

Agenda Item	13f.
Report No	CIA/15/22

## THE HIGHLAND COUNCIL

**Committee:** City of Inverness Area Committee

**Date:** 17 February 2022

**Report Title:** Inverness Common Good Fund  
Budget Setting for 2022/2023 and Capital Programme

**Report By:** Executive Chief Officer Resources and Finance  
And Interim Executive Chief Officer – Communities and Place

### 1. Purpose/Executive Summary

- 1.1 This report invites Members to set the revenue budget for the Inverness Common Good Fund (ICGF/the Fund) for the financial year 2022/2023. It clarifies: -
- governance arrangements;
  - the assessed impact of the Coronavirus Pandemic
  - 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 2022/2023 detailed within the report and Appendices.

### 3. Implications

- 3.1 **Resource implications** - If the expenditure set out in the proposed budget is spent, it would total £3.331m. For 2022/2023, this exceeds income by £1.022m, leaving a deficit which will have to be funded by liquidating investments. It is expected that overall liquid reserves may be in the region of £4.9m at 2022/23 financial year end.

The previously agreed works to the Town House are nearing completion and, together with the refurbishment of the Market Hall and Fish Hall at the Victorian Market (the latter agreed at CIAC 21 November 2019), will provide the relevant properties many more years of strength and stability.

- 3.2 **Legal 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 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) impacts** - In scrutinising any 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 implications** - 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 implications** - 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 implications** - Projects will be undertaken in compliance with the Highland Council's (the "Council") Policies in relation to the promotion of the Gaelic Language and Culture.

#### **4. Governance Arrangements**

- 4.1 The total value of the ICGF (£32.884m at 31 March 2021) 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 31 March 2021 attached at **Appendix 1** details the assets of the ICGF, which can be summarised as follows:

- (i) land and property (including Town House) – value - £24.257m
- (ii) investments (equity portfolio) – value £5.481m (valuation as at 31 December 2021 - £5.955m; an increase of £0.474m)
- (iii) heritage assets (pictures and artefacts)<sup>1</sup> – value - £2.063m
- (iv) loans fund deposits – value £1.180m
- (v) sundry creditors – value (£0.096m)

The estimated 2021/22 outturn to be funded from reserves is £1.13m, as detailed in the Revenue Monitoring Report, and will impact the balance sheet accordingly.

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 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 Council's Investment Sub-Committee. The equity investments made on behalf of the Fund by the Council's agents, Adam & Co, produced income of £0.112m in the financial year to 31 March 2021 (£0.096m in the current financial year per statements to 30 September 2021). These sums are reinvested by Adam & Co.

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 provision 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 where a question of alienability arises.

## 5. Anticipated Revenue

5.1 Impact of Coronavirus Pandemic – **Appendix 2 (Draft Budget for 2022/2023)** shows core revenue expenditure (including £0.582m expenditure committed in 2021/2022) for the year of £2.833m to be met by revenue income of £2.309m.

It should be noted that, due to Covid-19, the level of rental defaults in 21/22 was greater than a usual year. A number of tenants sought rental breaks or assistance. The standard approach has been to grant postponement of rent and set up mutually agreeable repayment plans. The rental arrears will therefore be collected later in the year and into the next financial year.

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<sup>1</sup> 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.

- 5.2 Rental Income – The total income expected to be available in 2022/23 from rents, mostly from industrial estates, the Victorian Market and the Town House, is expected to be £2.309m.

The rental income from the industrial estates performed robustly during 2021 and both demand and rental levels continue to increase. It is widely reported that the retail sector has struggled in recent times. However, the tenants in the Victorian Market and Grant Street have remained and there are no vacant units. The office sector is also facing some uncertainty but the leases at Church Street give some certainty for income in 2022 and 2023.

## 6. Proposed Expenditure

- 6.1 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

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

- 6.3 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.

- 6.4 The budgeted 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.

- 6.5 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 Programme, “Local Voices, Highland Choices”, is established.

- 6.6 Winter Payments Scheme - The Committee applied an increase in the budget for the Winter Payments scheme in 2020/21, which has been reflected within the draft budget. A report will be presented to Committee in June 2022 summarising the impact of the 2021/22 scheme and making recommendations for winter 2022/23.

