

The Highland Council

City of Inverness Area Committee – 5 March 2016

Agenda Item	16(c)
Report No	CIA/ 19/16

Inverness Common Good Fund Budget Setting for 2016/17 and Capital Programme

Report by Director of Finance and Inverness City Area Manager

Summary

This report invites Members to set the revenue budget for the Inverness Common Good Fund (ICGF) for the financial year 2016/17. 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 a number of additional items;
- action on the future investment of any projected surplus funds;
- 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 (£34.195m) 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. Surplus funds being invested in shares and property so as to consolidate and grow the ICGF for future generations.

1.2 The Common Good Fund Balance sheet at 31st March 2015 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 - £22.117m
- (ii) heritage assets (pictures and artefacts) – value - £2.063m
- (iii) investments (equity portfolio) – value £9.854m (current valuation £9.648m)
- (iv) loans fund deposits – value £0.522m
- (v) sundry creditors – value £0.362m

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 Development and Infrastructure 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.
- (iii) Other property – the ICGF does hold Heritage Assets¹ and these are shown on the Balance Sheet as having a value of £2.063m.

2. Anticipated Revenue

2.1 Rental Income – The total income expected to be available in 2016/17 from rents, mostly from industrial estates, the Victorian Market and the Town House is expected to be £2.078m.

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 2016/17.

2.3 Share Dividends – The equity investments made on behalf of the ICGF by the Council's agents, Messrs Adam & Co have produced income of £0.188m in the current financial year to date. The demands on the fund in the coming years which have now been identified will mean that significant withdrawals will be required from the portfolio. An accurate cash flow projection will allow the Manager to continue to exit the market at the most appropriate time.

3. Consequences for Revenue Balances

3.1 As at 31st March 2015, the Common Good Fund had investments with a current market value of £9.854m, (current valuation £9.648m) managed by external investment managers (Adam & Co.).

3.2 Close monitoring takes place of capital projects through regular meetings led by the Inverness City Area Manager and involving the Ward Manager for Inverness West and Inverness Ness-side and the Project Manager assigned by the Development and Infrastructure Service to support Common Good Fund Projects. The governance is also assisted by regular project monitoring reports being made to this Committee.

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.

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 16/17 Budget - The draft budget for 2016/17 is set out in **Appendix 2**. This shows the budgeted expenditure from 2015/16 together with a roll forward 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.

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 2**, this will require a total transfer from reserves of £2.122m for the year 16/17. This includes £0.181m of unspent prior commitments on Grants and Subventions. The current balance on revenue reserves is £6.380m.

The total Reserves balance, as per the published Accounts is £34.195m; however this reflects Local Authority Accounting Practice where revaluations are treated as “Unusable Reserves”. In reality the ICGF assets are all potentially realisable, although this would neither be prudent or practical to do so. Cash investments of £9.854m are being used to finance capital and revenue projects over and above the general budget funded by rental receipts.

6. Movements from current year revenue budgets

- 6.1 The movements from current year (15/16) budgeted expenditure to proposed expenditure for 16/17 expenditure are highlighted in the third column in **Appendix 2**. The main movements in revenue budget headings can be summarised as follows:
- 6.2 Common Good Fund Grants – the £0.472m proposed for 16/17 comprises £0.157m for grants committed during or prior to 15/16, £0.315m for 16/17 grant approvals. In respect of unspent grants, projects have variously been successfully completed at anticipated or reduced cost, amended or abandoned. Detailed reports on grants expenditure have been provided to the Grants Sub-Committee for monitoring during the financial year.
- 6.3 Income from Rents - the projected budget allocation is increased by £0.056m. This includes estimated the outcome of pending rent reviews and foreseeable changes in tenancies. There is a consequential increase in the Property Management fee of £0.003m.
- 6.4 City Promotions – and increase of £0.026m is proposed as a result of the Aberdeen Asset Management Scottish Open being held at Castle Stuart Golf Club in July 2016, and to allow for traffic remodelling for Belladrum and the Black Isle Show. .
- 6.5 Castle Wynd Public Conveniences – No budget provision is proposed as discussions are underway with Community Services regarding Public Toilet provision within the City.
- 6.6 Partnership Working - BID - the projected budget allocation is a decrease of £0.006m. The revised allocation is sufficient to include expenditure on all partnership initiatives. A separate report, detailing the funding applications from BID was made to the Grants Sub Committee. Provision has also been made for the expenditure on the only application relating to Operation Respect Winter 2016 which will be submitted later in the year. Members may note that according to information provided to the Grants Sub-Committee on 8th February 2016, the average Council (ICGF) contribution to projects has reduced from 62.5% in 2015/16 to 55% for 2016/17.
- 6.7 Subvention - Conference Grants – the proposed budget allocation comprises £0.024m for grants committed during or prior to 15/16, £0.030m for 16/17 grant approvals.

