

Agenda Item	14b
Report No	CIA/11/20

THE HIGHLAND COUNCIL

Committee: City of Inverness Area Committee

Date: 20 February 2020

Report Title: Inverness Common Good Fund
Budget Setting for 2020/2021 and Capital Programme

Report By: Executive Chief Officer Resources and Finance
Inverness City Area Manager

1. Purpose/Executive Summary

- 1.1 This report invites Members to set the revenue budget for the Inverness Common Good Fund (ICGF) for the financial year 2020/21. 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.

2. Recommendations

- 2.1 Members are invited to agree:

The Common Good Fund budget for 2020/21 detailed within the report and Appendices.

3. Implications

- 3.1 **Resource** - If the expenditure outlined above and set out in the proposed budget is spent, it would total £5.776m. For 2020/21, this exceeds income by £3.372m leaving a deficit which will have to be funded by liquidating bond investments. The expenditure proposed will provide the relevant properties, many more years of strength and stability.

- 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 being applied by the Corporate Resources Service, funds will remain compliant with all financial regulations. In order to meet revenue expenditure requirements, it may prove necessary to sell equity investments.
- 3.3 **Community (Equality, Poverty, Rural and Island)** - 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.

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.

- 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** - The decision-making process along with the administration of the agreed budgets addresses all known risk implications. There is a risk to the long-term sustainability of the Fund if over reliance is placed on reserves for the financing of capital projects. The current profiling of expenditure over the next two years will leave reserves near the agreed minimum level.
- 3.6 **Gaelic** - Projects will be undertaken in compliance with the Council's Policies in relation to the promotion of the Gaelic Language and Culture.

4. Governance Arrangements

- 4.1 The total value of the ICGF (£31.612m) 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. 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 31st March 2019 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 - £22.478m

- (ii) heritage assets (pictures and artefacts)¹ – value - £2.063m
- (iii) investments (equity portfolio) – value £7.117m (valuation as at 31st December 2018- £7.363m)
- (iv) sundry debtors – value £0.019m
- (v) loans fund deposits – value £0.124m
- (vi) sundry creditors – value (£0.189m)

4.3 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 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.

4.4 Statutory requirements. There are certain specific statutory requirements that apply 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 acquisition 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.

5. Anticipated Revenue

5.1 Rental Income – The total income expected to be available in 2020/21 from rents, mostly from industrial estates, the Victorian Market and the Town House is expected to be £2.149m.

5.2 Cash Received from Equity Investments – The equity investments made on behalf of the Fund by the Council's agents, Messrs Adam & Co have produced income of £0.175m in the current financial year to 31st March 2019. This sum is reinvested by Adam and Co.

5.3 In 2020/21 there will be a contribution of £0.250m coming from the Town Centre Fund towards the costs of the Victorian Market Project

6. Consequences for Revenue Balances

6.1 As at 31st March 2019, the ICGF had investments with a market value of £7.117m, (current valuation as at 31st December 2019 - £7.599m) managed by external investment managers (Adam & Co.).

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.

- 6.2 Close expenditure monitoring takes place through regular meetings led by the Inverness City Area Manager and appropriate officers in support of Common Good Fund Budgets. The governance is also assisted by regular project monitoring reports being made to this Committee.
- 6.3 The demands on the Fund in the next 2 years mean that significant withdrawals will be required from the portfolio. This sum is referred to as “Balance to be funded from Reserves” within **Appendix 2**
- 6.4 The redevelopment of the Victorian Market Hall/Fish Hall will impact on the revenue balances generated as a result of the compensation packages for current tenants and the reduced rental received.

7. Proposed Expenditure

- 7.1 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
- 7.2 Essential – this is competent as it is for the upkeep of property either in the ownership or the control of the Fund (Council).
- 7.3 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.
- 7.4 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.
- 7.5 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, including residents of the former Burgh and, especially with the larger projects, a strong link to the Council’s Programme, “Local Voices, Highland Choices”, is established.

8. Proposed Budget – Application and Inflationary Increase

- 8.1 2020/21 Budget - The draft budget for 2020/21 is set out in **Appendix 2**. This shows the budgeted expenditure from 2019/20 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.
- 8.2 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 £3.372m for the year 2020/21. This includes £0.339m of unspent prior commitments on Grants and Conference Support. The current balance on revenue reserves is

£7.070m. This includes £2.504m that was previously within the available for sale reserve.

