

ABERDEEN CITY COUNCIL

COMMITTEE	COUNCIL
DATE	25 February 2016
INTERIM DIRECTOR	Richard Ellis
TITLE OF REPORT	Common Good Budget 2016/17
REPORT NUMBER	CG/16/019
CHECKLIST COMPLETED	Yes

1. PURPOSE OF REPORT

This report provides the draft Common Good budget for 2016/17, for consideration by elected members.

2. RECOMMENDATION(S)

It is recommended that the Council: -

- a) approves the Common Good budget for 2016/17 as detailed in Appendix 1 to this report;
- b) requests the Interim Director of Corporate Governance to undertake a review of the investment strategy for the Common Good Fund; and
- c) considers the new requests for funding which are attached at Appendix 4.

3. FINANCIAL IMPLICATIONS

- 3.1 The report outlines proposals for the Common Good budget for the financial year 2016/17.
- 3.2 It also contains details of the value of the Common Good's cash balances.
- 3.3 A full review of the Common Good budget has been undertaken in line with priority based budgeting principles.

4. OTHER IMPLICATIONS

- 4.1 Common Good funds provide support to a range of services and projects both internal and external to the Council. If funding was not provided there may be a risk that services and projects would no longer be delivered.

5. BACKGROUND/MAIN ISSUES

Introduction

- 5.1 In preparing a draft Common Good budget for 2016/17, the financial strategy approved by the Finance & Resources Committee of 6th December 2012 has been applied.
- 5.2 A report on the origin, history and purposes for which the Common Good may be used was prepared on 15th January 1976, by the then Town Clerk of the City of Aberdeen District Council. The report outlined the following purposes as meeting the required criteria for the use of Common Good monies: -
- upholding the dignity of the City
 - the prudent management, upkeep and improvement of Council property which forms part of the Common Good
 - safeguarding the corporate rights of the community and defending its interests
 - granting of donations to public institutions or charities, providing it is in the interests of the general public of the city.
 - any other purpose, which in the bona fide and reasonable judgment of the Council, is for the good of the community as a whole or which the inhabitants at large may share.
- 5.3 It was also outlined that the prime purpose of the Council is to ensure that the Common Good is prudently conserved.
- 5.4 In addition, recent practice has excluded any activity from receiving assistance from the Common Good which Aberdeen City Council or any other public body has a statutory duty to support.

Projected Out-turn 2015/16

- 5.5 The projected outturn for 2015/16 shows a deficit of £465,000 compared with a budgeted deficit of £534,000.
- 5.6 The favourable movement of £69,000 comparing budget to out-turn is primarily due to underspends in staffing within the Archivist Unit and Civic Support and underspends in Repairs & Maintenance.

Draft Budget 2016/17

- 5.7 In developing the draft Common Good budget for 2016/17, input has been sought from those external bodies currently supported by the Common Good and from various Council officers responsible for the different expenditure and income lines. The draft budget is shown in Appendix 1 below.

5.8 Rental income is based on projections provided by the Asset Management team within Communities, Housing & Infrastructure.

5.9 Appendix 4 outlines those items for which requests for funding have been received. These items are not currently included in the draft budget, and as such, if approved, will use Common Good Fund reserves.

5.10 **Investment Strategy & Cash Balances**

In December 2012 the Finance, Policy & Resources Committee agreed an investment strategy to ensure the long term financial viability of the Common Good. Given the continued economic conditions and also the increased level of cash reserves that the Common Good has through the sale of land it is important that this strategy is reviewed regularly.

Appendix 3 to this report details the assets held by the Common Good Fund and in line with the previously agreed strategy with regard to working balances, the following conclusions should be noted:

1. An upper limit of budget for 2016/17 be set at £3.1 million;
2. A review of Asset Class and Investment Portfolio be reported back to Committee in due course;
3. The principal of ensuring that cash balances be increased annually to take account of inflation should be adhered to;
4. The principal of adhering to maintaining the principal cash held (that is, cash balances should increase in value and should not be utilised) and that interest earned is the only cash made available as part of the budget process; and
5. Over the medium term (5 years) all spend, which does not relate to the running or maintenance of the Common Good Fund, should be non-recurring.

