
MONITORING REPORT FOR 9 MONTHS TO 31 December 2016

Report by the Chief Financial Officer

SELKIRK COMMON GOOD SUB-COMMITTEE

15 February 2017

1 PURPOSE AND SUMMARY

- 1.1 This report provides the details of the income and expenditure for the Selkirk Common Good Fund for the nine months to 31 December 2016 and full year projected out-turn for 2016/17 and projected balance sheet values as at 31 March 2017.**
- 1.2 Appendix 1 provides a projected Income and Expenditure position. This shows a projected surplus of £16,505 for the year.
- 1.3 Appendix 2 provides a projected Balance Sheet to 31 March 2017. It shows a projected decrease in the reserves of £59,853 due mainly to further investment in the Newton Fund, see Appendix 4.
- 1.4 Appendix 3 provides a breakdown of the property portfolio showing projected rental income for 2016/17 and actual property expenditure to 31 December 2016.
- 1.5 Appendix 4 shows the value of the Newton Fund to 31 December 2016.

2 RECOMMENDATIONS

- 2.1 It is recommended that the Common Good Sub-Committee:**
 - (a) Agrees the projected Income and Expenditure for 2016/17 in Appendix 1 as the revised budget for 2016/17;**
 - (b) Notes the projected Balance Sheet value to 31 March 2017 in Appendix 2;**
 - (c) Notes the summary of the property portfolio in Appendix 3; and**
 - (d) Notes the current position of the investment in the Newton Fund in Appendix 4.**

3 BACKGROUND

3.1 This report provides the Committee with financial information for the period to 31 December 2016 and projections to 31 March 2017. The report also contains a projected balance sheet for the Common Good Fund as at 31 March 2017.

4 FINANCIAL POSITION 2016/17

4.1 Appendix 1 provides details on income and expenditure for the 2016/17 financial year. The projected net position for the year is a surplus of £16,505.

4.2 Income & Expenditure – Rental Income

Rental income for 2016/17 is shown in Appendices 1 & 3, with Appendix 3 detailing the projected annual rental income by individual property.

4.3 Income & Expenditure – Non-Property Related Income

The projected out-turn includes an estimate for the interest receivable on cash deposited with the Council. This, however, does not show as an actual income until the end of the financial year as amount is dependent on interest rates and the average cash revenue balance invested with the Council over the full financial year. The annual rate of interest applied to the cash deposits is expected to be around 0.25%.

4.4 The capital reserve is invested in the Newton Fund and distributions are made twice a year in September and February from Newton Fund Investments. The proposed budget for 2016/17 is based on a distribution of 2.0% of 2015/16 investments.

4.5 Income & Expenditure – Property Expenditure

The property expenditure to 31 December 2016 is detailed in Appendix 3 by property.

4.6 Income & Expenditure – Grants & Other Donations

The grants and other donations approved and distributed to 31 December 2016 are shown below. Further to the agreement of the Selkirk Common Good Committee on 30 August 2016 to approve a grant of up to £6,000 for a pool hoist at Selkirk Swimming Pool, the Senior Finance Officer has established that with funding from Live Borders and Quality of Life the balance required is £5,004. This contribution will come with a caveat that at year end Selkirk Common Good will be reimbursed if Live Borders underspend their Capital Budget. This grant approval takes the total committed grant expenditure to £26,908.

Grant Recipients	Approved	£
Approved and Paid to 31 December 2016		
Selkirk Chamber of Trade – Pop up Shops	08/06/16	4,000
Selkirk Silver Band	08/06/16	750
Scott’s Selkirk Association (to offset nominal rent)	08/06/16	1,175
Scott’s Selkirk Association (refund 2014/15)	08/06/16	979
Hill Warden Management Agreement	04/09/14	10,000
		16,904
Total Paid to 31 December 2016		
Approved but not yet paid		
Selkirk Community Council – Upgrade Footpath	30/08/16	5,000
Live Borders – Selkirk Swimming Pool Hoist	30/08/16	5,004
		26,908
Total Grants Approved		
Budget 2016/17		
		30,000
Unallocated/(Overallocated) Budget		
		3,092

4.7 **Income & Expenditure – Depreciation Charge**

The depreciation charge is projected to be £76,358. This is not a cash transaction and is off-set by a corresponding contribution from the Revaluation reserve.

