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## **MONITORING REPORT FOR 12 MONTHS TO 31 MARCH 2017**

**Report by the Chief Financial Officer**

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### **SELKIRK COMMON GOOD FUND SUB-COMMITTEE**

**21 June 2017**

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#### **1 PURPOSE AND SUMMARY**

- 1.1 This report provides the details of the income and expenditure for the Selkirk Common Good Fund for the year 31 March 2017 including balance sheet values to 31 March 2017 and proposed budget for 2017/18.**
- 1.2 Appendix 1 provides the actual income and expenditure for 2016/17. This shows a surplus of £21,557 which is £5,052 more than reported at the 15 February 2017 meeting due to lower than anticipated property costs and grant expenditure. A surplus of £36,943 is projected for 2017/18.
- 1.3 Appendix 2 provides a balance sheet value as at 31 March 2017. It shows a decrease in the reserves of £56,203, mainly due to the depreciation adjustment.
- 1.4 Appendix 3 provides a breakdown of the property portfolio showing actual rental income and property expenditure to 31 March 2017 and the 2016/17 depreciation charge.
- 1.5 Appendix 4 shows the value of the Newton Fund to 31 March 2017.

#### **2 RECOMMENDATIONS**

- 2.1 It is recommended that the Selkirk Common Good Fund Sub-Committee:**
  - (a) Notes the actual income and expenditure for 2016/17 in Appendix 1;**
  - (b) Agrees the proposed budget for 2017/18 as shown in Appendix 1;**
  - (c) Notes the final balance sheet value to 31 March 2017 in Appendix 2;**
  - (d) Notes the summary of the property portfolio in Appendix 3;**
  - (e) Notes the current position of the investment in the Newton Fund in Appendix 4; and**

- (f) Notes the short, medium and long term performance of the Newton Fund against its peers in Appendix 5.**

### 3 BACKGROUND

3.1 This report provides the Committee with financial information for the period to 31 March 2017 and proposed budgets for 2017/18. The report also contains a projected balance sheet for the Common Good Fund as at 31 March 2018.

### 4 FINANCIAL POSITION 2016/17

4.1 Appendix 1 provides detail on income and expenditure for the 2016/17 financial year as well as the proposed budget for 2017/18.

#### 4.2 **Income & Expenditure – Property Income**

Rental income for 2016/17 amounted to £69,504 and is shown on Appendices 1 & 3 with Appendix 3 detailing the annual rental income by individual property.

#### 4.3 **Income & Expenditure – Non-Property Related Income**

The final outturn shows a total of £5,178 and includes are Newton Fund dividends, see para 4.4, and the interest received on cash deposited with the Council, which amounted to £393. The annual rate of interest applied to the cash deposits is 0.31%. Anticipated income of £1,500 relating to servitude for a new water supply at Buxton Cottage was not received in 2016/17. Formal legalities will be concluded in 2017/18.

4.4 The capital reserve is invested in the Newton Fund and distributions are made twice a year in September and February. Dividends of £4,785 were received in total to 31 March 2017. Considering dividend returns across all Common Good & Trust Funds in 2016/17, the proposed budget for 2017/18 is based on a distribution of 2.4% of the Market Value at 31 March 2017.

#### 4.5 **Income & Expenditure – Property Expenditure**

The property expenditure to 31 March 2017 is detailed in Appendix 3 by property.

#### 4.6 **Income & Expenditure – Grants & Other Donations**

The grants and other donations distributed to 31 March 2017 are shown below.

<b>Grant Recipients</b>	<b>Approved</b>	<b>£</b>
<b>Approved and Paid to 31 March 2017</b>		
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
Live Borders Selkirk Swimming Pool Hoist	30/08/16	4,000
Selkirk Junior Football Club	15/02/17	600
Selkirk CC Upgrade Footpath	30/08/16	5,000
<b>Total Paid to 31 March 2017</b>		<b>26,504</b>
<b>2016/17 Budget</b>		<b>30,000</b>
<b>Unallocated 2016/17 Budget</b>		<b>3,496</b>
<b>Proposed 2017/18 Budget</b>		<b>19,000</b>

#### 4.7 **Income & Expenditure – Depreciation Charge**

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 as at 31 March 2017 and a projected balance as at 31 March 2018.