6. **IMPACT**

Improving Customer Experience –

Accurate budget setting and financial planning assists the Council in planning and designing our future service delivery.

Improving Staff Experience –

Good financial information improves good financial management and

helps to track how successful management initiatives, such as service redesign, have been.

Improving our use of Resources –

It is the duty of the Council as trustees of the Common Good to ensure that the cash balances are maintained, and that the Common Good is preserved for future generations.

7. MANAGEMENT OF RISK

- 7.1 Every organisation has to manage the risks inherent in the operation of large and complex budgets. These risks are minimised by the regular review of financial information by services and corporately by elected members. This report is part of that framework.

8. BACKGROUND PAPERS

Finance, Policy and Resources Committee 6th December 2012
(CG12/1024)

9. REPORT AUTHOR DETAILS

Helen Valentine
Finance Manager (Projects)
☎ (52)2098
Email hvalentine@aberdeencity.gov.uk

Ciaran Monaghan
Head of Service, Office of Chief Executive
☎ (52)2293
Email cmonaghan@aberdeencity.gov.uk

Common Good Fund Budget				
Appendix 1		2015/16	2015/16	2016/17
Note		Budget	Outturn	Budget
		£000	£000	£000
	General Properties/Estates			
1	Insurance Costs	16	16	17
2	Repairs and Maintenance	85	50	85
		101	66	102
	Other Expenses			
3	St Nicholas Carillon	6	6	6
4	Printing and Other Sundries	3	3	3
5	Official Catering	17	17	17
		26	26	26
	Donations, Grants, Contributions			
6	Aberdeen Citizen's Advice Bureau	281	281	298
7	Twinning Activities	137	137	137
8	Contributions to Trusts & Festivals	325	325	325
9	Techfest	37	37	37
10	Satrosphere Rent	39	39	42
11	Bulawayo Trust	45	45	45
12	Gomel Trust	22	22	22
13	Mary Garden Prize	2	2	2
14	Quincentenary Prizes	3	3	3
15	Aberdeen Performing Arts Contribution - Stage 1 Agreement	75	75	75
16	Aberdeen Safer Community Trust (ABS SAFE)	58	58	68
17	Youth Activities Small Grant Funding	50	50	50
18	Castlegate Arts Rent	8	8	8
19	Events	71	71	71
20	Lemon Tree Rent	36	36	36
21	Lemon Tree Office Rental	10	10	10
22	Crematorium Bus	38	38	46
23	Hogmanay Celebrations	200	200	200
24	Hazlehead Park - Maintenance & Upgrade Works	30	30	30
25	Commonwealth Travel Bursary Scheme	15	15	20
		1,481	1,481	1,525
	Promoting Aberdeen			
26	Festive Community Grants	4	1	4
27	Civic Support	247	229	248
28	Christmas Illuminations and Festivals	164	164	173
29	Entertainment for Elderly/Disabled Citizens	215	215	215
30	Older Persons Development Officer	19	19	19
31	Civic Receptions	150	135	150
32	Civic Hospitality	20	17	20
		819	780	829
	Other Expenditure			
33	Archivist Unit	203	160	188
34	Central Support Services	120	120	120
		323	280	308
	Other Projects			
35	Home Safety Check Scheme	71	71	71
36	Charity Shop	16	16	16
37	Community Safety Initiatives (ABS SAFE)	2	2	2
		89	89	89