4.8 Appendix 2 provides the balance sheet value to 31 March 2016, the projected movement in year and a projected balance as at 31 March 2017.

4.9 **Balance Sheet – Fixed Assets**

All fixed assets of the Common Good Fund are revalued every five years as part of the Council’s rolling programme. The fixed assets were revalued at 1 April 2014. Appendix 3 shows the values of the individual properties at 31 March 2016, projected depreciation charges 2016/17 and projected value at 31 March 2017.

4.10 **Balance Sheet – Newton Investment**

(a) Global economic and market uncertainties during the end of 2016 has provided a variety of surprising results. First official reports on the state of the UK economy since the June EU Referendum contradicted government warnings that an immediate recession would follow a vote to leave. In the US, initial fears of economic and market downturns after the Presidential election were overcome as share prices generally held the momentum established earlier in the year.

(b) Over the quarter to 31 December 2016, the Newton Real Return fund is estimated to deliver a negative return of 4.8% against its benchmark of +1.1%. This has been the result of the make-up of the cautiously positioned portfolio:-

- For quarter to 31 December 2016, higher risk sectors such as financials and energy returned 18.1% and 13.1% respectively. These are the sectors widely reported in the press as boosting the markets as a whole but sectors in which, due to risk, Newton do not invest in.
- Safer sectors that Newton do invest in such as consumer staples and healthcare fell by 1.1% and 0.5% respectively in the same quarter.

- Other return seeking assets held by Newton are Corporate and Government bonds amount to c. 35% of the portfolio fell in the quarter by 4% and 6% respectively.
- Gold investments, which Newton hold as “defensive” assets also reversed some of the gains made earlier in the year.

Although the quarter 4 bad news has to an extent negated the annual performance of the fund, the fund is estimated to exceed its target return of 4.5%, returning 4.8% for the year.

- (c) It is the ethos of the Real Return fund to invest in “risk offsetting positions” aimed at dampening volatility and preserving capital. The Newton Real Return will continue with its cautious approach, avoiding higher risk “quick wins” in favour of safe, robust investments in order to preserve capital.
- (d) The Newton Real Return Fund performed consistently well over the long term. However it has performed poorly over the last two quarters of 2016 against its benchmark. As a result of this performance, KPMG were commissioned by Scottish Borders Council in January of this year to assess the Fund’s performance against its peers offering similar diversified growth funds. The findings of this assessment are shown in appendix 4. Information on quarter 4 is not yet fully available, however, it is anticipated that the peer performance comparison will show a similar picture to quarter 3. However, the assessment confirms that the fund has performed well in the long term (1, 3, 5, 7 and 10 years) against its peers. Given the nature of the fund, it is over the longer term that it should be measured.
- (e) Newton’s performance against benchmark and now against its direct competitors will be monitored. In addition a visit to their offices in London has been arranged by officers to discuss the funds current performance and also their outlook for the future.

4.11 Balance Sheet – Cash Balance

The cash held by the fund is projected to be £92,455, an in-year projected decrease of £38,495, due mainly to further investment in the Newton Fund. The projected cash movement for 2016/17 is as follows:

Cash Balance	£
Opening Balance at 1 April 2016	130,950
(Investment)/Disinvestment in Newton Fund	(55,000)
Projected Surplus for year from Income & Expenditure Statement	16,505
Projected Closing Balance as at 31 March 2017	92,455

4.12 Balance Sheet – Capital Reserve

The projections for the Capital Reserves include the unrealised gain for the Newton Fund as at 31 March 2017 but due to the nature of the markets no estimate has been made for the current years’ movement.

5 IMPLICATIONS

5.1 Financial

There are no further financial implications other than those explained above in Section 4.