#### 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, depreciation charges 2016/17 and value at 31 March 2017.

#### 4.10 **Balance Sheet – Newton Investment**

- a) Short term performance during the quarter to 31 March 2017 yielded a positive return of 2.2% against benchmark of 1.0%. This was the funds first return in excess of benchmark since quarter 2 2016. The funds stable, compounding equity holdings performed in line with broad global equity indices which remained buoyant despite recent global economic events. Exposure to government bonds and physical gold also generated positive contributions to the fund.
- b) 2016-17 was again dominated by political and economic uncertainties, primarily the US Presidential election and the "Brexit" vote in this country. Although the medium term, 12 month annualised return at the end of March 2017 was 2.9% against a benchmark of 4.4%, the fund's performance over a 5 year period was positive against benchmark, 4.6% against 4.5%. This is in line with the objective of the fund which "is managed to seek a minimum return of 1 month GBP LIBOR rate + 4%". At the end of March this equated to 4.3%.
- c) In addition to unrealised gains retained by Common Good Fund investments, dividends from the Newton Fund were received during the year totalling £66k equating to 2.5% of amounts invested. This is an increase from 2.2% received in 2015-16 and approximately 10 times the interest that would have been received if Common Good Fund cash had been invested in the Council's loans fund.
- d) Newton continues to believe that the investment strategy in place for the Real Return Fund has the ability to continue to provide returns which meet the objective of the fund. However, given recent performance figures generated by the fund, ongoing performance will be closely monitored. Appendix 5 contains a chart detailing the Newton Funds performance over the quarter to March 2017 and also over the medium to long term. The improved performance in the last quarter has put Newton in the mid-range against its peers. However, their performance in the last two quarters of 2016 has placed Newton outside the broad range of returns generated by its peers in the last year. This has also had the effect of dragging down the medium to long term performance.
- e) Given this information, the Councils Investment advisor KPMG has been commissioned to evaluate and report on the continued suitability of the Newton Fund going forward. It should be stressed that the Newton Real return Fund is a "Dividend Growth Fund," that is

a fund that will provide reasonable rates of income (through dividends) as well as capital preservation and low risk.

- f) To date, the Newton fund has achieved its aims, in doing so, fulfilling the aims of the investment strategy adopted for Common Good and Trust funds, that is, low risk and capital preservation. The driver behind the KPMG evaluation is to establish if there are any other funds which would provide a better rate of capital return than Newton, as well as a reasonable income stream with a similar low risk profile.

#### 4.11 Balance Sheet – Cash Balance

The cash held by the fund is £82,865, an in year net decrease of £48,086. The cash movement for 2016/17 is as follows:

<b>Cash Balance</b>	<b>£</b>
<b>Opening Balance at 1 April 2016</b>	<b>130,950</b>
Transfer to Newton Fund	(55,000)
Surplus for year from Income & Expenditure Statement	21,557
Net cash movement in Debtors/Creditors	(14,643)
<b>Closing Balance at 31 March 2017</b>	<b>82,865</b>

#### 4.12 Balance Sheet – Capital Reserve

The Capital Reserves include the unrealised gain for the Newton Fund as at 31 March 2017.

## 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 being 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 15 February 2017

**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 31/03/17 £	Full Year Budget 2016/17 £	Over/ (Under) Spend 2016/17 £	Proposed Budget 2017/18 £	Para Ref	Commentary
<b>Property Income</b>						
Rentals Receivable	(69,504)	(69,593)	89	(69,593)		
<b>Non-Property Related Income</b>						
Interest on Cash deposited with Council	(393)	(362)	(31)	(317)	4.3	2017/18 Calculated at 0.30%
Newton Fund Investment – Dividends Rec'd	(4,785)	(5,000)	215	(4,533)	4.4	2017/18 Calculated at 2.4%
Other Income	0	(1,550)	1,550	(1,500)	4.3	
<b>Total Income</b>	<b>(74,682)</b>	<b>(76,505)</b>	<b>1,823</b>	<b>(75,943)</b>		
<b>Property Expenditure</b>						
Property Costs – General	21,621	25,000	(3,379)	15,000		
<b>Total Property Expenditure</b>	<b>21,621</b>	<b>25,000</b>	<b>(3,379)</b>	<b>15,000</b>		
<b>Grants &amp; Other Donations</b>	<b>26,504</b>	<b>30,000</b>	<b>(3,496)</b>	<b>19,000</b>	4.6	
<b>Running Costs</b>						
Central Support Service Charge	10,000	10,000	0	10,000		
SBC Grant towards Service Charge	(5,000)	(5,000)	0	(5,000)		
<b>Net Running Costs</b>	<b>5,000</b>	<b>5,000</b>	<b>0</b>	<b>5,000</b>		
<b>Depreciation</b>						
Depreciation Charge	76,358	76,358	0	76,358		
Contribution from Revaluation Reserve	(76,358)	(76,358)	0	(76,358)		
<b>Net impact of Depreciation on Revenue Reserve</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>		
<b>Total Net (Surplus)/Deficit for year</b>	<b>(21,557)</b>	<b>(16,505)</b>	<b>(5,052)</b>	<b>(36,943)</b>		