7. Third Party Applications

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

8. Investment Strategy

- 8.1 It is proposed that £2m continues to be retained as a general reserve, with £1.6m earmarked as a Property Investment Fund. This was agreed when the 2105/16 ICGF budget was set at the CIAC held on 5 March 2015.
- 8.2 Victorian Market – work is being undertaken to build on opportunities to enhance the Market. The sum set aside will allow this to be progressed, with Members and stakeholders within the business community, including the Market Tenants being briefed and consulted as appropriate. Progress is planned to be reported to Committee in September. Tenancies' continue to be managed efficiently by the Council and all current vacancies are being marketed to minimise any rental voids. This has impacted on the income projection for the Market. Most of the vacancies are in the Market Hall. Numbers, 10, 11 & 13 Market Hall are vacant and are being advertised to let. Numbers 16 and 22 Market Hall were vacated on the 30th January 2016 and are being prepared for marketing. Number 18 Market Hall (formerly part of Luckenbooth 15/18 Market Hall) is also being prepared for Marketing.

9. Implications

- 9.1 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.
- 9.2 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 being undertaken to the Town House are largely external, on-going assessments will be made as to whether or not any actions can be undertaken which will improve the heat retention capabilities of the Town House.
- 9.3 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 applied 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.

- 9.4 Expenditure – If the expenditure outlined above and set out in the proposed budget is spent, it would total £4.205m. For 16/17, this exceeds income by £1.941m 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.
- 9.5 Rural Implications – 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.
- 9.6 Risk Implications – The decision making process along with the administration of the agreed budgets addresses all known risk implications.

Recommendation

The Committee is invited to agree:

- i. the Common Good Fund budget for 2016/17 detailed within the report and Appendices; and
- ii. to maintain a general reserve of £2m and reallocate the remaining uncommitted sum of £1.6m to a Property Investment Fund.

and to 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.

Designation: Director of Finance and Inverness City Area Manager

Date: 22 February 2016

Authors: Derek Yule, Director of Finance and
David Haas, Inverness City Manager

STATEMENT OF ACCOUNTS**Appendix 1**2013/14
£**Inverness Common Good Fund**2014/15
£**Balance Sheet**Non current assets21,272,000 Investment properties
10,904,801 Investments at valuation
1,452,405 Heritage Assets

33,629,20622,117,045
9,853,586
2,063,374

34,034,005Current assets130,250 Sundry debtors
0 Loans fund deposits

130,250310
522,273

522,583Current liabilities(182,168) Sundry creditors
(360,501) Loans fund deposits

(542,669)(362,005)
-

(362,005)

33,216,787 **Total assets**

34,194,583**Usable reserves**

6,367,076 Revenue funds

6,379,514

Unusable reserves1,452,405 Revaluation reserve
21,272,000 Capital adjustment account
4,125,306 Available for Sale Reserve

26,849,7112,063,374
22,117,045
3,634,650

27,815,069

33,216,787 **Total reserves**

34,194,583

Inverness Common Good Fund

Appendix 2

Budget 2016-17

INCOME	2016/17 £000	2015/16 £000	Movement £000
Rents			
Industrial Estates	1,471	1,435	36
Victorian Market	264	284	(20)
Town House	258	253	5
Other Properties	85	50	35
	<u>2,078</u>	<u>2,022</u>	<u>56</u>
Other Income *			
Interest on Revenue Balances	5	5	0
Contribution to Grants from Reserves (underspend from previous year)	157	122	35
Contribution to Subvention from Reserves (underspend from previous year)	24	14	10
Contribution to Civic and Conference Hospitality from Reserves (underspend from previous year)	0	12	(12)
Total Income	<u>2,264</u>	<u>2,175</u>	<u>89</u>
EXPENDITURE			
Victorian Market	185	185	0
Town House Maintenance	100	100	0
Other Properties	130	130	0
Civic and Conference Hospitality	132	132	0
Ness Islands & Bank Maintenance	35	35	0
Festive Lights & Decorations	65	65	0
Town Twinning	9	9	0
Winter Payments	85	85	0
Inverness Common Good Fund Grants	472	472	0
Subvention - Conference Grants	54	54	0
City Promotions	60	34	26
Disabled Go Project (2013-18)	8	8	0
Castle Wynd Conveniences	0	16	(16)
Partnership Working - BID	106	112	(6)
Events & Festivals	320	320	0
CCTV	90	90	0
Property Management Fee	124	121	3
Central Support Charges	60	60	0
Other Charges	14	14	0
Town House Other Costs	11	11	0
TOTAL EXPENDITURE	<u>2,060</u>	<u>2,053</u>	<u>7</u>
CONTRIBUTION TO PROJECTS	<u>204</u>	<u>122</u>	<u>82</u>
PROJECTS			
Town House Refurbishment	1,805	1,551	254
Town House Refurbishment - Historic Scotland Funding	0	(175)	175
Refurbishment 1-5 Church Street	80	1,713	(1,633)
Inverness Castle	0	100	(100)
Ness Islands - Structural Maintenance Programme	250	0	250
Inverness City Arts Project	0	175	(175)
Victorian Market - Opportunities for Improvement	0	50	(50)
Inverness Steeple	10	0	10
TOTAL PROJECTS	<u>2,145</u>	<u>3,414</u>	<u>(1,269)</u>

* Stock Market Income is all reinvested