

**REPORT TO:** East Lothian Council

**MEETING DATE:** 27 April 2021

**BY:** Executive Director for Council Resources

**SUBJECT:** Common Good Funds – Budget Development 2021-2024

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## **1 PURPOSE**

- 1.1 To consider the financial implications and ongoing 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 2021/22 and indicative budgets for 2022-2024.

## **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 2021-24 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 revenue expenditure of up to £10,000 for the maintenance of the assets of the fund, if 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 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 Chief Financial Officer in relation to expenditure over £10,000, who 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 ongoing 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 budgets have been prepared in advance of finalising the year-end position, and as such, draft balances are subject to change pending completion of the audited accounts.
- 3.7 A reminder of the 2019/20 closing audited usable reserve balances is set out in **Appendix 1** of this report, which had increased by £2.059 million to £9.683 million during the year, most of which related to a reclassification of the Capital Adjustment Account balance following a review of the legislative framework in relation to Common Good funds.
- 3.8 Fund balances at 31 March 2020 include accumulated fair value gains on financial instrument investments of £476,000. These gains are unrealised and should be regarded as deferred gains, i.e. they are profits on paper and will only be available for use if and when investments are sold. It would not be

considered prudent for these gains to be used until they are realised, therefore the funds available as shown in Appendix 1 are £9.207m split across the four Common Good Funds. The impact of unrealised gains, and indeed potential losses, however, remains a considerable budgetary focus to ensure the ongoing liquidity and longevity of the fund.

3.9 The Common Good fund balances represent the residual net assets of each Common Good fund. Consideration should be given to the fact that the reported level of usable reserves includes balances attributable to inalienable property assets, which are not available for sale. In effect the means by which the value of these assets will be realised by the Common Good is continued use in service rather than any potential sale, disposal or distribution.

3.10 In addition, officers continue to monitor the financial implications arising from COVID-19, including any impact on wider investment returns, and rental income with more details set out below.

- The consolidation of the 2020/21 accounts has resulted in an increase in the overall value of our fund investments, reflecting a recovery in the unrealised fair value of the portfolio. Losses on actual sales of investments in the year have been largely offset by dividend income from holdings. The accounts are still being finalised and more details on the outcome of this will be provided to members in due course.
- The Council's investment advisors are continuing to suggest that the global economy will continue to recover during 2021/22, but much of this is dependent on the wider economic recovery following COVID-19 and as such, there continues to remain some risk around the future level of investment return and the fair value of investments. Officers continue to engage with Investment Advisers, and consider any necessary action aligned to the Treasury Investment Strategy should there be any significant change to fund projections. The need to ensure the ongoing viability of the funds is essential to ensure the long-term benefits of the Common Good investment funds.
- Officers continue to monitor the rental income to ensure income is secured, in particular for those leaseholders who had secured a rental payment holiday approved during 2020/21 COVID interventions.

3.11 Alongside this, work continues to progress to review the Common Good funds in line with Council decision. 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 maintenance, capital investment and operational cost commitments, which may be required to support Common Good assets/properties going forward.

3.12 These areas remain under review, but any implications may have a significant impact on any future budgets, particularly ensuring the ongoing fund values can continue to support the repairs and maintenance of the Common Good asset

base. The existing historic cost element of depreciation charges, which affects the Common Good usable reserve balances, will also be increased by the addition of any assets that are deemed to be owned by the Common Good as part of the review.

3.13 Despite these enhanced risks, there remains a requirement for the Council to consider respective Common Good budgets. Council approved indicative budgets for 2021/22 to 2022/23 in May 2020. These budgets have been updated with the following assumptions:

- Based on commentary from the appointed investment managers, it is forecast that from 2021/22, the global economy is projected to grow and hence positive investment returns are anticipated. Given the current forecast market conditions, this position must be kept under close review.
- In relation to unrealised gains and losses on investments, it is considered that it would not be prudent to set an expenditure budget based on such income. The budget is therefore proposed as zero. Any loss in fair value will affect Common Good balances; however, an assumption of no losses in the year is considered consistent with the investment manager's forecast of economic growth and recovery.
- No assumption has been made relating to the implications arising from the wider Common Good review.
- The historic cost element of depreciation charges is now included in the budgets following an accounting change approved during 2019/20.
- The 2020/21 draft accounts are still being finalised, and therefore the fund balances remain in draft pending finalisation of the audited accounts.

