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REPORT TO: East Lothian Council (COVID-19 Emergency Recess Arrangements)

MEETING DATE:

BY: Depute Chief Executive (Resources & People Services)

SUBJECT: Common Good Funds – Budget Development 2020-2023

1 PURPOSE

- 1.1 To consider the financial implications and on-going risks relating to COVID-19 on the Common Good Funds, and to approve the budgets for Dunbar, Haddington, Musselburgh and North Berwick Common Good Fund for 2020/21 and indicative budgets for 2021-2023.

2 RECOMMENDATIONS

- 2.1 The Council is recommended to:
- Note financial implications and risks relating to COVID-19 on the Common Good Funds;
 - Approve the 2020-23 budget for Dunbar, Haddington, Musselburgh and North Berwick Common Good Fund as set out in Appendices 2a-2d.

3 BACKGROUND

- 3.1 The Council's approved Standing Orders and Scheme of Administration states the following:
- Council will approve an annual budget for each of the Common Good Funds that will include provision for the maintenance of assets and any committed items of expenditure.
 - Each Common Good Committee has authority to:
 - Award a grant of up to £10,000

- Approve revenues expenditure of up to £10,000 for the maintenance of the assets of the fund provided that any individual award can be met within the overall approved budget.
 - Each application for a grant will be considered on its own merits. The Committee must consider whether or not it is a reasonable judgement for them to consider making a disbursement of funds from the Common Good Fund for the benefit of the Community.
 - The Common Good Committees may make recommendations to the Head of Council Resources in relation to expenditure over £10,000. The Head of Council Resources will prepare a report for Council referencing any such recommendations received but making their own recommendation, taking into account budgetary considerations. Council will make the decision on any matter involving expenditure of more than £10,000.
- 3.2 Common Good investment income and funds should be used to maintain the Common Good asset base with any surplus funds being used to benefit the inhabitants of the area covered by the funds.
- 3.3 The development of Common Good budgets each year takes into consideration the following key components:
- Previous year accounts and associated balances;
 - Projected expenditure commitments in particularly relating to on-going repairs and maintenance of Common Good assets;
 - Projected income to the funds relating to rental income and investment income.
- 3.4 At the heart of any budgetary considerations relating to the Common Good funds, a pre-requisite is for the on-going financial stewardship and sustainability of the Common Good funds to ensure that they can continue to benefit the inhabitants of the former Burghs in the years to come.
- 3.5 The funds have traditionally forecast to deliver a surplus, with levels of grants available to support the community set at a reasonable level to ensure the fund values could continue to meet current obligations and sustain a value of investment for future benefit.

Budget Development

- 3.6 In recent years the Council has considered Common Good budgets at its meeting in June of each year, the timing of which allows consideration of the draft previous year financial accounts and associated balances. It should be recognised that the previous year draft balances are subject to change pending completion of the audited accounts.
- 3.7 A reminder of the closing 2018/19 balances is set out in **Appendix 1** of this report. These balances are adjusted to remove the impact of unrealised gains arising from investments during the year to arrive at an

overall true current available position. However, the impact of unrealised gains and indeed potential losses remain a considerable budgetary focus to ensure the on-going liquidity and longevity of the fund.

3.8 In addition, there are emerging implications arising as a result of the on-going COVID 19 situation, which may have a significant implication on the Common Good funds both in 2020/21 and beyond. The full implications will not be known until later in the year but some of the key areas of concern are set out below:

- The consolidation of the 2019/20 accounts has resulted in a reduction in the overall value of our fund investments and a significant in-year loss of investment return. During 2019/20 there will be a presentational accounting adjustment in the wider reserves which will increase the general usable reserve value, but overall the fall in investments have had a significant impact on Common Good general balances. The accounts are still being finalised and more details on the outcome of this will be provided to members in due course.
- Given the COVID-19 implications on the economy, there are increased risks relating to the fund investment levels and expected returns for 2020/21 and beyond, due to the very challenging economic market conditions. The Council's investment advisors are suggesting that at best next year we will not deliver an in-year return with the potential for a loss. It is also expected that overall fund values could fall by between 3% and 10% in 2020. Current forecasts do, however, expect a recovery during 2021/22, but much of this is dependent on the wider economic recovery following COVID-19. There is a need to consider the implications of this to ensure the on-going viability of the funds aligned to the Investment strategy of ensuring the long-term benefits of the Common Good investment funds.
- There are increased risks relating to the rental income which is used to support the funds, with a number of our leaseholders seeking a payment holiday or deferment on their rent. This risk is increased as the implications of COVID-19 continue.