## 7. Consequences for Revenue Balances

- 7.1 As at 31 March 2021, the ICGF had investments with a market value of £5.481m, (current valuation as at 31 December 2021 - £5.955m) managed by external investment managers (Adam & Co.).

- 7.2 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.
- 7.3 Towards the end of the 2021/22 financial year, the estimated outturn position will be reviewed to assess the level of investments required to be liquidated. In the first instance any overall spend requiring funding will be met from the Fund's cash reserves.
- 7.4 As mentioned in the Budget setting report presented to City Area Committee on 18 February 2021, the redevelopment of the Victorian Market Hall/Fish Hall is impacting on the revenue balances generated as a result of the compensation packages for current tenants and the reduced rental received.
- 7.5 The demands on the Fund in the next year mean that significant withdrawals will be required from the investment portfolio. This sum is referred to as "Balance to be funded from Reserves" and is £1.022m (**Appendix 2**). Assuming that sum is funded from reserves, the estimated reserves position at the end of 2022/23 will be approximately £4.9m.

## **8. Proposed Budget – Application and Inflationary Increase**

- 8.1 2022/23 Budget - The draft budget for 2022/23 is set out in **Appendix 2**, which also shows the 2021/22 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 The total Reserves balance at 31 March 2021, as per the Audited Accounts was £32.885m. However, this reflects Local Authority Accounting Practice where revaluations are treated as "Unusable Reserves". In reality, the Fund's assets are all potentially realisable, although this would neither be prudent or practical to do so.
- 8.3 Equity and bond investments (market value at 31.12.21 - £5.955m) are being used to finance capital and revenue projects over and above the general budget funded by rental receipts.
- 8.4 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.
- 8.5 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.
- 8.6 Over the next year, the plans for substantial project work on some of the Fund's assets will continue. However, unlike in previous years, although they will place pressure on the reserves of the Fund, this is now reducing, noting that the last major construction project is due to complete in Spring 2022.

- 8.7 The budget proposed for 2022/23 presents a scenario whereby core expenditure is not covered by rental income (taking project costs and income from reserves out of consideration, the shortfall is £0.524m). However, this includes £0.582m of prior year unspent commitments. Were it not for these unspent commitments, the fund would show a small surplus of £0.058m. In order to safeguard the assets of the Fund, and to create some capacity to invest for Fund recovery, expenditure in the discretionary areas continues to be closely monitored and, wherever practical, reduced with the intention of increasing the in-year surplus.
- 8.8 Due to the ongoing impact of the Covid-19 Pandemic, discretionary spend profiles are expected to be subject to change and as with the 2021/22 budget year, a review of the budget may be required later in the year.

## **9. Movements from current year revenue budgets**

- 9.1 The movements from current year (2021/22) budgeted expenditure to proposed expenditure for 2022/23 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 – 2022/23 grants of £0.275m for approval and £0.424m for grants committed during or prior to 2021/22. In respect of unspent grants, projects have been successfully completed as anticipated or at 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 Conference Support – £0.040m is in line with the Budgets for prior years; the 21/22 outturn has been reduced to £0.022m as a result of COVID-19. £0.046m has been carried forward from prior periods, of which £0.016m is committed.
- 9.4 City Promotions - The recommendation is to set the budget at £0.042m in support of the return of events to the City along with further promotional activity in line with any Covid-19 Guidelines. This also includes an allocation of £0.022m carried forward to support HRH the Queen's Green Canopy.
- 9.5 Partnership Working BID – This budget supports joint project work with Inverness Business Improvement District and Loch Ness and Inverness Tourism BID.
- 9.6 Victorian Market Operations – This budget has been set at £0.145m compared to £0.235m in 2021/22. The implementation of the Service Charge will allow both the tenants and the ICGF to clearly see a split between the running costs and the rental income.
- 9.7 Castle Wynd Conveniences – The ICGF has funded these for the last 8 years, However, Castle Wynd Toilets have not been opened other than for limited periods, since Covid and will also have access restricted due to the Castle project works. With Castle Hill being redeveloped and the Victorian Market opening, to include state of the art fully accessible public toilets, there is an opportunity to transfer this budget to the Victorian Market to support City Centre toilet provision.

There are also issues with the waste utility arrangements at Castle Wynd which would need to be addressed prior to them being opened for the season. This is an additional cost that is yet to be assessed.

