

REPORT TO: East Lothian Council

MEETING DATE: 28 June 2022

BY: Executive Director for Council Resources

SUBJECT: Common Good Budget 2022/23

1 PURPOSE

- 1.1 To provide an update on Common Good Funds, and consider a budget for 2022/23, noting the status of financial implications arising from Common Good review.

2 RECOMMENDATIONS

- 2.1 The Council is recommended to:
- Note financial implications and risks relating to the current economic climate and on-going financial review of Common Good;
 - Approve the 2022/23 grants budget for Dunbar, Haddington, Musselburgh, North Berwick as set out in Appendices 2a-2d, noting the context for future budget development.

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.

Budget Development

- 3.3 Council approved the budgets for 2021/22 and indicative draft budgets for 2022/23 and 2023/24 in April 2021.
- 3.4 These budgets are updated annually, and take into consideration the following key components:
- a. Previous year review and updated fund balances;
 - b. Roll forward of indicative budgets, taking into consideration any updated assumptions relating to:
 - 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.
- 3.5 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.

2021/22 Financial Position

- 3.6 The draft 2021/22 closing usable reserve balances is set out in **Appendix 1** of this report, with overall fund balances increased by £0.753 million to £12.582 million during the year. These figures remain draft and subject to change pending completion of the audited accounts.
- 3.7 Fund balances at 31 March 2022 include accumulated fair value gains on financial instrument investments of £1.291 million. 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 investments are sold. It would not be prudent for these gains to be used until they are realised, therefore the funds available as shown in **Appendix 1** as at March 2022 is £11.291 million, and is set out across each of the 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.

3.8 The fund balances also reflect the value of Common Good property assets. Some properties are inalienable and therefore their values cannot be realised through sale of assets. 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.

3.9 In addition, officers continue to monitor the financial implications arising from the current economic climate including inflation and any impact on wider investment returns, and rental income with more details set out below.

- Investment holdings including liquid assets e.g. sterling deposits have a balance of £3.897 million as at 31 March 2022 (March 2021 £3.679 million). The consolidation of the 2021/22 accounts has resulted in an increase in the overall value of our fund investments of around 6%. 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 have indicated that the global bond and equity markets have sustained capital losses during the first 3 months of 2022, but that the picture is much improved at the end of the quarter compared to how it looked at the beginning of March. 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 investments.
- Officers continue to monitor the rental income to ensure income is secured.

Financial Implications from Common Good Review

3.10 Alongside this, work continues to progress to review the Common Good funds in line with previous Council decision. To date, this has focused on the implications arising from a legal review of Common Good properties and wider consultation, with an initial outcome reported to MLS in November 2021, and adjustments reflected in 2020/21 accounts to reflect transferred land assets.

3.11 The outcome of this work remains subject to ongoing review, and will take into consideration an enhanced asset management plan which will support future revenue and capital investment requirements to support these wider Common Good assets/properties. These may require significant financial investment, which will need to be considered in setting 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 for any building assets, 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.

- 3.12 Whilst some progress has been made, the extent to finalising this work has been limited due to on-going prioritisation of business continuity critical areas during 2021/22.

Draft 2022/23 Budgets

- 3.13 Whilst recognising there are a wide range of variables which may impact on future budgets, this must be balanced alongside the requirement for Common Good committees to have certainty in approved budgets to consider any grant applications during 2022/23.
- 3.14 As such, it is recommended Council approves a 2022/23 budget, which has been rolled forward from previous approved indicative budget, and updated with the assumptions set out in the section below. Future years' budgets will be considered at a later date pending finalisation of the wider review, and future Common Good Budget development to be set within the context of medium term financial planning.
- Based on commentary from the appointed investment managers, and current forecast market conditions, no assumption has been made to reflect an investment return during 2022/23. This position will remain under close review during the financial year.
 - No assumption has been made relating to the wider financial implications arising from the Common Good review as detailed in paragraphs 3.11 to 3.13 above.
 - Grant levels for each of the Common Good funds remains consistent with approved 2021/22 levels.
 - The 2021/22 draft accounts are still being finalised, and therefore the fund balances remain in draft pending finalisation of the audited accounts.
- 3.15 Draft budget for 2022-2023 for each of the 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 application being considered as a separate item on 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 7.1 Council 27 April 2021 – Item 4 – Common Good Budget Development (2021-24)