3.9 Alongside this, work has and continues to progress to review the Common Good funds in line with Council decision; however, progress on this is currently on hold to enable officers to focus on the response to COVID-19. As a reminder, the main focus of the review has related to:

- Legal review of Common Good properties;
- Review of Common Good properties to ascertain the scale of potential liability, which may be required to support Common Good assets/properties going forward.

3.10 These areas remain under review, but any implications may have a significant impact on any future budgets, particularly ensuring the on-going

fund values can continue to support the repairs and maintenance of the Common Good asset base.

3.11 Despite these enhanced risks, there remains a requirement for the Council to consider respective Common Good budgets. Indicative budgets for 2020/21 and beyond were approved by Council in June 2019. These budgets have been updated with the following assumptions:

- Given the implications arising from COVID-19, there is no expectation that any investment return will be generated during the year. It is assumed that from 2021/22 anticipated investment returns will revert back to historical levels. It should also be noted that there is no assumption of any potential investment loss. Given the current forecast market conditions, this position must be kept under close review.
- No assumption has been made relating to the implications arising from the wider Common Good review.
- The 2019/20 draft accounts are still being finalised, and therefore the fund balances remain in draft pending finalisation of the 2019/20 audited accounts.

3.12 Draft budgets for 2020-2023 for each of the four Common Good Funds are set out in Appendix 2a-d of this report for consideration and approval.

4 POLICY IMPLICATIONS

4.1 There are no direct policy implications associated with this report although ongoing monitoring and reporting of the Council's financial performance is a key part of the approved Financial Strategy.

5 INTEGRATED IMPACT ASSESSMENT

5.1 The subject of this report has been considered and given there is no change in policy direction, there is no requirement to undertake any further impact assessment.

6 RESOURCE IMPLICATIONS

6.1 Financial – as described above

6.2 Personnel - none

6.3 Other – none

7 BACKGROUND PAPERS

7.1 Council 25 June 2019 – Item 5 – Common Good Budgets 2019-2022

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DATE	11 May 2020

Appendix 1 – Common Good Fund Balances 2018/19

Fund	General Fund Balance March 2019 £'000	A/c adj unrealised gains / loss £'000	Usable General Fund Balance £'000
Dunbar	156	7	149
Haddington	575	21	554
Musselburgh	6,420	809	5,611
North Berwick	473	46	427
TOTAL	7,624	883	6,741

Appendix 2 - Summary

Consolidated Common Good

Income & expenditure Budget

£000

	Approved budgets June 2019			Draft Budgets - May 2020		
	Budget 2019/20	Budget 2020/21	Budget 2021/22	Budget 2020/21	Budget 2021/22	Budget 2022/23
Expenditure						
Premises Repair & Maintenance	118	68	68	68	68	68
Premises - Rates	29	29	29	29	29	29
Supplies & Services	54	54	54	54	54	54
Asset reviews: surveyor and legal costs	50	0	0	0	0	0
Grants	174	174	174	174	174	174
Grant - Fireworks	18	18	18	18	18	18
Total Expenditure	443	343	343	343	343	343
Income						
Rents & Other Income	-446	-446	-446	-446	-446	-446
Interest / Investment Income	-57	-57	-57	0	-57	-57
Dividend income	-98	-98	-98	0	-98	-98
Total Income	-601	-601	-601	-446	-601	-601
Cost of Services	-158	-258	-258	-103	-258	-258
Other Accounting Entries						
Net Surplus for the year	-158	-258	-258	-103	-258	-258
Common Good Balance *	-6,741	-6,899	-7,157	-6,899	-7,002	-7,260
Accumulated Fund	-6,899	-7,157	-7,415	-7,002	-7,260	-7,518

* Note adjusted to remove accounting implications relating to unrealised gains / loss