Common Good Fund Budget				
Appendix 1 (cont)		2015/16	2015/16	2016/17
Note		Budget	Outturn	Budget
		£000	£000	£000
	Other Recurring Expenditure			
38	Civic Gift Fund	18	18	18
39	Lord Lieutenancy and other duties	7	6	7
40	Armistice Day Expenses	6	7	6
41	Picture Loan Scheme	15	15	15
42	Business Investment Fund	25	25	25
43	Duthie Park Capital Charges	126	126	126
		196	197	196
	Recurring Expenditure	3,036	2,918	3,075
44	Non Recurring Expenditure Items			
	Lord Provost Portrait	0	0	5
	Energy City Challenge Cup	35	35	0
	Fishing Industry Memorial	50	50	0
	Aberdeen Street Pastors Safe Space Vehicle	20	20	0
	GHAT MRI Scanner Display	7	7	0
	Grove Nursery - Growing our Own Project	100	100	0
	AIYF - Additional Support	20	20	0
	Culter Playing Field Refurbishment	8	8	0
	Satrosphere Refurbishment	20	20	0
	Transition Extreme Capital Improvements	100	100	0
	Denmore Park Play Park	30	30	0
	Culter Village Hall Upgrading Works	15	15	0
	Culter Heritage Hall Access Improvements	5	5	0
	Twinning Anniversaries - Regensburg/Gomel/Stavanger	10	10	0
	Allan Park Cults Cricket Pitches	2	2	0
	Feasibility Study - Arts Centre Redevelopment (FP&R Sept 2015)	30	30	0
	Holmhead Farm - Waygo (FP&R Sept 2015)	0	50	0
	Fernhill Farm - Shed (FP&R Sept 2015)	100	100	0
		552	602	5
	TOTAL ORDINARY EXPENDITURE	3,587	3,520	3,080
45	Income from Properties and Estates	(2,860)	(2,860)	(2,900)
46	Interest on Invested Funds	(123)	(123)	(130)
47	Lands of Skene/Torry (Share of Surplus)	(70)	(70)	(70)
48	Burgesses of Guild and Trade	(0)	(0)	(0)
	Other Income		(1)	
	TOTAL ORDINARY INCOME	(3,053)	(3,054)	(3,100)
	Net (Surplus)/Deficit	534	465	(20)

Appendix 2

Notes to accompany Common Good Budget

Note 1

This budget is used to insure properties owned by the Common Good.

Note 2

This is a budget for repairs and maintenance costs for properties owned by the Common Good.

Note 3

This represents a contribution towards the fees paid to the Carillonneur.

Note 4

This budget is for items including the printing of the Town House brochure and promoting the Office of the Lord Provost.

Note 5

This budget is to provide refreshments during official City Council business.

Note 6

This represents core funding for Aberdeen Citizen's Advice Bureau.

Note 7

This funding is for the provision of financial and organisational support to people, communities and organisations in the City wishing to become involved in twin city projects, and also contributes to the costs of a Twinning Officer.

Note 8

This is a contribution towards the costs of Aberdeen International Youth Festival, Aberdeen Performing Arts and Peacock Visual Arts.

Note 9

This represents a contribution towards the running costs of the City's annual Techfest festival, held in various venues throughout the City during September.

Note 10

This is a grant to cover the cost of Satrosphere's rental of premises from Aberdeen City Council.

Note 11

This is a contribution towards the Aberdeen Bulawayo Trust, which provides support to people in Bulawayo, primarily focusing on the development of self-sustaining market gardens and the repair and maintenance of homes and shelters.

Note 12

This is a contribution towards the Aberdeen Gomel Trust, which addresses and helps to resolve the medical, nutritional, social and spiritual problems experienced by the people of Gomel.

Note 13

This is funding for the Mary Garden Prize, currently presented as part of the Aberdeen International Youth Festival.

Note 14

This budget covers 3 annual £1,000 awards for the Quincentenary Prize, presented by the University of Aberdeen since 1995 to commemorate the 500th Anniversary of King's College.

Note 15

This provides match funding for Aberdeen Performing Arts in relation to a grant awarded by Creative Scotland towards the costs of programming at His Majesty's Theatre.

Note 16

This represents core funding for Aberdeen Safer Community Trust.

Note 17

This is funding for the City Council youth activity small grants scheme. This scheme offers young people opportunities to contribute to their own communities and to the life of the city.

Note 18

This is a grant to cover the cost of the rental of the Arts Centre.

Note 19

This is funding towards the costs of organising specific events as details in the events programme.

Note 20

This is a grant to cover the cost of the rental of the Lemon Tree.

Note 21

This is a grant to cover the cost of renting an office next to the Lemon Tree Theatre.

Note 22

This is a budget to provide for a bus service to the crematorium.

Note 23

This is to fund the City's Hogmanay celebrations.

Note 24

This is a budget towards the costs of maintenance and upgrade works at Hazlehead Park.

Note 25

This is to fund the Diamond Jubilee Commonwealth Travel Bursary for young people.

Note 26

This is a budget towards the costs of festive events held at the Council's leased community centres.

