

The Highland Council

City of Inverness Area Committee – 4 March 2014

Agenda Item	9d
Report No	CIA/10/14

Inverness Common Good Fund Budget Setting for 2014/15 and Capital Programme

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

Summary

This report invites Members to set the revenue budget for the Inverness Common Good Fund (ICGF) for the financial year 2014/15. It clarifies:-

- The current 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; and
- the structure of payments made to the Council for services rendered in support of the fund and how these services should be supported in the coming financial year and thereafter.

1. Governance arrangements

1.1 The total value of the ICGF (£32.976m) 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 cover 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.

1.2 **Appendix 1** details the projected Outturn for ICGF Revenue Budget for 2013/14. **Appendix 2** details the Balance Sheet for the ICGF as at 31 March 2013. This details the assets of the ICGF, which can be summarised as follows:

- (i) land and property (including Town House) – value - £20.719m
- (ii) heritage assets (pictures and artefacts) – value - £1.638m
- (iii) investments (equity portfolio) – value £10.342m (current valuation £10.850m)
- (iv) sundry debtors – value £0.097m
- (v) loans fund deposits – value £0.376m

(vi) sundry creditors – value £0.196m

1.3 City of Inverness Area Committee. The City of Inverness Area Committee (CIAC) has the power to administer the assets of the fund and current values are summarised as follows;

- (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 Councils Investment Sub-Committee. **Appendix 2** details the 12/13 Income and Expenditure Account and shows that the ICGF received £1.869m in rental income from land investments in the year 2012/13 and £0.210m income from equity investments. Under pre-existing arrangements, all the Share Dividend income was re- invested by the Fund Managers, Messrs Adam & Co. The Balance Sheet also shows that the value of the portfolio at 31 March 2013 was £10.342m.
- (iii) Other property – the ICGF does hold Heritage Assets¹ and these are shown on the Balance Sheet as having a value of £1.638m.

2. Anticipated Revenue

2.1 Rental Income – The total income expected to be available in 2014/15 from rents, mostly from industrial estates, the Victorian Market and the Town House is expected to be £1.969m.

2.2 Interest and Revenue Balances – Assuming that the current low interest rates continue, it is anticipated that interest receivable on projected surplus balances will be approximately £0.005m in 2014/15.

2.3 Share Dividends –The equity investments made on behalf of the ICGF by the Councils agents, Messrs Adam & Co have produced income of £0.190m in the current financial year to date. The demands on the fund in the coming years will mean that significant withdrawals will be required from the portfolio. An accurate cash flow projection will allow the Manager to exit the market at the most appropriate time.

3. Consequences for Revenue Balances

3.1 As at 31st March 2013, the Common Good Fund had investments of £10.342m (market value) (current valuation £10.850m) managed by external investment managers (Adam & Co.) and £0.376m invested in the Council's Loans Fund.

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.

3.2 Close monitoring takes place of capital projects through regular meetings involving the Inverness City Manager and Project Manager assigned by the Housing & Property Service to support the Common Good Fund Projects. The governance is also assisted by regular project monitoring reports being made to the Committee.

4. Proposed Expenditure

4.1 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

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

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.

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.

4.2 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 Single Outcome Agreement and the Council's Programme are established.

5. Proposed Budget – Application and Inflationary Increase

5.1 14/15 Budget - The draft budget for 2014/15 is set out in **Appendix 3**. This shows the budgeted expenditure from 2013/14 together with a roll forward budget. In accordance with Council policy, wherever practicable, no inflationary increase has been applied to budget heads. The variance column shows the movement from the prior year on each heading.

5.2 Impact on available funds – It should be noted that if the expenditure headings are to be set at the levels proposed in **Appendix 3**, this will require a total transfer from reserves of £2.518m for the year 14/15, of which £0.087m is required to fund the revenue budget at the current level. Therefore excluding any further capital commitments, an annual draw on reserves of £0.087m

would be required. The current balance on revenue reserves is £5.641m.

The balance on Useable Reserves, as per the published Accounts is £5.641m, however this reflects Local Authority Accounting Practice where revaluations are treated as “Unusable Reserves”. In reality the ICGF assets are all realisable, although this would neither be prudent or practical to do so. The earlier report on Strategy highlights that the current value of cash investments is £10.850m as being the fund that is used to finance capital and revenue projects over and above the general budget funded by rental receipts.

6. Movements from current year revenue budgets

The movements from current year (13/14) budgeted expenditure to proposed expenditure for 14/15 expenditure are highlighted in the variance column in **Appendix 3**. Where possible, 14/15 expenditure heads have been reduced where the expected outturns for 13/14 indicate that a small reduction in budget can be sustained.

