

The Highland Council

Nairnshire Committee - 27 January 2016

Agenda Item	10.
Report No	N/07/16

Nairn Common Good Fund - Expenditure and Governance Update Report

Joint Report by the Director of Finance and the Inverness City Manager

Summary

This report updates Members on the progress made on the development of an Investment Strategy for the Nairn Common Good Fund (NCGF). In March 2014 a report was presented updating on;

- Current governance arrangements
- Anticipated income (primarily from tenancy rentals)
- Expenditure made by the Council for services rendered in support of the NCGF and how these services should be supported.

This report details options to consider for the investment of cash reserves and asks Members to note the position of the Nairn Common Good Fund (NCGF) as shown in the Quarter 3 Monitoring Statement.

1. Governance Arrangements

1.1 The NCGF is under the governance of the Highland 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 Nairn; and
- (iii) Funds being allocated against essential expenditure first.

Consideration should also be given to the impact of Community Empowerment Legislation. However it must be noted that the Council retains governance and makes all decisions regarding the NCGF. The obligations, once enacted, will impact the way the Council consults with communities.

2. Anticipated Revenue

2.1 Rental Income – The total income expected to be available in 2015/16 from rents is expected to be £0.080m.

2.2 Miscellaneous Income – Income from the Nairn Games of £0.015m is expected in 15/16.

2.3 Interest and Revenue Balances – It is anticipated that interest receivable on projected surplus balances will be approximately £0.007m in 2015/16.

3. 2015/16 Budget

- 3.1 2015/16 Budget – The budget for 2015/16 is set out in **Appendix 1**.
- 3.2 Impact on Available Funds – This budget plans for the expenditure of revenue which will be received in 2015/16 and does not currently plan to make use of the NCGF revenue fund. Income and expenditure are set at levels agreed in **Appendix 1**. The NCGF is projected to generate a revenue surplus of £0.039m in 15/16 which will build on existing revenue funds.

4. Expenditure Budget

The main revenue budget expenditure can be summarised as follows:

- 4.1 Property Maintenance – A budget of £0.044m was set in March 2015. This comprises an annual charge from the Council of £0.038m for grounds maintenance; and a management fee of £0.006m from Highlife Highland for the Leisure Park.
- 4.2 Electricity – a budget of £0.001m was set in line with current charges on the Pavilion.
- 4.3 Water Charges – a budget of £0.001m was set in line with current charges on the Pavilion and Links.
- 4.4 Rent, Rates and Insurance – a budget of £0.009m was set for the River Fishing Licence Fee. All of the investment properties are expected to be tenanted in 15/16 which means that the NCGF will not be liable for Non Domestic Rates.
- 4.5 Central Support Charge – a budget of £0.002m was set in line with the charges incurred in the current and prior years for Finance and Administration support. However the actual charge for 2015/16 will reflect the level of Highland Council officer support provided to the fund in the year ahead. At present, there is no charge for general administrative support provided by the Council or Ward Management time.

5. Revenue Monitoring Report

- 5.1 A monitoring statement showing transactions against budget to the end of December 2015 is attached as **Appendix 2**.
- 5.2 Expenditure – Expenditure to date relates to property maintenance, electricity and water charges and costs associated with repairs to the Paddling Pool.

Consideration should be given when setting the 2016/17 budget to increasing the property maintenance budget for any necessary and remedial works to Common Good assets, particularly at the Links area.

Noting the potential expenditure over the next 12 months, it is also recommended that a sum of 50k be held back as a cash reserve for project work.

- 5.3 Income – The income received to date relates to property and rentals. The

surplus projected is due to the rentals for the former Links Shelter, the Sandown Fields and for the caravan site at Lochloy.

6. Options for Investment of Cash Reserves

- 1. Capital growth**
- 2. Cash reserves**
- 3. Revenue stream**

6.1 The NCGF is projecting a revenue surplus of £0.039m for the year 2015/16. This gives the opportunity for detailed consideration of how best to invest this surplus for the overall benefit of the residents of the former Burgh of Nairn. The following options include an evaluation on the ability of the NCGF to contribute to existing and/or planned initiatives, as well as to allow for the Fund's resources to be built up.