Note 27

This is a budget for the Civic Support team, incorporating the Lord Provost's secretariat, Town Sergeants and civic transportation.

Note 28

This is a budget for the cost of the Christmas illuminations.

Note 29

This is a budget to cover the costs of administering and delivering the 50+ development programme and entertainment for the elderly and disabled.

Note 30

This is a budget to cover the salary costs of a development officer to work with elderly citizens.

Note 31

This is a budget to cover the costs of hosting civic receptions.

Note 32

This is a budget for promotional civic hospitality.

Note 33

This is a contribution towards the costs of running the City Archive Unit.

Note 34

This is a budget to cover the allocation of central support costs such as Finance, HR and office accommodation.

Note 35

This is funding for the Home Safety Check Scheme run by Aberdeen City Council.

Note 36

This is a budget to cover the rental and running costs for a charity shop in George Street.

Note 37

This is funding for the Personal Alarms distributed on behalf of the City Council by Aberdeen Safer Community Trust.

Note 38

The Civic Gift Fund provides a budget for the purchase of gifts presented to guests and visitors by the Lord Provost on behalf of the City.

Note 39

This budget covers the costs incurred by the Lord Provost in discharging his duties as Lord Lieutenant.

Note 40

This budget covers the costs of the annual Armistice Day event.

Note 41

This is a budget to cover funding for pictures loaned from the Art Gallery for display in other Council buildings.

Note 42

This is a fund towards the costs of the Depute Provost's activities in building and enhancing business links for the benefit of the City of Aberdeen.

Note 43

This is a budget for the servicing of the capital debt for the upgrade to Duthie Park.

Note 44

These items are one-off items approved by Council for expenditure in 2015/16.

Note 45

Around 100 properties have registerable leases on land owned by the Common Good. In addition to this, the Common Good owns land at Brimmond Hill, Hazlehead, Hilton, Hillhead of Pitfodells, Kincorth, Kepplehills, Tullos and Mastrick, all of which generate income for the Common Good and which is reflected in this budget.

Note 46

This is a budget to cover interest received on invested funds.

Note 47

The Common Good owns 51% of the Lands of Torry Trust and 30% of the Lands of Skene Trust. These trusts earn income in rents and interest from investment.

Note 48

This is a budget to represent income from admission fees for Burgesses of Guild and Trade.

Appendix 3

Updated Investment Review

When looking at an investment strategy, there is no definitive model that allows a “yes or no” decision. Rather each element is interlinked and they all need to be considered together. More detail on this is covered below.

Common Good Assets

The Common Good currently holds two classes of asset. The main income stream is land and buildings which returns £2.9 million annually. The other primary return is achieved through the Council’s Loans Fund and relates to cash balances, which currently returns approximately £125,000 per annum. Total cash income for the current year is therefore expected to approximately £3.1 million.

These returns need to be considered in the context of the value of the assets held. Currently the value of land and buildings on the Balance Sheet at 31 March 2015 was £90 million. The value of cash holdings presently is £15 million.

Based on the value of the assets it is therefore possible to obtain the rate of return the Common Good realises annually. Land and Buildings returns around 3.4% while cash balances return 0.8%. Combined, this means that an average return of 2.1% is likely to be achieved during 2015/16.

This compares to the current Retail Price Index (RPI) which is currently 1.2%. The importance of the RPI indicator is that this demonstrates the level of income that needs to be grown to maintain the present value of the Common Good.

In simple terms, spend of £3 million today requires income of £3.030 million in 12 months’ time. Alternatively, to maintain the value of the Common Good would require spend of £2.97 million in 12 months’ time. While this may seem insignificant, projected over a 10 year period the income required in year 10 would be almost £3.4 million, assuming inflation of 1%. If this is calculated using the government target of around 2.5% this number increases to £3.8 million. These figures are for indicative purposes only but do show how the underlying principle of developing an investment strategy requires income growth.

The above demonstrates that land and buildings are returning more than the underlying inflation rate while cash is returning less. However, as the income from land and buildings are relatively fixed over the medium term (as they are only adjusted through rent reviews and the level of return is based on the underlying asset value) it is important to understand that with different economic conditions (a falling property market and high inflation) this position could be reversed.