## SELKIRK COMMON GOOD FUND

## BALANCE SHEET VALUE AS AT 31 March 2017

	Opening Balance at 01/04/16 £	Movement in Year 2016/17 £	Closing Balance at 31/03/17 £	Projected Balances at 31/03/18 £
<b>Fixed Assets</b>				
Land & Buildings	3,235,285	(76,358)	3,158,927	3,082,569
Moveable Assets (*)	1,500	0	1,500	1,500
<b>Total Fixed Assets</b>	<b>3,236,785</b>	<b>(76,358)</b>	<b>3,160,427</b>	<b>3,084,069</b>
<b>Capital in Newton Investment Fund</b>				
Investment in Newton Fund	130,000	55,000	185,000	185,000
Unrealised Gains/(Loss)	5,270	(1,403)	3,867	3,867
<b>Market Value</b>	<b>135,270</b>	<b>53,597</b>	<b>188,867</b>	<b>188,867</b>
<b>Current Assets</b>				
Debtors	(235)	2,142	1,908	1,908
Cash deposited with SBC	130,950	(48,086)	82,865	119,808
	<b>130,717</b>	<b>(45,943)</b>	<b>84,772</b>	<b>121,716</b>
<b>Current Liabilities</b>				
Creditors	(4,055)	4,055	0	0
Receipts in Advance	(10,980)	8,446	(2,534)	(2,534)
	<b>(15,035)</b>	<b>12,501</b>	<b>(2,534)</b>	<b>(2,534)</b>
<b>Net Assets</b>	<b>3,487,736</b>	<b>(56,203)</b>	<b>3,431,533</b>	<b>3,392,118</b>
<b>Funded by: Reserves</b>				
Revenue Reserve	(115,681)	33,443	(82,238)	(119,181)
Capital Reserve	(135,270)	(53,597)	(188,867)	(188,867)
Revaluation Reserve	(3,236,785)	76,358	(3,160,427)	(3,084,069)
<b>Total Reserves</b>	<b>(3,487,736)</b>	<b>56,203</b>	<b>(3,431,533)</b>	<b>(3,392,118)</b>

(\*) Selkirk Common Good Silver Arrow



## SELKIRK COMMON GOOD FUND

**PROPERTY PORTFOLIO PERFORMANCE FOR 2016/17**  
**(Actual Income and Expenditure to 31 March 2017)**

Fixed Assets	Net Book Value at 31/03/16	Deprec'n Charge 2016/17	Net Book Value at 31/03/17	Actual Rental Income 2016/17	Actual Property Expenditure at 31/03/17				
					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	2,605	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	645	0	0	0	645
Victoria Park Pavilion site	2,000	0	2,000	200	1,200	0	0	0	1,200
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	1,085	0	400	37	1,522
Smedheugh Farm	784,720	4,640	780,080	28,700	10,088	0	430	74	10,592
Selkirk Hill Grazings	35,000	0	35,000	394	0	0	0	0	0
Linglie Farm	622,666	3,667	618,999	7,300	0	0	400	19	419
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	125	65	190
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	127	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	Deprec'n Charge 2016/17	Net Book Value at 31/03/17	Actual Rental Income 2016/17	Actual Property Expenditure at 31/03/17				
					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	35	125	503	6,183
<b>Total</b>	<b>3,235,285</b>	<b>76,358</b>	<b>3,158,927</b>	<b>69,504</b>	<b>19,547</b>	<b>35</b>	<b>1,340</b>	<b>698</b>	<b>21,621</b>

### REPAIRS ANALYSIS

Property	External Decoration	Wall Repair	Fence Repairs	Shed Roof Repairs	Total
26 Market Place	490	0	0	0	490
28 Market Place	520	0	0	0	520
Buccleuch Road	0	5,520	0	0	5,520
Pringle Park	0	0	645	0	645
Victoria Park	0	0	1,200	0	1,200
South Common Farm	0	0	1,085	0	1,085
Smedheugh Farm	0	0	1,085	9,003	10,088
<b>Total</b>	<b>1,010</b>	<b>5,520</b>	<b>4,015</b>	<b>9,003</b>	<b>19,547</b>

## SELKIRK COMMON GOOD FUND

## INVESTMENTS EXTERNALLY MANAGED IN NEWTON REAL RETURN FUND

<b>Cost of Investment</b>	<b>Units</b>	<b>£</b>
Initial Investment - 13 December 2013	69,530	130,000
Further 2016-17 Investment	27,950	55,000
<b>Total Invested to 31 March 2017</b>	<b>97,480</b>	<b>185,000</b>