- 8.3 The total Reserves balance, as per the published Accounts is £31.612m; however, this reflects Local Authority Accounting Practice where revaluations are treated as “Unusable Reserves”. In reality Fund assets are all potentially realisable, although this would neither be prudent or practical to do so.
- 8.4 Equity and bond investments (Market Value at 31/12/2019 - £7.599m) are being used to finance capital and revenue projects over and above the general budget funded by rental receipts. Although steps have been taken to increase the proportion of investments in bonds to protect the investment balance from serious market fluctuations there continues to be some risk to the value of the overall holding due to the uncertainties facing the market, there is a risk to the Fund if too much reliance is placed upon the investment portfolio for financing future project expenditure. 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.
- 8.5 Over the next 2 years there are plans for substantial project work to be undertaken that will place significant pressure on the reserves of the Fund. The budget proposed for 2020/21 presents a scenario whereby core expenditure is only marginally covered by rental income (taking project costs and income from reserves out of consideration). This is not a sustainable position for the Fund to find itself in. In order to safeguard the assets of the Fund and to create some capacity to invest for Fund recovery, expenditure in the discretionary areas has been reduced.

9. Movements from current year revenue budgets

- 9.1 The movements from current year (2019/20) budgeted expenditure to proposed expenditure for 2020/21 are highlighted in the third column in **Appendix 2**. The main movements in revenue budget headings can be summarised as detailed below.
- 9.2 Common Good Fund Grants – the £0.609m proposed for 2020/21 comprises £0.334m for grants committed during or prior to 2019/20, and £0.275m for 2020/21 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 Inverness Common Good Fund Sub-Committee for monitoring during the financial year.
- 9.3 City Promotions - The recommendation is to set the budget at £0.045m in order to accommodate funds committed of £0.003m during 2019/20 and the potential of supporting the European Pipe Band Championships along with further enhancing economic links with the City of Augsburg.
- 9.4 Partnership Working – This budget supports joint project work with Inverness Business Improvement District.
- 9.5 Property Management Fees – Property management fees of 6% will be charged on rental income generated.
- 9.6 Income from Rents - Rent for the industrial estate is expected to increase modestly. A reduction in rent for the car park at the Town House has been agreed as a result of the loss of available spaces while Phase 3 of the refurbishment works are completed.

Victorian Market rents will show a decrease during the redevelopment. 1-5 Church Street will maintain the current income levels.

10. Events and Festivals

- 10.1 Members will recall that the budget agreed for Events and Festivals at Committee on 29 August 2019 was set £0.275m subject to the addition of a 10% contingency being added in the event that further work was required in relation to developing the Northern Meeting Park. The Council is still progressing a review and noting this, consent is now sought from the Committee to utilise the 10% contingency. This means that the adjusted budget for Events and Festivals for 2020/21 is shown in the sum of £0.303m.

11. Projects

- 11.1 Town House Refurbishment Phase 3 – A budget of £1.400m is proposed to cover expenditure in relation to Phase 3 of the project in 2020/21.
- 11.2 Victorian Market Shopfront Redesign - £0.075m is allocated towards the upgrading of the shopfronts within the Market Arcade to include new lighting and flooring in 2020/21. It is proposed that this project will also be supported by the Inverness Townscape Heritage Project.
- 11.3 Town House Civic Floor – Improvements to toilet facilities will not be completed in 2019/20, as a result of this £0.040m is allocated for the completion of these improvements along with improvements planned for the kitchen facilities.
- 11.4 Victorian Market – Market Hall/Fish Hall Redevelopment - £1.370m is allocated in 2020/21 for project delivery. Tenders are due to be returned late March. A further up date report will be provided at the next scheduled Committee.
- 11.5 Victorian Market – Market Hall/Fish Hall redevelopment – Compensation - £0.110m has been allocated for payment to current tenants as part of compensation arrangements. These are calculated in accordance with the decision taken at Committee on 21 November 2019.

12. Third Party Applications

- 12.1 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 Inverness Common Good Fund Sub Committee and where appropriate, are reported to the CIAC for decision.

