

REPORT TO: East Lothian Council

MEETING DATE: 23 April 2013

BY: Executive Director (Support Services)

SUBJECT: Common Good Funds – Budgets 2013/14 to 2015/16

1 PURPOSE

- 1.1 To seek approval for the budgets for the Dunbar, Haddington, Musselburgh and North Berwick Common Good Funds over this and the following two years and to recommend that local expenditure proposals are developed within these budgets.

2 RECOMMENDATIONS

- 2.1 The Council is recommended to approve the strategy outlined at 3.12, in particular, the aim of maintaining the Funds' assets and the protection, maintenance and where possible increase to the level of usable reserves.
- 2.2 The Council is recommended to approve the budgets for the four Common Good Funds for 2013/14 to 2015/16. These are contained at Appendices 1a – 1d.
- 2.3 The Council is asked to approve the specific items of expenditure noted at Section 3.15.
- 2.4 The Council is asked to note the investment performance of long term Common Good fund balances with East Lothian Council's investment managers, Investec Wealth & Investment Ltd.

3 BACKGROUND

- 3.1 The historical origin of Common Good property in Scotland can be traced back to the Middle Ages and the systems of local government administration which have evolved from this time. The earliest legislation which mentions the term 'Common Good' goes back to the Common Good Act of 1491.

- 3.2 In the days before central government funding, the burghs of Scotland, for the most part, met expenses from the revenues of their properties. These were often properties and lands given to the burgh by the Crown in medieval times. The burgh collected the rents and feu-duties and used these to defray the cost of public lamps, the town clock, of cleansing and repairing streets, of interest on loans, of the Minister's stipend, and the cost of entertaining the council on occasion of the King's birthday.
- 3.3 Over time, the Common Good ultimately became an adjunct to the principal revenues from statutory rates but remained reserved for purposes which promoted the general good of the inhabitants or dignity of the specific burgh.
- 3.4 Subsequent local government re-organisations have transferred the responsibility for administering the Common Good Funds for the four former burghs (Dunbar, Haddington, Musselburgh and North Berwick) to East Lothian Council.
- 3.5 Section 15(4)(a) of the 1994 Act provides that in administering property forming part of the Common Good, any authority to which such property is transferred shall:-
- (a) except in the case of the Councils for Aberdeen, Dundee, Edinburgh, and Glasgow, have regard to the interests of the inhabitants of the area to which the common good related prior to 16 May 1975.*
- 3.6 In order to encourage transparency, separate accounts are maintained for each of the individual funds. Financial statements are prepared and audited by the Council's auditors. The assets that fall within the Common Goods are also separately identified and included in their annual financial statements. Any unused monies are carried forward to the following year. A report detailing the results for 2012/13 was deposited in the Members Library in December 2012.
- 3.7 The Common Goods are currently managed in line with the Scheme of Delegation approved by Council on 28 August 2007. A review of the Scheme is currently underway and will be reported to Council in the near future.
- 3.8 At 1st April 2012 the accumulated usable funds for each of the Common Goods comprise the following:

Table 1: Common Good Fund usable funds at 01 April 2012				
Common Fund	Good	Loans to East Lothian Council (£000s)	Investments (£000s)	Total (£000s)
Dunbar		59	20	79
Haddington		90	55	145
Musselburgh		975	2,193	3,168
North Berwick		79	126	205
Total		1,203	2,394	3,597

- 3.9 Although the Musselburgh Common Good has substantial usable reserves this is not true of the other three Funds. In making decisions in the case of Dunbar, North Berwick and Haddington it must be recognised that the level of usable funds are low when compared to the potential liabilities that come with owning historical properties. This limits the grant awards which can be made from these Funds over the coming years.
- 3.10 Each Common Good Fund has two main sources of income. The first is the Fund investments – which are currently managed by Investec Wealth & Investment Ltd - an external investment broker. These are covered in more detail at Section 3.16. In addition, each of the Common Goods owns property assets that generate rental income. As an example, the Haddington Common Good rents out the Town House in Haddington for approximately £34,000 per annum.
- 3.11 The majority of all Common Goods' rental income comes from the Council. In the case of Musselburgh Common Good a significant portion of their income is in decline as Cockenzie Power Station has ended its use of the ash lagoons.
- 3.12 Given the above, it is appropriate to adopt a financial strategy for the four Common Goods which seeks to maintain the Funds' assets and to protect, maintain and, where possible, increase the level of usable reserves. In the case of Dunbar, North Berwick and Haddington this will mean restricting any annual grant awards to a level which will allow the Funds to grow. In the case of the Musselburgh Common Good the aim is to keep the level of the Fund broadly stable over the next three years.
- 3.13 Draft budgets for 2013/14 to 2015/16 have been prepared and are detailed at Appendix 1a – 1d. These draft budgets have been discussed