6.2 Share Investments – Capital Growth

The Council's Investment Sub Committee meets every quarter and oversees Share investments across a wide range of investment opportunities. The Funds involved include the Council's Pension Fund and the Inverness Common Good Fund (ICGF). The Fund Managers appointed to manage the ICGF Share investments are Messrs Adam & Co. The Fund Managers have confirmed that they would be prepared to assume management responsibility for the investment of the NCGF. Investment is not without risk and although the ICGF has received an average return of 7.54% per annum over the last 5 years this cannot be guaranteed and indeed the average return reduced last year. In summary the following should be considered:

- Risks:
 - i) No guarantee of income, even Share Dividends
 - ii) Management fees will be deducted annually – subject to negotiation.
 - iii) Capital will need to be invested for a minimum period of 5 years
 - iv) If access to funds is required urgently, this could result in Fund Managers having to sell Shares at the wrong time and so result in a loss to the Fund.

- Benefits:
 - i) Long Term average returns are currently producing consistently good results.
 - ii) Promotes a structured investment strategy.
 - iii) Meets the long term strategy of promoting a stable base for the Fund to grow.

Summary - This option is recommended especially if Members also agree to both reinvest any Share Dividends received and set aside a sum from income annually to increase the overall sums invested. It is suggested that Fund Managers be asked to make the investments based on an initial 5 year investment plan, with regular reviews being undertaken by the Investment Sub-committee. Sub-committee membership includes Inverness Members and it may be appropriate that a nomination is sought from the Nairn Members

to join the Sub-committee should this option be agreed.

6.3 Cash Reserves

If Members support progressing investment in Shares, then consideration will be given to the cash amount to be held back within balances for unexpected costs. One project under consideration at present is the Nairn Paddling Pool and noting this it is recommended that a cash reserve is retained to cover potential project costs.

6.4 Revenue Stream

The expected revenue is shown in **Appendix 1** and the latest position is shown in the Revenue Monitoring Statement. Once Members agree to the Strategy, then any sums left will be available to meet potential local project work, although it is not recommended at this stage that a separate Grants budget is set up. It is recommended that a contribution is made annually to increase the sum invested in Shares through the Fund Managers.

7. Asset Management

7.1 Work continues on the Asset Register for the NCGF. This will be presented in due course to the Local Committee for its consideration with recommendations.

This ties in with work ongoing to ensure consistency of support for the management of Common Good Funds across Highland.

8. Implications

8.1 The expenditure to date is within budget and there are no Resource or Financial Implications. There are no known Equalities, Climate Change/Carbon Clever, Legal, Risk, Gaelic or Rural Implications.

8.2 There are no other implications to be highlighted in the report

Recommendation

Members are invited to:

- i. Note the financial information contained within this report and the Appendices;
- ii. Agree the most viable option for investing the available cash balances of the Nairn Common Good Fund and instruct the Director of Finance to take the necessary steps to implement;
- iii. Agree that update reports continue to be brought before the Local Committee

Designation: Director of Finance

Date: 15 January 2016

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Appendix 1
Nairn Common Good Fund
Budget 2015/16

	Budget
INCOME	£000
Rents	78
Interest and investment income	7
Miscellaneous Income	15
TOTAL INCOME	<u>100</u>
EXPENDITURE	
Property maintenance	44
Electricity	1
Water charges	1
Rents, Rates and Insurance	9
Central support	2
Advertising	1
Contribution to Nairn Games	3
TOTAL EXPENDITURE	<u>61</u>
Income less Expenditure	<u><u>39</u></u>

**Nairn Common Good - Quarterly Monitoring
Period to 31 December 2015**

	Actual to date £	Annual Budget £	Expected Outturn £	Variance £
INCOME				
Rents	78,923	78,000	79,000	1,000
Interest and investment income	27	7,000	7,000	0
Miscellaneous Income	18,980	15,000	18,980	3,980
	<u>97,930</u>	<u>100,000</u>	<u>104,980</u>	<u>4,980</u>
TOTAL INCOME	<u><u>97,930</u></u>	<u><u>100,000</u></u>	<u><u>104,980</u></u>	<u><u>4,980</u></u>
EXPENDITURE				
Property maintenance	3,106	44,000	44,000	0
Electricity	0	1,000	1,000	0
Water charges	215	1,000	1,000	0
Rents, Rates and Insurance	9,301	9,000	9,301	301
Central support	0	2,000	2,000	0
Advertising	145	1,000	1,000	0
Contribution to Nairn Games	0	3,000	3,000	0
Legal Expenses	201	0	201	201
TOTAL EXPENDITURE	<u>12,968</u>	<u>61,000</u>	<u>61,502</u>	<u>502</u>
Income less Expenditure	<u><u>84,962</u></u>	<u><u>39,000</u></u>	<u><u>43,478</u></u>	<u><u>4,478</u></u>