The other main movements in revenue budget headings can be summarised as follows:

- 6.1 Civic Hospitality – It has been proposed to transfer £0.020m from this heading into Events and Festivals to cover hospitality expenditure in relation to events. This would previously have been charged to the Civic Hospitality budget but by transferring would allow more accurate monitoring of expenditure relating to individual events and festivals.
- 6.2 Winter Payments – it is expected that expenditure for 13/14 will not exceed £50k and on that basis the budget should be set at the same level for 14/15.
- 6.3 Common Good Fund Grants – the £0.822m proposed for 14/15 comprises £0.312m for grants committed prior to 13/14, £0.160m for grants committed in 13/14 and £0.350m for 14/15 grant approvals.
- 6.4 Partnership Working – this is a new heading proposed to cover grants approved to Inverness BID which would previously have been covered by the Common Good Fund Grants budget.
- 6.5 Events and Festivals – an increase of £0.070m is proposed, £0.020m to come from Civic Hospitality (see above) and £0.050m to cover expenditure incurred for the 2014 Homecoming Festival.
- 6.6 Central Support Charges – an increase of £0.011m is proposed in line with the charges incurred in the current and prior years. Noting the increased activity of the ICGF, additional monitoring arrangements have been applied within the City Managers team and Finance. This has resulted in the Finance Service increasing its annual charge to the ICGF.
- 6.7 Inverness Old Town Arts – the last tranche of funding for this project was utilised in 13/14. The project has now been replaced by the Inverness City

Arts Project (under Projects heading).

7. Third Party Applications

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 ICGF Grants Sub Committee and where appropriate, are reported to the CIAC for decision.

8. Implications

- 8.1 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.
- 8.2 Climate Change – 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.
- 8.3 Legal and Financial 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.
- 8.4 Expenditure – If the expenditure outlined above and set out in the proposed budget is spent, it would total £4.492m. For 14/15, this exceeds income by £2.518m 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.

Recommendation

The Committee is invited to agree:

- i. the Common Good Fund budget for 2014/15 detailed within the report;
and
- ii. to develop detailed cash flow forecasts for major project expenditure to permit the most appropriate investment exit strategy to be agreed with the Fund Manager.

and 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.

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Date:

19 February 2014

**MONITORING STATEMENT 2013/14
INVERNESS COMMON GOOD FUND
FOR PERIOD ENDING 31 JAN 2014**

Appendix 1

	ACTUAL YEAR TO DATE	ANNUAL BUDGET	ESTIMATED OUTTURN	ESTIMATED VARIANCE
	£000	£000	£000	£000
INCOME				
Rents				
Industrial Estates	1,207	1,392	1,392	0
Victorian Market	232	281	281	0
Town House	253	253	253	0
Other Properties	34	34	34	0
	<u>1,727</u>	<u>1,960</u>	<u>1,960</u>	<u>0</u>
Other Income				
Contribution to Grants from Reserves	0	356	356	0
Interest on Revenue Balances	0	5	5	0
TOTAL INCOME	<u>1,727</u>	<u>2,321</u>	<u>2,321</u>	
EXPENDITURE				
Industrial Estates	3	8	8	0
Victorian Market	124	193	153	-40
Town House Maintenance	73	100	100	0
Other Properties	67	137	107	-30
Civic and Conference Hospitality	94	120	110	-10
Ness Islands & Bank Maintenance	0	27	27	0
Festive Lights	0	65	65	0
Town Twinning	8	9	9	0
Winter Payments	32	106	50	-56
Inverness Common Good Fund Grants	460	776	501	-275
City Promotions	59	113	90	-23
Events & Festivals	277	320	320	0
CCTV	84	90	90	0
Property Management Fees	117	118	118	0
Central Support Charge	0	47	58	11
Other Charges	1	15	15	0
Town House Other Costs	4	11	11	0
City Arts Project	31	31	31	0
TOTAL EXPENDITURE	<u>1,434</u>	<u>2,286</u>	<u>1,863</u>	<u>-423</u>
Income Less Expenditure	<u>293</u>	<u>35</u>	<u>458</u>	<u>-423</u>
PROJECTS				
Town House Boiler Replacement Works	192	172	198	26
Town House Refurbishment	135	200	160	-40
CGF contribution to re-wiring of Town House	0	51	0	-51
Ness Islands Lighting Project	0	115	106	-9
Refurbishment 1-5 Church Street	33	600	150	-450
Streetscape Riverside Flood Prevention Project	0	200	200	0
Victorian Market Windows Replacement	0	70	40	-30
Town Clock and Steeple	35	10	10	0
Inverness City Arts Project	19	125	25	-100
TOTAL PROJECTS	<u>414</u>	<u>1,543</u>	<u>889</u>	<u>-654</u>