Appendix 2a

Dunbar Common Good

Income & expenditure Budget

£000

	Approved budgets June 2019			Draft Budgets - May 2020		
	Budget 2019/20	Budget 2020/21	Budget 2021/22	Budget 2020/21	Budget 2021/22	Budget 2022/23
Expenditure						
Premises Repair & Maintenance	20	20	20	20	20	20
Supplies & Services	2	2	2	2	2	2
Asset reviews: surveyor and legal costs	8	0	0	0	0	0
Grants	4	4	4	4	4	4
Total Expenditure	34	26	26	26	26	26
Income						
Rents & Other Income	-24	-24	-24	-24	-24	-24
Interest / Investment Income	-1	-1	-1	0	-1	-1
Dividend income	-1	-1	-1	0	-1	-1
Total Income	-26	-26	-26	-24	-26	-26
Cost of Services	8	0	0	2	0	0
Other Accounting Entries						
Net Surplus for the year	8	0	0	2	0	0
Common Good Balance *	-149	-141	-141	-141	-139	-139
Accumulated Fund	-141	-141	-141	-139	-139	-139

* Note adjusted to remove accounting implications relating to unrealised gains / loss

Appendix 2b

Haddington Common Good Income & expenditure Budget £000

	Approved budgets June 2019			Draft Budgets - May 2020		
	Budget 2019/20	Budget 2020/21	Budget 2021/22	Budget 2020/21	Budget 2021/22	Budget 2022/23
Expenditure						
Premises Repair & Maintenance	5	2	2	2	2	2
Supplies & Services	4	4	4	4	4	4
Asset reviews: surveyor and legal costs	3	0	0	0	0	0
Grants	10	10	10	10	10	10
Total Expenditure	22	16	16	16	16	16
Income						
Rents & Other Income	0	0	0	0	0	0
Interest / Investment Income	-2	-2	-2	0	-2	-2
Dividend income	-2	-2	-2	0	-2	-2
Total Income	-4	-4	-4	0	-4	-4
Cost of Services	18	12	12	16	12	12
Other Accounting Entries						
Net Surplus for the year	18	12	12	16	12	12
Common Good Balance *	-554	-536	-524	-536	-520	-508
Accumulated Fund	-536	-524	-512	-520	-508	-496

* Note adjusted to remove accounting implications relating to unrealised

Appendix 2c

Musselburgh Common Good Income & expenditure Budget £000

	Approved budgets June 2019			Draft Budgets - May 2020		
	Budget 2019/20	Budget 2020/21	Budget 2021/22	Budget 2020/21	Budget 2021/22	Budget 2022/23
Expenditure						
Premises - Repairs & Maintenance	92	45	45	45	45	45
Premises - Rates	24	24	24	24	24	24
Supplies & Services	45	45	45	45	45	45
Asset reviews: surveyor and legal costs	31	0	0	0	0	0
Grants	150	150	150	150	150	150
Grant - Fireworks	18	18	18	18	18	18
Total Expenditure	360	282	282	282	282	282
Income						
Rents & Other Income	-380	-380	-380	-380	-380	-380
Interest / Investment Income	-50	-50	-50	0	-50	-50
Dividend income	-90	-90	-90	0	-90	-90
Total Income	-520	-520	-520	-380	-520	-520
Cost of Services	-160	-238	-238	-98	-238	-238
Other Accounting Entries						
Net Surplus for the year	-160	-238	-238	-98	-238	-238
Common Good Balance *	-5,611	-5,771	-6,009	-5,771	-5,869	-6,107
Accumulated Fund	-5,771	-6,009	-6,247	-5,869	-6,107	-6,345

Appendix 2d

North Berwick Common Good Income & expenditure Budget £000

	Approved budgets June 2019			Draft Budgets - May 2020		
	Budget 2019/20	Budget 2020/21	Budget 2021/22	Budget 2020/21	Budget 2021/22	Budget 2022/23
Expenditure						
Premises - Repairs & Maintenance	1	1	1	1	1	1
Premises - Rates	5	5	5	5	5	5
Supplies & Services	3	3	3	3	3	3
Asset reviews: surveyor and legal costs	8	0	0	0	0	0
Grants	10	10	10	10	10	10
Total Expenditure	27	19	19	19	19	19
Income						
Rents & Other Income	-42	-42	-42	-42	-42	-42
Interest / Investment Income	-4	-4	-4	0	-4	-4
Dividend income	-5	-5	-5	0	-5	-5
Total Income	-51	-51	-51	-42	-51	-51
Cost of Services	-24	-32	-32	-23	-32	-32
Other Accounting Entries						
Net Surplus for the year	-24	-32	-32	-23	-32	-32
Common Good Balance *	-427	-451	-483	-451	-474	-506
Accumulated Fund	-451	-483	-515	-474	-506	-538

* Note adjusted to remove accounting implications relating to unrealis