Designation: Liz Denovan Executive Chief Officer Resources and Finance
Inverness City Area Manager

Date: 10 February 2020

Author: David Haas – Inverness City Area Manager
Jackie McLaughlin – Principal Accounting Technician
Sara Murdoch – Common Good Fund Officer

Background Papers:

APPENDIX 1

31/03/2018	Balance Sheet	31/03/2019
	<u>Non current assets</u>	
22,127,000	Investment properties	22,478,000
7,378,550	Investments at valuation	7,117,430
2,063,374	Heritage Assets	2,063,374
<u>31,568,924</u>		<u>31,658,804</u>
	<u>Current assets</u>	
34,179	Sundry debtors	12,958
0	Inventories	4,694
	Cash	833
81,883	Loans fund deposits	123,826
<u>116,063</u>		<u>142,312</u>
	<u>Current liabilities</u>	
(68,864)	Sundry creditors	(189,414)
<u>(68,864)</u>		<u>(189,414)</u>
<u>31,616,123</u>	Total assets	<u>31,611,702</u>
	Usable reserves	
4,921,151	Revenue funds	7,070,328
	Unusable reserves	
2,063,374	Revaluation reserve	2,063,374
22,127,000	Capital adjustment account	22,478,000
2,504,598	Available for Sale Reserve	0
<u>26,694,972</u>		<u>24,541,374</u>
<u>31,616,123</u>	Total reserves	<u>31,611,702</u>

APPENDIX 2
INVERNESS COMMON GOOD FUND
DRAFT BUDGET 2020-21

	2020/21 £000	2019/20 £000	Movement £000	
EXPENDITURE				
Victorian Market Maintenance	48	48	0	Essential
Town House Maintenance	100	100	0	Essential
1-5 Church Street Maintenance	5	20	(15)	Essential
Other Properties	104	104	(0)	Essential
Ness Islands & Bank Maintenance	35	35	(0)	Essential
River Ness Fishings	20	20	0	Essential
Inverness Steeple	10	10	0	Essential
Civic and Conference Hospitality	125	132	(7)	Discretionary
Town Twinning	9	9	0	Discretionary
Winter Payments	155	142	13	Discretionary
Inverness Common Good Fund Grants	609	540	69	Discretionary
Conference Support	40	42	(2)	Discretionary
City Promotions	45	68	(23)	Discretionary
Castle Wynd Conveniences	22	23	(1)	Discretionary
Partnership Working	112	112	0	Discretionary
Events & Festivals	303	340	(37)	Discretionary
Commemorative Bedding	8	8	0	Discretionary
Victorian Market Operations	198	193	5	Cost Recovery
Victorian Market Management	52	49	3	Cost Recovery
Festive Lights	73	73	(1)	Cost Recovery
CCTV	90	90	0	Cost Recovery
Property Management Fees	140	140	0	Cost Recovery
Central Support Charge	82	80	2	Cost Recovery
Investment Advisor Fees	10	10	0	Cost Recovery
Press & Public Relations	10	10	0	Cost Recovery
TOTAL EXPENDITURE	2,404	2,398	6	
FUNDED BY:				
Rents & Lettings				
Industrial Estates	1,617	1,530	87	
Victorian Market	128	249	(121)	
Town House Rents	246	241	5	
1-5 Church Street	96	75	21	
River Ness Fishing Rights	10	10	1	
Other Properties Rents	32	32	0	
Other Income				
Fishing Assessment Dues	20	20	0	
Contribution from Town Centre Fund	250	0	250	
VAT on Management Fees	4	0	40	
Interest on Revenue Balances	1	1	0	
TOTAL INCOME	2,404	2,158	283	
IN YEAR SURPLUS/(DEFICIT)	0	(240)	277	
FUNDING FROM RESERVES				
Unspent Commitments from 2019/20				
Contribution to Grants from Reserves	334	225	109	
Contribution to Conference Support from Reserves	2	2	0	
Contribution to City Promotions from Reserves	3	13	(10)	
	339	240	99	
INVERNESS COMMON GOOD FUND PROJECT SPEND				
Town House Refurbishment - Phase 3	1,400	1,800	(400)	
Victorian Market - Shop Front Redesign	75	150	(75)	
Cavell Gardens Improvement Works	5	5	0	
Town House - Civic Floor	40	40	0	
Whin Park Improvement Works	33	39	(6)	
Victorian Market - Market/Fish Hall Redevelopment	1,370	25	1,345	
Compensation Payments - Victorian Market	110	0	110	
TOTAL TO BE FUNDED FROM RESERVES	3,372	2,299	1,073	