3.14 Draft budgets for 2021-2024 for each of the four Common Good Funds are set out in Appendix 2a-d of this report for consideration and approval. It should be noted that a further adjustment to these budgets might need to be made subject to approval of an application being considered as a separate item on the Council agenda.

## **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 Emergency Recess - Approval of Reports 26 May 2020 Common Good Budgets 2020-2023

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**Appendix 1 - Common Good Fund Balances 2019/20**

<b>Fund</b>	<b>Fund Balance</b>	<b>Unrealised Fair Value Gains on Investments</b>	<b>Common Good Fund balances (Excluding Investments fair value movements)</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Dunbar	898	4	894
Haddington	531	11	520
Musselburgh	7,331	436	6,895
North Berwick	923	25	898
<b>TOTAL</b>	<b>9,683</b>	<b>476</b>	<b>9,207</b>

## Appendix 2 - Summary

### Consolidated Common Good Income & expenditure Budget

	Approved	Draft budgets		
	Budget 2020/21 £000	Indicative 2021/22 £000	Adjusted 2022/23 £000	Budgets 2023/24 £000
<b>Expenditure</b>				
Premises - Repairs & Maintenance	68	68	68	68
Premises - Rates	29	29	29	29
Supplies & Services	54	70	70	70
Grants	192	192	192	192
Depreciation	0	83	83	83
<b>Total Expenditure</b>	<b>343</b>	<b>442</b>	<b>442</b>	<b>442</b>
<b>Income</b>				
Rents & Other Income	-446	-446	-446	-446
Interest / Investment Income (inc realised gains and losses on sale of investments) *	0	-2	-2	-2
Dividend income *	0	-98	-98	-98
<b>Total Income</b>	<b>-446</b>	<b>-546</b>	<b>-546</b>	<b>-546</b>
<b>Cost of Services</b>	<b>-103</b>	<b>-104</b>	<b>-104</b>	<b>-104</b>
<b>Net Surplus for the year</b>	<b>-103</b>	<b>-104</b>	<b>-104</b>	<b>-104</b>
Common Good Balance *	-9,207	-9,310	-9,414	-9,518
<b>Accumulated Fund</b>	<b>-9,310</b>	<b>-9,414</b>	<b>-9,518</b>	<b>-9,622</b>

\* Excluding unrealised gains and losses on the fair value of investments

## Appendix 2a

### Dunbar Common Good Income & expenditure Budget

	Approved	Draft budgets		
	Budget 2020/21 £000	Indicative Adjusted Budgets		
		2021/22 £000	2022/23 £000	2023/24 £000
<b>Expenditure</b>				
Premises - Repairs & Maintenance	20	20	20	20
Premises - Rates	0	0	0	0
Supplies & Services	2	4	4	4
Grants	4	4	4	4
Depreciation		27	27	27
<b>Total Expenditure</b>	<b>26</b>	<b>55</b>	<b>55</b>	<b>55</b>
<b>Income</b>				
Rents & Other Income	-24	-17	-17	-17
Interest / Investment Income (inc realised gains and losses on sale of investments) *	0	0	0	0
Dividend income *	0	-1	-1	-1
<b>Total Income</b>	<b>-24</b>	<b>-18</b>	<b>-18</b>	<b>-18</b>
<b>Cost of Services</b>	<b>2</b>	<b>37</b>	<b>37</b>	<b>37</b>
<b>Net Surplus for the year</b>	<b>2</b>	<b>37</b>	<b>37</b>	<b>37</b>
Common Good Balance *	-894	-892	-855	-818
<b>Accumulated Fund</b>	<b>-892</b>	<b>-855</b>	<b>-818</b>	<b>-781</b>