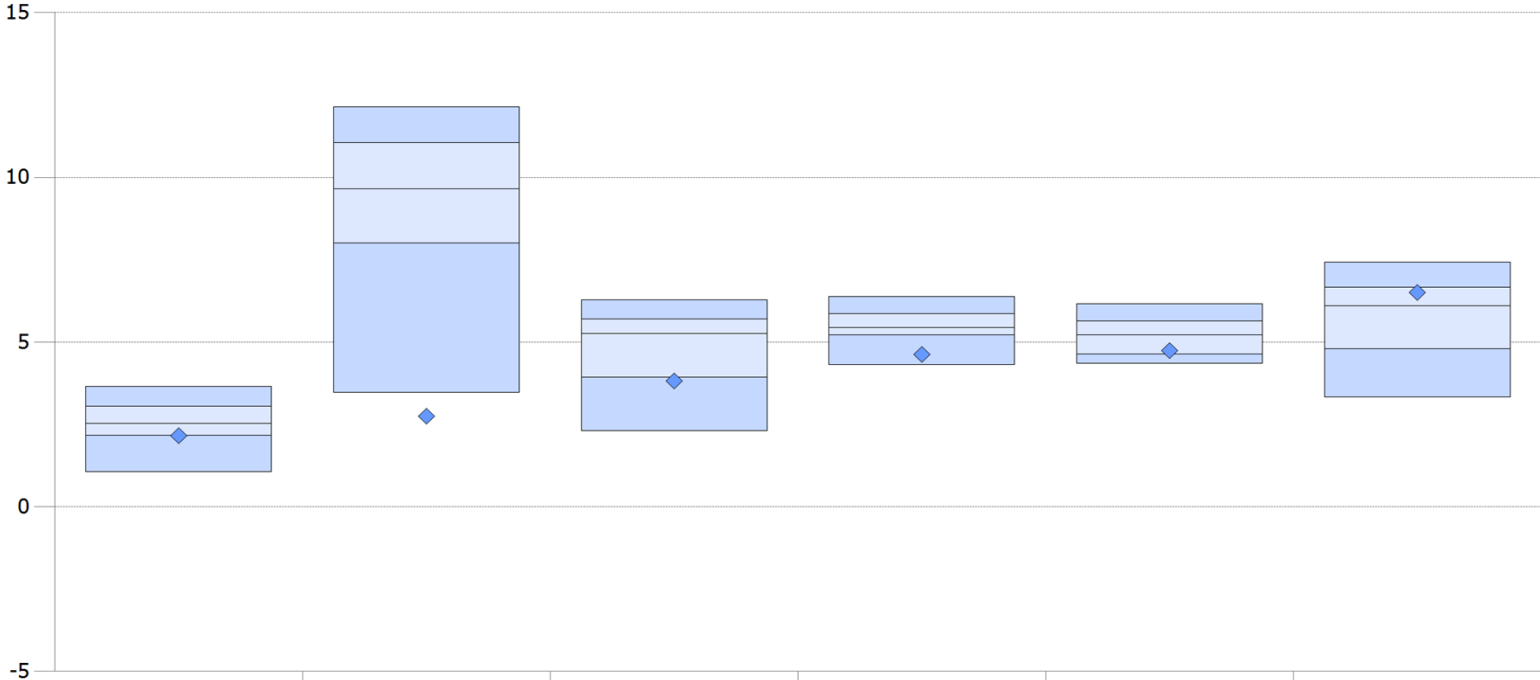
<b>Value of Investment</b>	<b>£</b>
31 March 2016	135,270
31 March 2017	188,867
<b>Unrealised Gain/(Loss) on Investment</b>	<b>3,867</b>

**SELKIRK COMMON GOOD FUND**

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

◆ Newton Investment Management: Newton Real Return GBP

Returns As Of: March 31, 2017



Universe:  
DoH DGF Universe

	VT	RM	MRQ	Rk	1 Year	Rk	3 Years	Rk	5 Years	Rk	7 Years	Rk	10 Years	Rk
5th percentile			3.6		12.1		6.3		6.4		6.2		7.4	
25th percentile			3.1		11.1		5.7		5.9		5.6		6.7	
Median			2.5		9.7		5.3		5.4		5.2		6.1	
75th percentile			2.2		8.0		3.9		5.2		4.6		4.8	
95th percentile			1.1		3.5		2.3		4.3		4.4		3.3	
# of Observations			13		13		12		11		11		7	
◆ Newton Investment Management	SA	GF	2.2	75	2.7	100	3.8	81	4.6	90	4.7	60	6.5	33

Results displayed in Pound Sterling (GBP)