9.8 City Centre Festive Lights – it is proposed to utilise the underspend from Events & Festivals for 21/22 of £0.100m toward improvements to general lighting within the City Centre and decorative lighting within city streets, providing for more permanent features which can be left up all year round and light trails along the riverside. Early plans are focussed on installing light curtains across a number of principal city centre streets, such as the High Street and Baron Taylor’s Street. Light features will be used at a number of key locations. We plan to significantly reduce the need to remove light features when not in use in order to reduce costs. Key attractions such as the riverside are planned to be enhanced by the use of LED festoon lighting which can change colour depending on the time of year. This will enhance the opportunity to create riverside trails. This project will see a phased implementation and will tie into improvements in street lighting already planned for the city by the Council’s lighting team.

9.9 Income from Rents - Rent for the industrial estate is expected to increase modestly. 1-5 Church Street will maintain the current income levels. With the introduction of the Service Charge in the Victorian Market, the ICGF budget for the running costs will reduce significantly. At the same time the rental income will also reduce and will largely negate the savings. However, going forward this will present a clear picture of both rental income and expenditure.

## 10. Events and Festivals (E&F)

10.1 Following the appointment of High Life Highland as the Council’s agents for the delivery of the ICGF funded City Events and Festivals Programme, a limited number of events were successfully delivered in 21/22. A report detailing the success of the programme and the plans for 2022/23, is also contained within this agenda.

## 11. Projects

11.1 Town House Refurbishment Phase 3 – A budget of £0.080m is proposed to cover retentions in relation to Phase 3 of the project in 2022/23.

11.2 Victorian Market – Market Hall/Fish Hall Redevelopment - £1.435m was allocated in 2021/22 for project delivery. Work commenced on 18 January 2021 with £0.040m spent in 20/21. It is expected that £1.220m will be spent in 21/22. The main part of the project is expected to be delivered by late Spring 2022, at which point only the retention payment will be outstanding. Consequently, the planned expenditure for 2022/23 is £0.410m.

The CIAC approved the original Budget of £1.635m. The CIAC then agreed to incorporate the increased costs associated with the project, principally relating to the replacement of the floor and the installation of a new mains water supply, more particularly referred to at the CIAC held on 18<sup>th</sup> November 2021 into the total available budget detailed below.

Total Project Funding	
Common Good	£1,635,339
Town Centre Fund	£ 250,000
Place Based Investment Programme	£ 79,000
Current Anticipated Outturn	£1,964,339

Officers are ensuring that the most cost-effective solution will be applied to addressing the water supply issue and expect the available budget to meet this cost.

11.3 Victorian Market – Market Hall/Fish Hall redevelopment – Compensation - £0.008m has been allocated for payment to current tenants as part of compensation arrangements, as of 31 December 2021. These are calculated in accordance with the decisions taken at CIAC 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  
Allan Gunn, Interim Executive Chief Officer, Communities and Place

Date: 9 February 2022

Author: David Haas – Inverness City Area Manager  
Lara Harrison - Accountant

Background Papers:



## APPENDIX 1

31/03/2020	Balance Sheet	31/03/2021
£		£
	<u>Non current assets</u>	
23,505,000	Investment properties	24,257,130
5,338,105	Investments at valuation	5,480,592
2,063,374	Heritage Assets	2,063,374
30,906,479		31,801,096
	<u>Current assets</u>	
4,860	Sundry debtors	(400)
8,025	Inventories	-
-	Loans fund deposits	1,179,604
12,885		1,179,204
	<u>Current liabilities</u>	
(219,217)	Sundry creditors	(95,584)
(138,236)	Loans fund deposits	-
(357,453)		(95,584)
<b>30,561,911</b>	<b>Total assets</b>	<b>32,884,716</b>
	<b>Usable reserves</b>	
4,993,537	Revenue funds	6,564,213
	<b>Unusable reserves</b>	
2,063,374	Revaluation reserve	2,063,374
23,505,000	Capital adjustment account	24,257,130
25,568,374		26,320,504
<b>30,561,911</b>	<b>Total reserves</b>	<b>32,884,716</b>