with those elected members who sit on the respective Common Good Committees.

3.14 The budgets are based on historical spending patterns and known commitments for 2013/14 and beyond. In the first instance income is used to maintain the assets with any surplus funds being used to benefit the inhabitants of the area covered by the fund.

3.15 Specific items of note within the Common Good budgets are as follows;

Musselburgh

- The planned spending of £500,000 on the Inveresk church wall is timetabled for 2013/14. The budget has now been re-profiled to allow for this;
- A provisional amount of £55,000 has been set aside as a contribution towards work on the Brunton Hall. This is also scheduled to take place in 2013/14 and the amount may change dependent on the extent of the works;
- The budget includes provision of £21,000 for the Musselburgh Fireworks;
- Budget provision of £3,000 as a contribution towards the New Year sprint ;
- Budget provision of £15,000 to cover all the costs surrounding the Honest Toun and Silver Arrow festivities and hospitality.

Haddington

- The budget for 2013/14 includes £90,000 as a contribution towards the refurbishment work at the Haddington Town House. In addition, as they are meeting the balance of cost the Council will benefit from a 'rent holiday' during the period 2013/14 – 2015/16.

3.16 East Lothian Council currently uses an external investment broker, Investec Wealth & Investment Ltd, to manage a separate investment portfolio consisting of Common Good monies. The Council has set the objective for the portfolio to achieve growth in income and capital over the long term.

3.17 The most recent valuations and the projected income for 2013/14 are detailed below.

Table 2: Common Good Investments			
Common Good	Amount Invested 2009/10 (£)	Valuation at 31 March 2012 (£)	Projected Income 2013/14 (£)
Dunbar	20,000	20,000	748
Haddington	55,000	55,000	1,496
Musselburgh	2,180,000	2,193,000	68,824
North Berwick	125,000	126,000	3,740
TOTAL	2,380,000	2,394,000	74,808

3.18 These investments have been covered in the Treasury Management Strategy Statement 2013-2016 placed in the Members Library in February. The most important parts of the Strategy Statement as it relates to the Common Good portfolio is as follows

- Quality - the aim is to hold at least 25% of the UK equity content in a combination of individual stocks within the FTSE100 Index and of 'generalist' collective funds;
- Concentration - no individual stock should account for more than 10% of the equity content of the portfolio. No individual bond should account for more than 10% of the total portfolio;
- Diversification - any holdings valued at over 5% of the portfolio may not, in aggregate, represent more than 40% of the portfolio. There is no restriction on the percentage of the overseas equity content in generalist collective funds.

3.19 Investec produce performance reports on a quarterly basis comparing performance to set investment benchmarks. These reports are reviewed by the Head of Council Resources. In addition, a summary report is submitted to the full Council at least once a year on the performance of the portfolio.

4 POLICY IMPLICATIONS

4.1 None

5 EQUALITIES IMPACT ASSESSMENT

- 5.1 This report is not applicable to the well being of equalities groups and an Equalities Impact Assessment is not required.

6 RESOURCE IMPLICATIONS

- 6.1 Financial – As outlined above
6.2 Personnel – None.