\* Excluding unrealised gains and losses on the fair value of investments



## Appendix 2b

### Haddington Common Good Income & expenditure Budget

	Approved	Draft budgets		
	Budget	Indicative Adjusted Budgets		
	2020/21	2021/22	2022/23	2023/24
	£000	£000	£000	£000
<b>Expenditure</b>				
Premises - Repairs & Maintenance	2	2	2	2
Premises - Rates	0	0	0	0
Supplies & Services	4	7	7	7
Grants	10	10	10	10
Depreciation		0	0	0
<b>Total Expenditure</b>	<b>16</b>	<b>19</b>	<b>19</b>	<b>19</b>
<b>Income</b>				
Rents & Other Income	0	-27	-27	-27
Interest / Investment Income (inc realised gains and losses on sale of investments) *	0	0	0	0
Dividend income *	0	-2	-2	-2
<b>Total Income</b>	<b>0</b>	<b>-29</b>	<b>-29</b>	<b>-29</b>
<b>Cost of Services</b>	<b>16</b>	<b>-10</b>	<b>-10</b>	<b>-10</b>
<b>Net Surplus for the year</b>	<b>16</b>	<b>-10</b>	<b>-10</b>	<b>-10</b>
Common Good Balance *	-520	-504	-514	-524
<b>Accumulated Fund</b>	<b>-504</b>	<b>-514</b>	<b>-524</b>	<b>-534</b>

\* Excluding unrealised gains and losses on the fair value of investments

## Appendix 2c

### Musselburgh Common Good Income & expenditure Budget

	Approved	Draft budgets		
	Budget 2020/21 £000	Indicative 2021/22 £000	Adjusted 2022/23 £000	Budgets 2023/24 £000
<b>Expenditure</b>				
Premises - Repairs & Maintenance	45	45	45	45
Premises - Rates	24	24	24	24
Supplies & Services	45	52	52	52
Grants	150	150	150	150
Fireworks Grant	18	18	18	18
Depreciation		51	51	51
<b>Total Expenditure</b>	<b>282</b>	<b>340</b>	<b>340</b>	<b>340</b>
<b>Income</b>				
Rents & Other Income	-380	-364	-364	-364
Interest / Investment Income (inc realised gains and losses on sale of investments) *	0	-2	-2	-2
Dividend income *	0	-90	-90	-90
<b>Total Income</b>	<b>-380</b>	<b>-456</b>	<b>-456</b>	<b>-456</b>
<b>Cost of Services</b>	<b>-98</b>	<b>-116</b>	<b>-116</b>	<b>-116</b>
<b>Net Surplus for the year</b>	<b>-98</b>	<b>-116</b>	<b>-116</b>	<b>-116</b>
Common Good Balance *	-6,895	-6,993	-7,109	-7,225
<b>Accumulated Fund</b>	<b>-6,993</b>	<b>-7,109</b>	<b>-7,225</b>	<b>-7,341</b>

\* Excluding unrealised gains and losses on the fair value of investments

## Appendix 2d

### North Berwick Common Good Income & expenditure Budget

	Approved	Draft budgets		
	Budget 2020/21 £000	Indicative Adjusted Budgets		
		2021/22 £000	2022/23 £000	2023/24 £000
<b>Expenditure</b>				
Premises - Repairs & Maintenance	1	1	1	1
Premises - Rates	5	5	5	5
Supplies & Services	3	7	7	7
Grants	10	10	10	10
Depreciation		5	5	5
<b>Total Expenditure</b>	<b>19</b>	<b>28</b>	<b>28</b>	<b>28</b>
<b>Income</b>				
Rents & Other Income	-42	-38	-38	-38
Interest / Investment Income (inc realised gains and losses on sale of investments) *	0	0	0	0
Dividend income *	0	-5	-5	-5
<b>Total Income</b>	<b>-42</b>	<b>-43</b>	<b>-43</b>	<b>-43</b>
<b>Cost of Services</b>	<b>-23</b>	<b>-15</b>	<b>-15</b>	<b>-15</b>
<b>Net Surplus for the year</b>	<b>-23</b>	<b>-15</b>	<b>-15</b>	<b>-15</b>
Common Good Balance *	-898	-921	-936	-951
<b>Accumulated Fund</b>	<b>-921</b>	<b>-936</b>	<b>-951</b>	<b>-966</b>

\* Excluding unrealised gains and losses on the fair value of investments