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Appendix 1 - Common Good Fund Balances 2021/22

Fund	Fund Balance	Balance Related to Unrealised Fair Value Gains on Investments	Common Good Fund balances (Excluding Investments fair value movements)
<i>Balances at 31/03/2022 (subject to audit)</i>	£'000	£'000	£'000
Dunbar	1,007	11	996
Haddington	797	30	767
Musselburgh	9,091	1,182	7,909
North Berwick	1,687	68	1,619
TOTAL	12,582	1,291	11,291

Appendix 2 - Summary

Consolidated Common Good Income & expenditure Budget

	Approved	Draft budgets
	Budget 2021/22 £000	Indicative Budgets 2022/23 £000
Expenditure		
Premises - Repairs & Maintenance	68	97
Premises - Rates	29	29
Supplies & Services	70	61
Grants	192	199
Depreciation	83	86
Total Expenditure	442	472
Income		
Rents & Other Income	-446	-488
Interest / Investment Income (inc realised gains and losses on sale of investments) *	-2	-2
Dividend income *	-98	-83
Total Income	-546	-573
Cost of Services	-104	-101
Net Surplus for the year	-104	-101
Common Good Balance *	-9,310	-11,291
Accumulated Fund	-9,414	-11,392

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

Appendix 2a

Dunbar Common Good Income & expenditure Budget

	Approved	Draft budgets
	Budget 2021/22 £000	Indicative Budgets 2022/23 £000
Expenditure		
Premises - Repairs & Maintenance	20	20
Premises - Rates	0	0
Supplies & Services	4	4
Grants	4	4
Depreciation	27	30
Total Expenditure	55	58
Income		
Rents & Other Income	-17	-19
Interest / Investment Income (inc realised gains and losses on sale of investments) *	0	0
Dividend income *	-1	-1
Total Income	-18	-20
Cost of Services	37	38
Net Deficit for the year	37	38
Common Good Balance *	-892	-996
Accumulated Fund	-855	-958

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

Appendix 2b

Haddington Common Good Income & expenditure Budget

	Approved	Draft budgets
	Budget	Indicative Budgets
	2021/22	2022/23
	£000	£000
Expenditure		
Premises - Repairs & Maintenance	2	1
Premises - Rates	0	0
Supplies & Services	7	1
Grants	10	10
Depreciation	0	0
Total Expenditure	19	12
Income		
Rents & Other Income	-27	-27
Interest / Investment Income (inc realised gains and losses on sale of investments) *	0	0
Dividend income *	-2	-2
Total Income	-29	-29
Cost of Services	-10	-17
Net Surplus for the year	-10	-17
Common Good Balance *	-504	-767
Accumulated Fund	-514	-784

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

Appendix 2c

Musselburgh Common Good Income & expenditure Budget

	Approved	Draft budgets
	Budget 2021/22 £000	Indicative Budgets 2022/23 £000
Expenditure		
Premises - Repairs & Maintenance	45	45
Premises - Rates	24	24
Supplies & Services	52	52
Grants	150	150
Fireworks Grant	18	25
Depreciation	51	51
Total Expenditure	340	347
Income		
Rents & Other Income	-364	-404
Interest / Investment Income (inc realised gains and losses on sale of investments) *	-2	-2
Dividend income *	-90	-76
Total Income	-456	-482
Cost of Services	-116	-135
Net Surplus for the year	-116	-135
Common Good Balance *	-6,993	-7,909
Accumulated Fund	-7,109	-8,044

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

Appendix 2d

North Berwick Common Good Income & expenditure Budget

	Approved	Draft budgets
	Budget 2021/22 £000	Indicative Budgets 2022/23 £000
Expenditure		
Premises - Repairs & Maintenance *2	1	31
Premises - Rates	5	5
Supplies & Services	7	4
Grants	10	10
Depreciation	5	5
Total Expenditure	28	55
Income		
Rents & Other Income	-38	-38
Interest / Investment Income (inc realised gains and losses on sale of investments) *	0	0
Dividend income *	-5	-4
Total Income	-43	-42
Cost of Services	-15	13
Net Surplus for the year	-15	13
Common Good Balance *	-921	-1,619
Accumulated Fund	-936	-1,606

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

*2 Building repair costs of £30K anticipated in 2022/23