In relation to cash investments, the current rate of return is below the current level of RP. As such, the return is some £50,000 lower than if it had to return an RPI benchmark.

In summary, the Common Good should be retaining asset growth of RPI annually. Only income above this figure should be utilised to fund projects. This approach is different to the approach previously deployed and a full review of the returns needs to be undertaken

Income growth can be achieved through 2 mechanisms (although other more complex riskier mechanisms could be deployed). The mechanisms are either increasing the asset returns or growing the underlying assets. The former requires, principally, dilution into other asset classes (such as equities or bonds), the latter requires reducing spend levels to compensate for the income streams being achieved.

Dilution into other asset classes requires a higher appetite for risk as trying to outperform the cash and building market. Given the Council is the custodian of the Common Good it would be appropriate for a more risk averse approach to investment in asset classes.

Assuming the asset class mix is felt to be the most appropriate blend of investments then this means it is possible to determine an estimate of the level of spend that can be sustained over the next 12 months. **Based on the above the total spend level for 2016/17 should be £3.1 million.**

Investment Strategy Principles

As with any strategic policy it is important to identify the principles which it should adhere or pay cognisance to. The current economic conditions have changed substantially in recent years in relation to money market funds and returns that can be expected in the short to medium term.

In recent times investment decisions for cash could be made with the assumption that any cash investment should outperform the underlying inflation within the economy. This has been increasingly difficult in recent years because of complex factors relating to the Bank of England base rate, inflation, government austerity measures and a host of other economic factors.

It is therefore important when looking at an investment strategy that the following factors be considered which in turn will help mitigate the real term value of the Common Good:

1. Liquidity;
2. Asset Class and Investment Portfolio;
3. Real Term returns;
4. Future financial commitments; and
5. Risk.

Taking each in turn will begin to shape elected members view on the investment strategy and annual budget that they may wish to see in place to secure the long term financial stability of the Common Good.

Liquidity

Liquidity is the measure of how quickly asset classes can be realised to meet any financial obligation (money) that the Common good may have. If the spend profile of the Common Good (that is, what the Common Good funds annually) is relatively illiquid, then more long term asset classes can be invested in. If there is a real chance that the Common Good will have to meet revenue obligations in a short time frame then the asset class should be more aligned to cash realising assets or indeed cash.

There is no definitive model that can calculate the level of liquidity that is required in asset class investment. Each “portfolio” needs to assess the likelihood of the risks and asset classes it may choose to invest in.

Asset Class and Investment Portfolio

In determining the type of asset class to invest in it is important to understand the risk associated with each class. This report will not examine in detail all the potential asset classes that could be invested in but rather it will look at the main types.

At present the two investment types that the Common Good invests in are land and buildings and cash. The main advantage of cash is that it provides high liquidity but also through investing within the Councils Loans Fund protects the principal (the actual cash base). Clearly land and buildings offer a market return and the value of such assets can vary depending on market condition.

The 2 other main classes of asset investment are equities (effectively shares) and Bonds. Given the present volatility within the equity market there is a real chance that the value of any share could reduce significantly. This indicates such a strategy would be high risk at the present time.

Within the Bond market there is substantially less risk but the current level of returns are quite poor. Such an investment also reduces the level of liquidity available to the Fund although a mix of cash and Bonds are a possible blend that could be utilised.

Given the complexity of asset investment it is recommended that a further specific report on investment be produced for Committee which examines the different investment strategies to allow a more informed decision to be made.

Real Term Returns

When talking about real term returns, it is important to understand the impact time has on the value (or purchasing power) of money. An easy analogy is to look at the price of a house. A house today may cost £250,000. The same house 20 years ago may have only cost £200,000. This means to afford the same house from 20 years ago income will have needed to increase to ensure that it has the same “buying power”.

This change in the value of money is commonly referred to as inflation. This is further complicated because there are various measures of what inflation is. Elected members will be well versed on the Retail Price Index (RPI), Consumer Price Index (CPI) and Building Inflation etc. Given the diverse asset holdings of the Common Good and the non-correlation of spend in relation to assets (that is the Common Good provides grants mainly while investing in land and buildings) it is difficult to determine specific indices that should be applied. In such instances reliance could be sought from utilising RPI.

