

REPORT TO: East Lothian Council

MEETING DATE: 27 June 2023

BY: Executive Director for Council Resources

SUBJECT: Common Good Budget 2023/24

1 PURPOSE

- 1.1 To provide an update on Common Good Funds, and consider a budget for 2023/24, noting the status of financial implications arising from Common Good review, and that a further update will be brought back to Council in October 2023.

2 RECOMMENDATIONS

- 2.1 The Council is recommended to:
- Note the ongoing financial implications and risks relating to the current economic climate and ongoing financial review of Common Good;
 - Approve the 2023/24 grants budget for Dunbar, Haddington, Musselburgh and North Berwick as set out in Appendices 2a-2d, noting the context for future budget development;
 - Agree that given the wider financial challenges, a further update report on the emerging financial risks and associated implications will be brought back to Council in October 2023 for consideration.

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 approve the following for the benefit of the community:
 - 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.
- 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 Common Good budget for 2022/23 in June 2022. 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 ongoing repairs and maintenance of Common Good assets;
 - Projected income to the funds relating to rental income and investment income.
- 3.4 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.

2022/23 Financial Position

- 3.5 The draft 2022/23 financial position set out fund balances of all Common Good Funds including Cockenzie, Port Seton & Tranent at 31 March 2022 of £13.133 million, and is set out in more detail at **Appendix 1** of this report. This position includes accumulated fair value gains on financial instrument investments of £0.664 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. 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.
- 3.6 The fund balances also reflect the historic cost of Common Good property assets amounting to £3.977 million. This excludes any gains from revaluation, which are held in the Revaluation Reserve, and represents the proportion of the value of property assets which the Common Good funds may direct to achieve their objectives. As previously reported to members, 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.

Current Position and Risks

3.7 Council is aware that a wider review of Common Good and associated financial implications for budget development has been ongoing for a number of years. This has included the following areas:

- The review and consultation to identify Common Good Assets has largely been concluded and an asset register is now publicly available online.
- The financial implications associated with this review to formalise arrangements for taxpayers' services use of Common Good assets remains subject to ongoing review, and a wider update on current status will be reported and lodged in Members' Library Services before the June 2023 Council meeting.
- An enhanced asset management plan to support future revenue and capital investment requirements in Common Good assets/properties is currently being updated. This will require significant financial investment in existing common good assets, 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 fund is supported by significant levels of investment which has been subject to ongoing market turbulence and has resulted in a decrease to the value of existing investments during 2022/23. Future investment returns remain subject to ongoing discussion with Treasury Investment advisers; however, given market uncertainty the liquidity and value of these funds remains a key risk. The need to ensure the ongoing viability of the investment funds remains essential to ensure the long-term benefits of the Common Good investments.
- As previously reported to Council there remains significant and ongoing challenges associated with Brunton Hall due to the identification of structural issues related to the use of Reinforced Autoclaved Aerated Concrete (RAAC). Detailed options appraisal surveys to consider viable solutions have been commissioned, but have yet to be finalised. This is likely to have significant financial implications and the affordability of any solution will need to be part of the wider consideration in terms of key next steps.

3.8 Whilst good progress has been made, the extent to finalising this work has continued to be constrained due to key service areas remaining in Business Continuity. In addition, the issue relating to RAAC has only in recent months been identified and officers are working as quickly as they can to undertake the options appraisal surveys.

2023/24 Budgets

- 3.9 Given the wide range of financial and ongoing risks and variables which may impact on future budgets, this must be balanced alongside the requirement for Common Good Committees to have some certainty in approved budgets to consider any grant applications during 2023/24.
- 3.10 As such, it is recommended Council approve a 2023/24 budget, which has been rolled forward from previous approved 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 2023/24. Given the continued market uncertainty, this position will remain under close review during the financial year and remains a key area of risk.
 - No assumption has been made relating to the wider financial implications arising from the Common Good review as detailed above. Given the current emerging risks, this remains a critical area of risk and progress on this work will remain a key area of focus.
 - Grant levels for each of the Common Good funds remains consistent with those approved for 2022/23, the levels of which will remain subject to change given both investment and future asset management investment requirements.
 - The 2022/23 accounts are still being finalised, and therefore the fund balances remain in draft pending finalisation of the audited accounts.
- 3.11 Noting the restrictions set out above, the draft budgets for 2023-2024 for each of the Common Good Funds are set out in **Appendix 2a-d** of this report for consideration and approval.
- 3.12 A further update report will be brought forward to Council in October to provide an update on current progress and status of emerging financial risks. This may include any necessary changes to draft budgets pending clarification on the financial status of the funds.