5.2 Risk and Mitigations

There is a risk that investments in the Newton Fund may reduce in value due to market or investment performance. This risk cannot be fully mitigated; however, it is being managed by the selection of a Fund Manager with a clear objective of preserving capital values while aiming to produce returns in line with the benchmark.

5.3 Equalities

It is anticipated that there are no adverse equality implications arising from the proposals contained in this report.

5.4 Acting Sustainably

Whilst there are no economic, social or environmental effects arising from the proposals contained in this report, there are, through the activities reported upon, positive impacts upon the economy through protection of employment, positive impacts upon the quality of community life and improvements in local amenities and nurturing of local talent. The potential improvement in levels of income through the use of the new investment fund will act to make the Common Good Fund more sustainable in the future.

5.5 Carbon Management

There are no effects on carbon emissions arising from the proposals contained in this report.

5.6 Rural Proofing

There are no effects on rural proofing arising from the proposals contained in this report.

5.7 Changes to Scheme of Administration or Scheme of Delegation

There are no changes required to the Scheme of Administration or Scheme of Delegation arising from the proposals contained in this report.

6 CONSULTATION

6.1 The Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk, the Chief Officer HR and the Clerk to the Council have been consulted and their appropriate comments have been incorporated into this report.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

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Background Papers:

Previous Minute Reference: Selkirk Common Good Committee 29 November 2016

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. We can also give information on other language translations as well as providing additional copies.

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SELKIRK COMMON GOOD FUND

INCOME AND EXPENDITURE 2016/17

	Actuals at 31/12/16	Full Year Approved Budget 2016/17	Full Year Projected Out-turn 2016/17	Full Year Projected Over/ (Under) Spend £	Para Ref	Commentary
	£	£	£	£		
Property Income						
Rentals Receivable	(97,462)	(69,593)	(69,593)	0	4.2	
Non-Property Related Income						
Interest on Cash deposited with Council	0	(521)	(362)	159	4.3	
Newton Fund Investment – Dividends Rec'd	(2,880)	(5,000)	(5,000)	0	4.4	
Other Income	0	(1,550)	(1,050)	0	4.3	
Total Income	(100,342)	(76,664)	(76,505)	159		
Property Expenditure						
Property Costs – General	6,567	25,000	25,000	0	4.5	
Total Property Expenditure	6,567	25,000	25,000	0		
Grants & Other Donations	16,904	30,000	30,000	0	4.6	
Running Costs						
Central Support Service Charge	10,000	10,000	10,000	0		
SBC Grant towards Service Charge	(5,000)	(5,000)	(5,000)	0		
Net Running Costs	5,000	5,000	5,000	0		
Depreciation						
Depreciation Charge	0	76,358	76,358	0	4.7	
Contribution from Revaluation Reserve	0	(76,358)	(76,358)	0	4.7	
Net impact of Depreciation on Revenue Reserve	0	0	0	0		
Total Net (Surplus)/Deficit for year	(71,871)	(16,664)	(16,505)	159		

SELKIRK COMMON GOOD FUND

PROJECTED BALANCE SHEET VALUE AS AT 31 March 2017

	Opening Balance at 01/04/16 £	Projected Movement in Year £	Projected Balances at 31/03/17 £
Fixed Assets			
Land & Buildings	3,235,285	(76,358)	3,158,927
Moveable Assets	1,500	0	1,500
Total Fixed Assets	3,236,785	(76,358)	3,160,427
Capital in Newton Investment Fund			
Investment in Newton Fund	130,000	55,000	185,000
Unrealised Gains/(Loss)	5,270	0	5,270
Market Value	135,270	55,000	190,270
Current Assets			
Debtors	(235)	0	(235)
Cash deposited with SBC	130,950	(38,495)	92,456
	130,717	(38,495)	92,221
Current Liabilities			
Creditors	(4,055)	0	(4,055)
Receipts in Advance	(10,980)	0	(10,980)
	(15,035)	0	(15,035)
Net Assets	3,487,736	(59,853)	3,427,883
Funded by: Reserves			
Revenue Reserve	(115,681)	38,495	(77,186)
Capital Reserve	(135,270)	(55,000)	(190,270)
Revaluation Reserve	(3,236,785)	76,358	(3,160,427)
Total Reserves	(3,487,736)	59,853	(3,427,883)