STATEMENT OF ACCOUNTS 2012-13

Appendix 2

Inverness Common Good Fund

Income and Expenditure Account

	2012/13 £	2011/12 £	2010/11 £
<u>Expenditure</u>			
Staff costs	124,586	144,993	163,522
Property costs	299,663	381,668	235,888
Other costs	1,458,669	2,018,005	825,136
Grants and contributions	600,137	562,450	510,426
Administration charges	172,671	165,334	144,619
Total expenditure	2,655,726	3,272,450	1,879,591
<u>Income</u>			
Rents	1,869,492	2,016,202	1,931,675
Miscellaneous income	27,893	158,190	58,987
Interest on revenue balances	2,181	13,044	6,592
Income on investments	221,400	231,652	184,952
Total income	2,120,966	2,419,088	2,182,206
Other Operating Income and Expenditure			
Gain on disposal of asset	8,150		
Surplus/(deficit) for the year	-526,610	-853,362	302,615
Revaluation gains	-511,150	1,574,806	571,714
Unrealised gains on investments	1,309,658	252,093	810,277
Total comprehensive income and expenditure	271,898	973,537	1,684,606

Balance Sheet

	2012/13 £	2011/12 £	2010/11 £
<u>Non current assets</u>			
Investment properties	20,719,000	21,472,000	19,868,750
Community assets	0	0	1,636,444
Investments at valuation	10,342,005	8,852,853	8,415,747
Heritage	1,638,000	1,638,000	0
	32,699,005	31,962,853	29,920,941
<u>Current assets</u>			
Sundry debtors	97,375	92,572	1,745
Short term investment	0	1,000,000	1,000,000
Loans fund deposits	375,853	-111,990	875,026
	473,228	980,581	1,876,771
<u>Current liabilities</u>			
Sundry creditors	-196,379	-239,478	-67,292
Total assets	32,975,855	32,703,957	31,730,420
Usable reserves			
Revenue funds	5,641,785	6,168,395	7,236,770
Unusable reserves			
Revaluation reserve	24,577,592	23,779,084	22,204,278
Capital funds	2,756,478	2,756,478	2,289,372
	27,334,070	26,535,562	24,493,650
Total reserves	32,975,855	32,703,957	31,730,420

Inverness Common Good Fund

Appendix 3

Budget 2014-15

INCOME	2014/15 £000	2013/14 £000	Variance £000
Rents			
Industrial Estates	1,395	1,392	3
Victorian Market	282	281	1
Town House	253	253	-
Other Properties	39	34	5
	<u>1,969</u>	<u>1,960</u>	<u>9</u>
Other Income *			
Interest on Revenue Balances	5	5	-
Contribution to Grants from Reserves (underspend from previous year)	275	356	(81)
Contribution to Subvention from Reserves (underspend from previous year)	23	-	23
Additional Contribution to Revenue Budget from Reserves	87	-	87
Total Income	<u>2,359</u>	<u>2,321</u>	<u>29</u>
EXPENDITURE			
Industrial Estates	5	8	(3)
Victorian Market	185	194	(9)
Town House Maintenance	100	100	-
Other Properties	130	137	(7)
Civic and Conference Hospitality	100	120	(20)
Ness Islands & Bank Maintenance	27	27	-
Festive Lights & Decorations	65	65	-
Town Twinning	9	9	-
Winter Payments	50	106	(56)
Inverness Common Good Fund Grants	822	776	46
Civic Promotions	50	73	(23)
Subvention	63	40	23
Partnership Working - BID	70	-	70
Events & Festivals	390	320	70
CCTV	90	90	-
Property Management Fee	118	118	-
Central Support Charges	58	47	11
Other Charges	15	15	-
Town House Other Costs	11	11	-
Inverness Old Town Arts Group	-	31	(31)
TOTAL EXPENDITURE	<u>2,359</u>	<u>2,286</u>	<u>73</u>
CONTRIBUTION TO PROJECTS	<u>0</u>	<u>35</u>	<u>(35)</u>
PROJECTS			
Town House Boiler Replacement Works	-	172	(172)
Town House Refurbishment	100	200	(100)
CGF contribution to re-wiring of Town House	51	51	-
Ness Islands Lighting Project	0	115	(115)
Refurbishment 1-3 Church Street	917	600	317
Streetscape Riverside Flood Prevention Project	800	200	600
Victorian Market Windows Replacement	40	70	(30)
Town Clock and Steeple	-	10	(10)
Inverness City Arts Project	225	125	100
TOTAL PROJECTS	<u>2,133</u>	<u>1,543</u>	<u>590</u>
Amounts transferred from Reserves	2,518	1,864	654

* Stock Market Income is all reinvested