7 BACKGROUND PAPERS

- 7.1 Council 27 August 2007 – “Common Good Funds” Accounting for the Common Good Fund: A Guidance Note for Practitioners (LASAAC December 2007)
7.2 Council 20 November 2011 – Common Good Funds – Budget 2011/12 to 2013/14
7.3 Members Library 287/12 – Common Good Accounts and Awards 2011-12
7.4 Members Library 34/13 ELC Treasury Management Strategy Statement 2013-2016

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Dunbar Common Good

Income & Expenditure Budget

	Actual 2011/12 £000	Budget 2012/13 £000	Budget 2013/14 £000	Budget 2014/15 £000	Budget 2015/16 £000
Expenditure					
Employees	2	2	2	2	2
Premises Repairs & Maintenance	9	2	12	12	12
Premises - Rates	2	2	2	2	2
Supplies & Services	1	2	3	3	3
Grants	2	0	3	3	3
Total Expenditure	16	8	22	22	22
Income					
Rents & other income	(25)	(26)	(24)	(24)	(24)
Interest / Investment Income	(3)	(1)	(1)	(1)	(1)
Total Income	(28)	(27)	(25)	(25)	(25)
Net Surplus for the Year	(12)	(19)	(3)	(3)	(3)
Common Good Fund opening balance	(23)	(35)	(54)	(57)	(60)
Accumulated fund	(35)	(54)	(57)	(60)	(63)

Haddington Common Good

Income & Expenditure Budget

	Actual 2011/12 £000	Budget 2012/13 £000	Budget 2013/14 £000	Budget 2014/15 £000	Budget 2015/16 £000
Expenditure					
Repairs & Maintenance	0	2	2	2	2
Supplies & Services	2	2	2	2	2
Haddington Town House repairs	0	0	90	0	0
Grants	12	0	3	3	3
Total Expenditure	14	2	95	5	5
Income					
Rents	(34)	(34)	0	0	0
Interest / Investment Income	(3)	(2)	(2)	(2)	(2)
Total Income	(37)	(36)	(2)	(2)	(2)
Net Surplus for the Year	(23)	(34)	93	3	3
Common Good Fund opening balance	(438)	(461)	(495)	(402)	(399)
Accumulated fund	(461)	(495)	(402)	(399)	(396)
Proposals under consideration					
None					

Musselburgh Common Good

Income & Expenditure Budget

	Actual 2011/12 £000	Budget 2012/13 £000	Budget 2013/14 £000	Budget 2014/15 £000	Budget 2015/16 £000
Expenditure					
Premises Repairs & Maintenance	15	40	30	30	30
Premises - Utilities	1	3	1	1	1
Premises - Rates	9	10	15	15	15
Premises - Cleaning & Janitorial	19	35	21	22	23
Supplies & Services	32	41	32	33	34
Grants	39	30	90	90	90
Repairs to Inveresk Wall	0	0	500	0	0
Brunton Hall	0	90	0	0	0
Brunton Hall - Doors	0	0	55	0	0
Total Expenditure	115	249	744	191	193
Income					
Ash Lagoons	-23	-80	0	0	0
Rents	-364	-300	-345	-345	-345
Interest / Investment Income	-76	-30	-69	-69	-69
Total Income	-463	-410	-414	-414	-414
Net Surplus for the Year	-348	-161	330	-223	-221
Common Good Fund opening balance	-2,924	-3,272	-3,433	-3,103	-3,326
Accumulated fund	-3,272	-3,433	-3,103	-3,326	-3,547

North Berwick Common Good
Income & Expenditure Budget

	Actual 2011/12 £000	Budget 2012/13 £000	Budget 2013/14 £000	Budget 2014/15 £000	Budget 2015/16 £000
Expenditure					
Premises Costs - Repairs & Maintenance	2	0	3	3	3
Premises Costs - Rates	2	2	3	3	3
Supplies & Services	2	2	3	3	3
Grants	3	0	10	10	10
Total Expenditure	9	4	19	19	19
Income					
Rents	(34)	(30)	(33)	(33)	(33)
Interest / Investment Income	(5)	(3)	(4)	(4)	(4)
Total Income	(39)	(33)	(37)	(37)	(37)
Net Surplus for the Year	(30)	(29)	(18)	(18)	(18)
Common Good Fund opening balance	(161)	(191)	(220)	(238)	(256)
Accumulated fund	(191)	(220)	(238)	(256)	(274)