SELKIRK COMMON GOOD FUND

PROPERTY PORTFOLIO PERFORMANCE FOR 2016/17
(Actual Income and Expenditure to 31 December 2016)

Fixed Assets	Net Book Value at 31/03/16	Projected Depn Charge 2016/17	Projected Net Book Value at 31/03/17	Projected Rental Income 2016/17	Actual Property Expenditure at 31/12/16				
					Repairs	Rates, Water & Power	Ins	Other	Total
	£	£	£	£	£	£	£	£	£
The Green Hut	13,200	8,400	4,800	1,175	0	0	0	0	0
Town Hall Clock	0	0	0	0	0	0	0	0	0
Pant Well Monument	0	0	0	0	0	0	0	0	0
Victoria Hall Caretakers Flat	49,790	2,606	47,185	0	0	0	0	0	0
Victoria hall	759,000	39,000	720,000	0	0	0	0	0	0
Pringle Park	0	0	0	0	0	0	0	0	0
Victoria Park Pavilion site	2,000	0	2,000	200	0	0	0	0	0
Pringle Park Play Area	0	0	0	0	0	0	0	0	0
Selkirk Golf Course	78,500	0	78,500	0	0	0	0	0	0
South Common Farm	456,628	3,686	452,942	9,600	0	0	0	37	37
Smedheugh Farm	784,720	4,640	780,080	28,700	0	0	0	19	19
Selkirk Hill Grazings	35,000	0	35,000	410	0	0	0	0	0
Linglie Farm	622,666	3,667	618,999	7,300	0	0	0	19	19
Victoria Park & Caravan Site	0	0	0	0	0	0	0	0	0
26 Market Place	27,634	1,933	25,701	4,160	490	0	(41)	0	449
28 Market Place	37,220	2,640	34,580	5,600	520	0	(99)	0	421
Selkirk Town Hall	134,426	9,787	124,639	0	0	0	0	65	65
South Common Plantations	3,500	0	3,500	0	0	0	0	0	0
Smedheugh Farm Shootings	4,000	0	4,000	200	0	0	0	0	0
Smedheugh Plantations	9,500	0	9,500	0	0	0	0	0	0
Linglie Plantations	16,000	0	16,000	0	0	0	0	0	0
Linglie Farm Shootings	8,000	0	8,000	200	0	0	0	0	0
Linglie Mast Site	87,000	0	87,000	11,848	0	0	0	0	0
South Common Farm Shootings	0	0	0	200	0	0	0	0	0
River Ettrick Salmon Fishing Right	700	0	700	0	0	0	0	0	0

Fixed Assets	Net Book Value at 31/03/16 £	Projected Depn Charge 2016/17 £	Projected Net Book Value at 31/03/17 £	Projected Rental Income 2016/17 £	Actual Property Expenditure at 31/12/16				
					Repairs	Rates, Water & Power	Ins	Other	Total
					£	£	£	£	£
Bog Park Recreation Area	0	0	0	0	0	0	0	0	0
Shawburn Amenity Ground	0	0	0	0	0	0	0	0	0
Shawburn Toll Embankment	0	0	0	0	0	0	0	0	0
Bog Park Playground	0	0	0	0	0	0	0	0	0
Victoria Park Play Area	0	0	0	0	0	0	0	0	0
Civic Amenity Site	70,800	0	70,800	0	0	0	0	0	0
Rosebank Quarry Former Tip Site	0	0	0	0	0	0	0	0	0
Rosebank Quarry Play Area	0	0	0	0	0	0	0	0	0
Shawpark Road Development Site	35,000	0	35,000	0	0	0	0	0	0
Property Expenditure - General	-	-	-	0	5,520	0	0	37	5,557
Total	3,235,285	76,358	3,158,927	69,593	6,530	0	(140)	177	6,567

