Town House will largely be external, an assessment will be made as to whether or not any actions can be undertaken which will improve the heat retention capabilities of the Town House.

6.4 There are no Gaelic or Risk implications to highlight in this report.

Recommendations

The Committee is invited to:-

1. Note the progress to date on the review of the Strategy
2. Consider existing expenditure commitments
3. Consider the option of establishing a City Investment Fund as outlined in paragraph 5.3
4. If the option to establish a City Investment Fund is agreed, then consider the funding options and scale of annual investment in this Fund, as outlined in paragraphs 5.3 and 5.4
5. Note further reports will be presented to formulate a specific strategy for the Fund

Designation: Director of Finance and Acting Head of Community and Democratic Engagement

Date: 26 May 2014

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BUDGET ANALYSIS BY CATEGORY

	Income £000	Expenditure £000	Net Budget £000
Victorian Market			
Rents	282		
Essential - Maintenance etc		185	
	<u>282</u>	<u>185</u>	97
Town House			
Rents	253		
Essential - Maintenance etc		100	
Other Costs		11	
	<u>253</u>	<u>111</u>	142
Industrial Estates			
Rents	1395		
Essential - Maintenance etc		5	
	<u>1395</u>	<u>5</u>	1390
Other Properties			
Rents	39		
Essential - Maintenance etc		130	
	<u>39</u>	<u>130</u>	-91
Miscellaneous			
Property Management Fee		118	
Legal, Finance and other Support Charges		58	
Other Charges		16	
Ness Islands and River Bank Maintenance		27	
CCTV		90	
Income on cash balances held with Highland Council	5		
Transfer from Cash Reserves (deficit budget set)	87		
	<u>92</u>	<u>309</u>	-217
Total Net Available Budget after Commitments			<u>1321</u>
Allocated as follows:-			
Hospitality and City Promotions			
Civic and Conference Hospitality		120	
Town Twinning		9	
City Promotions		50	
		<u>50</u>	179
Events & Promotions			
Festive Lights and Decorations		65	
Events & Festivals		370	
		<u>370</u>	435
Grants and Other Payments			
Winter Payments		50	
Common Good Fund Grants		547	
		<u>547</u>	597
Other			
Subvention		40	
Partnership Working - BID		70	
		<u>70</u>	110
Total Planned Expenditure			<u>1321</u>