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 28 June 2022 – Item 4 Common Good Budgets 2022/23

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DATE	15 June 2023

Appendix 1 - Common Good Fund Balances 2022/23

Fund	22/23 Fund Balance	Balance Related to Unrealised Fair Value Gains on Investments	22/23 Fund balances (Excluding Investments fair value movements)	Historic Cost of Property Assets (PPE)	22/23 Fund Balance (excluding FV Investments and Historic Cost of PPE)
<i>Balances at 31/03/2023 (unaudited financial statements)</i>	£'000	£'000	£'000	£'000	£'000
Dunbar	970	6	964	730	234
Haddington	820	15	805	208	597
Musselburgh	9,217	608	8,609	1,489	7,120
North Berwick	1,703	35	1,668	1,135	533
TOTAL*	12,710	664	12,046	3,562	8,484
Cockenzie, Port Seton & Tranent	423		423	415	8
TOTAL COMMON GOOD FUND BALANCE	13,133	664	12,469	3,977	8,492

*Fund balances may be subject to variation based on common good grants awarded since April.

Appendix 2 - Summary

Consolidated Common Good Income & expenditure Budget

	Approved	Draft budgets
	Budget 2022/23 £000	Indicative Budgets 2023/24 £000
Expenditure		
Premises - Repairs & Maintenance	97	97
Premises - Rates	29	29
Supplies & Services	61	61
Grants	199	174
Depreciation	86	86
Total Expenditure	472	447
Income		
Rents & Other Income	-488	-488
Interest / Investment Income (inc realised gains and losses on sale of investments) *	-2	-2
Dividend income *	-83	-83
Total Income	-573	-573
Cost of Services	-101	-126
Net Surplus for the year	-101	-126
Common Good Balance *	-11,292	-12,046
Accumulated Fund	-11,393	-12,172

Appendix 2a

Dunbar Common Good Income & expenditure Budget

	Approved	Draft budgets
	Budget 2022/23 £000	Indicative Budgets 2023/24 £000
Expenditure		
Premises - Repairs & Maintenance	20	20
Premises - Rates	0	0
Supplies & Services	4	4
Grants	4	4
Depreciation	30	30
Total Expenditure	58	58
Income		
Rents & Other Income	-19	-19
Interest / Investment Income (inc realised gains and losses on sale of investments) *	0	0
Dividend income *	-1	-1
Total Income	-20	-20
Cost of Services	38	38
Net Deficit for the year	38	38
Common Good Balance *	-996	-964
Accumulated Fund	-958	-926

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

Appendix 2b

Haddington Common Good Income & expenditure Budget

	Approved	Draft budgets
	Budget 2022/23 £000	Indicative Budgets 2023/24 £000
Expenditure		
Premises - Repairs & Maintenance	1	1
Premises - Rates	0	0
Supplies & Services	1	1
Grants	10	10
Depreciation	0	0
Total Expenditure	12	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	-17	-17
Net Surplus for the year	-17	-17
Common Good Balance *	-767	-805
Accumulated Fund	-784	-822

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

Appendix 2c

Musselburgh Common Good Income & expenditure Budget

	Approved	Draft budgets
	Budget 2022/23 £000	Indicative Budgets 2023/24 £000
Expenditure		
Premises - Repairs & Maintenance	45	45
Premises - Rates	24	24
Supplies & Services	52	52
Grants	150	150
Depreciation	51	51
Total Expenditure	322	322
Income		
Rents & Other Income	-404	-404
Interest / Investment Income (inc realised gains and losses on sale of investments) *	-2	-2
Dividend income *	-76	-76
Total Income	-482	-482
Cost of Services	-160	-160
Net Surplus for the year	-160	-160
Common Good Balance *	-7,910	-8,609
Accumulated Fund	-8,070	-8,769

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

Appendix 2d

North Berwick Common Good Income & expenditure Budget

	Approved	Draft budgets
	Budget 2022/23 £000	Indicative Budgets 2023/24 £000
Expenditure		
Premises - Repairs & Maintenance	31	31
Premises - Rates	5	5
Supplies & Services	4	4
Grants	10	10
Depreciation	5	5
Total Expenditure	55	55
Income		
Rents & Other Income	-38	-38
Interest / Investment Income (inc realised gains and losses on sale of investments) *	0	0
Dividend income *	-4	-4
Total Income	-42	-42
Cost of Services	13	13
Net Surplus for the year	13	13
Common Good Balance *	-1,619	-1,668
Accumulated Fund	-1,606	-1,655

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