**INVERNESS COMMON GOOD FUND  
BUDGET 2022-23**

	Draft Budget 2022/23 £000	Revised Budget 2021/22 £000	Movement £000	
<b>EXPENDITURE</b>				
Victorian Market Maintenance	45	48	(3)	Essential
Town House Maintenance	100	100	-	Essential
Other Properties 22/23	109	114	(5)	Essential
Other Properties (c/f)	63	24	39	Essential
Ness Islands & Bank Maintenance	36	35	1	Essential
River Ness Fishings	20	20	-	Essential
ICGF Bowling Clubs	50	50	-	Essential
Civic and Conference Hospitality	125	125	-	Discretionary
Town Twinning	9	9	-	Discretionary
Winter Payments	200	200	-	Discretionary
Inverness Common Good Fund Grants 22/23	275	275	-	Discretionary
Inverness Common Good Fund Grants (c/f)	424	348	76	Discretionary
Conference Support	40	40	-	Discretionary
Conference Support (c/f)	46	22	24	Discretionary
City Promotions	42	42	-	Discretionary
City Promotions c/f	23	-	-	Discretionary
Castle Wynd Conveniences	22	22	-	Discretionary
Partnership Working BIDS 22/23	151	151	-	Discretionary
Partnership Working BIDS (c/f)	26	32	(6)	Discretionary
Events & Festivals	303	303	-	Discretionary
Commemorative Bedding	11	11	-	Discretionary
Victorian Market Operations	145	235	(90)	Cost Recovery
Victorian Market Management	55	53	2	Cost Recovery
Festive Lights	73	73	-	Cost Recovery
City Centre Festive Lights	100	-	100	Cost Recovery
CCTV	90	90	-	Cost Recovery
Property Management Fees	143	140	3	Cost Recovery
Central Support Charge	87	85	2	Cost Recovery
Investment Advisor Fees	10	10	-	Cost Recovery
Press & Public Relations	10	10	-	Cost Recovery
<b>TOTAL EXPENDITURE</b>	<b>2,833</b>	<b>2,667</b>	<b>143</b>	
<b>FUNDED BY:</b>				
<b>Rents &amp; Lettings</b>				
Industrial Estates	1,740	1,667	73	
Victorian Market	90	128	(38)	
Town House Rents	234	234	-	
1-5 Church Street	96	96	-	
River Ness Fishing Rights	10	10	-	
Other Properties Rents	35	34	1	
<b>Other Income</b>				
Fishing Assessment Dues	20	20	-	
Contribution from Place Based Invt Fund	79	-	79	
VAT on Management Fees	4	-	4	
Interest on Revenue Balances	1	1	-	
	<b>2,309</b>	<b>2,190</b>	<b>119</b>	
<b>IN YEAR SURPLUS/(DEFICIT)</b>	<b>(524)</b>	<b>(477)</b>	<b>(24)</b>	
<b>Unspent Commitments included in above</b>				
Grants	424	348	76	
Conference Support	46	22	24	
Other Properties	63	24	39	
City Promotions	23	-	23	
Joint Working BIDS	26	32	(6)	
<b>TOTAL FUNDING</b>	<b>582</b>	<b>426</b>	<b>156</b>	

**INVERNESS COMMON GOOD FUND  
BUDGET 2022-23**

	<b>Draft Budget 2022/23 £000</b>	<b>Revised Budget 2021/22 £000</b>	<b>Movement £000</b>
<b>INVERNESS COMMON GOOD FUND PROJECT SPEND</b>			
Town House Refurbishment - Phase 3 Retention	80	400	(320)
Town House - Civic Floor	-	40	(40)
Bowling Clubs	-	42	(42)
Whin Park Improvement Works	-	13	(13)
Victorian Market - Market/Fish Hall Redevelopment	410	1,435	(1,025)
Compensation Payments - Victorian Market	8	34	(26)
<b>TOTAL</b>	<b><u>498</u></b>	<b><u>1,964</u></b>	<b><u>(1,466)</u></b>
<b>FUNDS AVAILABLE/(REQUIRED) FOR PROJECT SPEND</b>	<b>(524)</b>	<b>(477)</b>	<b>(24)</b>
<b>TO BE FUNDED BY RESERVES</b>	<b><u>(1,022)</u></b>	<b><u>(2,441)</u></b>	<b><u>1,442</u></b>
<b>Expected usable reserves 21/22</b>	<b>5,908</b>		
2223 expenses/projects to be funded by reserves	<u>(1,022)</u>		
<b>Expected usable reserves 22/23</b>	<b><u>4,887</u></b>		