
MONITORING REPORT FOR 9 MONTHS TO 31 December 2016

Report by the Chief Financial Officer

GALASHIELS COMMON GOOD SUB-COMMITTEE

9 March 2017

1 PURPOSE AND SUMMARY

- 1.1 This report provides the details of the income and expenditure for the Galashiels 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 deficit of £64 for the year.
- 1.3 Appendix 2 provides a projected Balance Sheet as at 31 March 2017. It shows a projected decrease in the Revaluation reserves of £36,256 due mainly to the projected depreciation charge.
- 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;**
 - (b) Notes the projected Balance Sheet value as at 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 deficit of £64. This assumes the £2,000 grants budget is spent prior to year-end. To date no grants have been awarded (see 4.7 below).

4.2 **Income & Expenditure – Rental Income**

There is no rental income from the properties owned by the Common Good.

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 the 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 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% which will be subject to the overall performance of the fund.

4.5 An amount of £3,000 has also been projected for income received from donations from other Ladhope Estate and Ex Provost Mercer Bequest.

4.6 **Income & Expenditure – Property Expenditure**

There are no Property Expenses on the Galashiels Common Good properties.

4.7 **Income & Expenditure – Grants & Other Donations**

There are currently no requests for financial assistance from the Galashiels Common Good Fund.

Grant Recipients	Approved	£
Approved and Paid to 31 December 2016		
-		0
Total Paid to 31 December 2016		0
Approved but not yet paid		
-		0
Total Grants Approved		0
Budget 2016/17		2,000
Unallocated/(Overallocated) Budget		2,000

4.8 **Income & Expenditure – Depreciation Charge**

The depreciation charge is projected to be £36,192. This is not a cash transaction and is off-set by a corresponding contribution from the Revaluation reserve at the end of the financial year.

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

4.10 **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 31 March 2015. Appendix 3 shows the values of the individual properties at 31 March 2016, projected depreciation charges for 2016/17 and projected value at 31 March 2017.

4.11 **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.

4.12 Balance Sheet – Cash Balance

The cash held by the fund is projected to be £6,469, an in-year projected decrease of £64. The projected cash movement for 2016/17 is as follows:

Cash Balance	£
Opening Balance at 1 April 2016	6,533
Projected Surplus/(Deficit) for year from Income & Expenditure Statement	(64)
Projected Closing Balance as at 31 March 2017	6,469

4.13 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 are currently being consulted and their comments will be incorporated into the final report.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

Kirsty Robb John Yallop	Capital and Investments Manager Tel: 01835 825249 Senior Finance Officer – Treasury & Investments Tel: 01835 824000 Extn 5933
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Background Papers:

Previous Minute Reference: Galashiels Common Good Committee 8 December 2016

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Contact us at Corporate Finance, Council Headquarters, Newtown St Boswells, Melrose, TD6 0SA.
Tel: 01835 824000
Fax: 01835 825166
Email: treasuryteam@scotborders.gov.uk

GALASHIELS COMMON GOOD FUND

INCOME AND EXPENDITURE 2016/17

	Actuals at 31/12/16	Full Year Approved Budget 2016/17	Full Year Projected Out-turn	Full Year Projected Over/ (Under) Spend	Para Ref	Commentary
	£	£	£	£		
Property Income						
Rentals Receivable	0	0	0	0	4.2	
Non-Property Related Income						
Interest on Cash deposited with Council	0	(28)	(19)	9	4.3	
Newton Fund Investment – Dividends Rec'd	(393)	(517)	(517)	0	4.4	
Other Income	0	(3,000)	(3,000)	0	4.5	
Total Income	(393)	(3,545)	(3,536)	9		
Property Expenditure						
Property Costs – General	0	1,000	1,000	0	4.6	
Total Property Expenditure	0	1,000	1,000	0		
Grants & Other Donations	0	2,000	2,000	0	4.7	
Running Costs						
Central Support Service Charge	1,922	1,922	1,922	0		
SBC Grant towards Service Charge	(1,322)	(1,322)	(1,322)	0		
Net Running Costs	600	600	600	0		
Depreciation						
Depreciation Charge	0	36,192	36,192	0	4.8	
Contribution from Revaluation Reserve	0	(36,192)	(36,192)	0	4.8	
Net impact of Depreciation on Revenue Reserve	0	0	0	0		
Total Net (Surplus)/Deficit for year	207	55	64	9		

GALASHIELS 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	624,558	(36,192)	588,366
Heritable Assets	0	0	0
Total Fixed Assets	624,558	(36,192)	588,366
Capital in Newton Investment Fund			
Investment in Newton Fund	25,476	0	25,476
Unrealised Gains/(Loss)	390	0	390
Market Value	25,866	0	25,866
Current Assets			
Debtors	0	0	0
Cash deposited with SBC	6,533	(64)	6,469
	6,533	(64)	6,469
Current Liabilities			
Creditors	0	0	0
	0	0	0
Net Assets	656,956	(36,256)	620,700
Funded by:			
Reserves			
Revenue Reserve	(6,533)	64	(6,469)
Capital Reserve	(179,190)	0	(179,190)
Revaluation Reserve	(471,233)	36,192	(435,041)
Total Reserves	(656,956)	36,256	(620,700)