REPAIRS ANALYSIS

Property	External Decoration	Wall Repair				Total
26 Market Place	490	0	0	0	0	490
28 Market Place	520	0	0	0	0	520
Buccleuch Road	0	5,520	0	0	0	5,520
Total	1,010	5,520	0	0	0	6,530

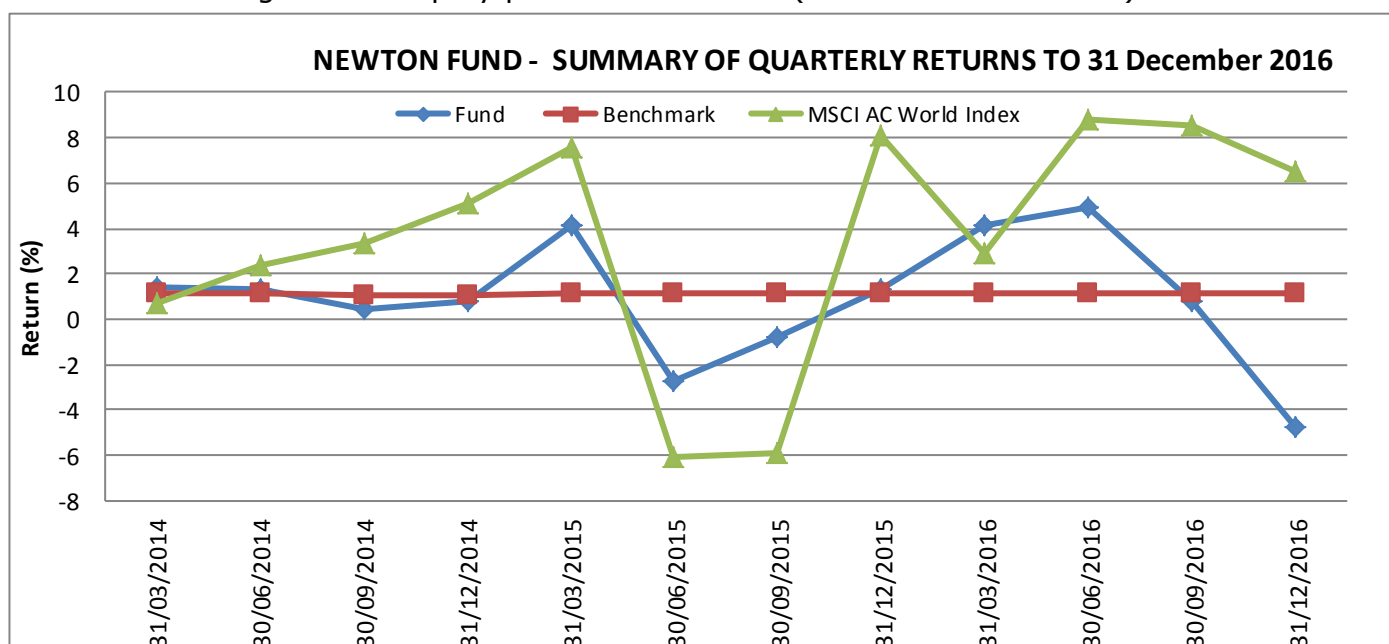
SELKIRK COMMON GOOD FUND

INVESTMENTS EXTERNALLY MANAGED IN NEWTON REAL RETURN FUND

Cost of Investment	Units	£
Initial Investment - 13 December 2013	69,530	130,000
Further 2016-17 Investment	27,950	55,000
Total Invested to 31 December 2016	97,480	185,000

Value of Investment	£
31 March 2016	135,270
31 December 2016	187,264
Increase/(Decrease) from Total Cash Invested	2,264

The following chart shows the Newton Funds quarterly return performance against the Benchmark and against an equity performance index (MSCI AC World Index).



The graph below has been produced by KPMG and shows the fund's performance against peers as mentioned in paragraph 4.10.