It is therefore important that future “buying power” for the Common Good meets the diminishing value of money. This is a complex area because there is no definitive measure of inflation impacts on the current spend the Common Good is committed to. Hence, reliance is being placed on RPI.

Future Financial Commitments

Given the overall uncertainty around the future and trying to predict the future, one methodology of determining the long term spend of the Common Good is to move to a policy of providing grants for specific projects that are classed as “one off” payments.

Clearly, trying to do this immediately would place a number of organisations under financial pressure. Therefore such a strategy should be done over the medium term, say 5 years. This strategy should focus on a review to ensure that within a 5 year period, all spend through the Common Good would be for specific non-recurring purposes and in line with the criteria for the use of Common Good monies.

Risk

Risk can be defined on the expectation of future returns against the conditions of the market over which the Common Good can have no influence. Clearly, any risk strategy would have to be looked at in the context of the asset class and investment portfolio that the Common Good may choose to diversify into.

Therefore risk will be examined further should the Council wish to explore the investment strategy the Common Good may choose to pursue as part of a wider investment review.

Conclusion

In conclusion the following points should be considered in relation to determining the 2016/17 budget:

1. An upper limit of budget could be set at £3.1 million;
2. A review of Asset Class and Investment Portfolio be reported back to Committee in due course;
3. The principal of ensuring that cash balances be increased annually to take account of inflation should be adhered to;
4. The principal of adhering to maintaining the principal cash held (that is cash balances should increase in value and should not be utilised) and that interest earned is the only cash made available as part of the budget process; and
5. Over the medium term (5 years) all spend, which does not relate to the running or maintenance of the Common Good Fund, should be non-recurring.

Appendix 4	2016/17
Requests from Common Good Fund 2016/17	Budget
	£000
Archie Foundation - contribution towards the £45,000 sum remaining on a £100,000 play area project at Royal Aberdeen Children's Hospital	45
Kirk of St Nicholas - contribution of £5,000 or £10,000 towards the cost of a £125,000 project relating to an external ramp and the opening of the Kirk's North door.	10
Aberdeen Dickens Fellowship - contribution of £5,000 towards the cost of the 2016 International Dickens Fellowship Conference being held in Aberdeen	5
ACVO - £33, 572/£34,243/£34,928 being the annual cost of a three year post of Volunteer Co-ordinator	34
Kingswells Public Hall - contribution of £20,000 to underwrite legal costs relating to a land ownership dispute	20
Ferryhill Railway Heritage - contribution towards the £423,000 sum remaining on a £685,190 project at Ferryhill engine shed. Legal has come back and advised that the refurbishment of this shed does appear to benefit all the people of Aberdeen.	423
Aberdeen Cyrenians – contribution towards the £100,337 annual cost of running the service.	100
Disabled Persons Housing Service – contribution of £32,616, over 2 years towards the salary and associated costs of a Housing Adviser who is required as a result of increased demand.	16
TCL – funding for 3 years totalling £92,766 towards increased salary and associated costs due to increase in demands of food-banks. Funding from end of September 2016 - only part year for 16/17	15
Aberdeen Street Pastors – contribution of £24,500 towards the operating costs of the Safe Space vehicle (£18,000) and the training of volunteers (£6,500).	25
	693
Common Good Property Requirements:-	
ACC Asset Management - £10,000 for Common Good property repairs - Brimmond Hill - cattle grids/fencing	10
ACC Asset Management - £2,000 for Common Good property repairs - Bucksburn Farm - bollards	2
ACC Asset Management - £10,000 for Common Good property repairs - Smithfield Farm - roof repairs	10
ACC Asset Management - £3,000 for Common Good property repairs - Jessefield Farm - house doors	3
ACC Asset Management - £25,000 for Common Good property repairs - Overhills Farm - re-roof sick building	25
ACC Asset Management - £75,000 for an inventory of Common Good assets for Community Empowerment Act 2015. Legal advises that this is an appropriate use of funds.	75
ACC Asset Management - £25,000 for a Common Good rental portfolio business plan. Legal advises that this is an appropriate use of funds.	25
ACC Asset Management - £30,000 for repair of the stone bridge at Greenfern Farm.	30
	180
Total Requests for 2016/17 Funding	873