GALASHIELS 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 £
Bank Street Gardens	0	0	0	0	0	0	0	0	0
Ladhope Drive Car Park	0	0	0	0	0	0	0	0	0
Ladhope Golf Course	110,000	0	110,000	0	0	0	0	0	0
Ladhope Woodland	6,250	0	6,250	0	0	0	0	0	0
Ladhope Glen Park	0	0	0	0	0	0	0	0	0
Ladhope Recreation Ground	0	0	0	0	0	0	0	0	0
Old Gala House	508,309	36,192	472,117	0	0	0	0	0	0
Mercat Cross	0	0	0	0	0	0	0	0	0
Sir Walter Scott Statue	0	0	0	0	0	0	0	0	0
Old Town Cemetery	0	0	0	0	0	0	0	0	0
Amenity Ground at Haliburton Pl	0	0	0	0	0	0	0	0	0
Leabrae Playground	0	0	0	0	0	0	0	0	0
Sml area of Netherdale Play Field	0	0	0	0	0	0	0	0	0
Property Expenditure (General)	-	-	-	0	0	0	0	0	0
Total	624,558	36,192	588,366	0	0	0	0	0	0

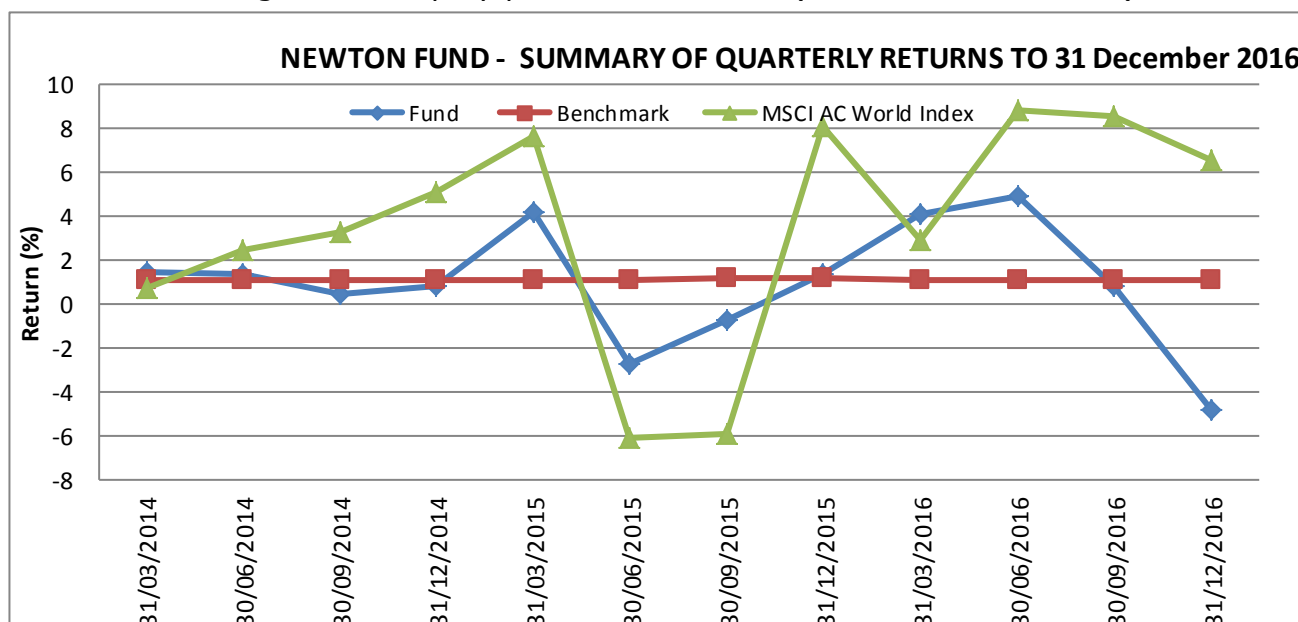
GALASHIELS COMMON GOOD FUND

INVESTMENTS EXTERNALLY MANAGED IN NEWTON REAL RETURN FUND

Cost of Investment	Units	£
Initial Investment - 5 September 2014	10,411	20,000
Contribution from SBC compensation for late investment	248	476
Further 2015-16 Investment	2,636	5,000
Total Invested to 31 December 2016	13,295	25,476

Value of Investment	£
31 March 2016	25,866
31 December 2016	25,541
Increase/(Decrease) from Total Cash Invested	65

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.

