
Monitoring Report for 12 Months to 31 March 2017

Report by the Chief Financial Officer

GALASHIELS COMMON GOOD FUND SUB-COMMITTEE

22 June 2017

1 PURPOSE AND SUMMARY

- 1.1 This report provides the details of the income and expenditure for the Gala Common Good Fund for the year 2016/17 including balance sheet values as at 31 March 2017 and proposed budget for 2017/18.**
- 1.2 Appendix 1 provides actual income and expenditure for 2016/17. This shows a surplus of £3,346 which varies from the deficit reported at 9 March 2017 meeting due to lower than anticipated property costs and no grant expenditure. A surplus of £2,630 is projected for 2017/18.
- 1.3 Following legal clarification, it was agreed during 2016/17 that all remaining assets belonging to the Ladhope Estate Trust would be transferred to Gala Common Good Fund. Therefore from 1 April 2016 the Newton Investment of £123,254 was transferred and the unrealised gain on this investment was recognised within the Gala Common Good investment at 31 March 2017.
- 1.4 Appendix 2 provides balance sheet value as at 31 March 2017. It shows an increase in the reserves of £94,771, mainly due to the transfer of the Ladhope Trust Fund Assets and also the annual depreciation charge.
- 1.5 Appendix 3 provides a breakdown of the property portfolio showing the depreciation charge for 2016/17.
- 1.6 Appendix 4 shows the value of the Newton Fund to 31 March 2017.

2 RECOMMENDATIONS

- 2.1 It is recommended that the Galashiels 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 as at 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 a proposed budget for 2017/18.

4.2 Income & Expenditure – Property Income

There is no rental income due from the Galashiels Common Good properties.

4.3 Income & Expenditure – Non-Property Related Income

The final out-turn shows a total of £3,946 and includes donations from the Ex Provost Mercer Bequest £38. Also included are the Newton Fund dividends, see paragraph 4.4 and the interest received on cash deposited with the Council. The annual rate of interest applied to the cash deposits is 0.31%.

4.4 The capital reserve is invested in the Newton Fund and distributions were made twice in the year in September and February. Dividends of £3,888 were received in total to 31 March 2017 (£3,371 more than anticipated and 2.6% of total investment). This variance is a result of the transfer of the Ladhope Estate Newton dividends into Gala Common Good Fund which was previously recorded as a grant within "Other Income" and is detailed in Appendix 1. 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

There are no property expenses on the Galashiels Common Good properties and no costs are anticipated in 2017/18.

4.6 Income & Expenditure – Grants & Other Donations

There were no grants and other donations distributed to 31 March 2017, against a budget of £2,000. Considering grant expenditure over the last 3 years a budget of £500 is proposed for 2017/18.

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 31 March 2015. Appendix 3 shows the values of the individual properties at 31 March 2016, depreciation charges for 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 at 31 March 2017 is £9,879. The cash movement for 2016/17 as follows:

Cash Balance	£
Opening Balance at 1 April 2016	6,533
Surplus for year from Income & Expenditure Statement	3,346
Closing Balance at 31 March 2017	9,879

4.12 **Balance Sheet – Capital Reserve**

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

4.13 **Balance Sheet – Impact of Ladhope Estate Investment transfer**

The effect of the transfer of Ladhope Estate Trust assets increases the Galashiels Common Good Newton Investment and Capital Reserve as follows:

	£
Newton Investment	123,254
Unrealised Gain on Investment	4,363
Total Increase in Capital Reserve	127,617

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 made available at the meeting.

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 9 March 2017

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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 31/03/17 £	Full Year Budget 2016/17 £	Over/ (Under) Spend 2016/17 £	Proposed Budget 2017/18 £	Para Ref	Commentary
Property Income						
Rentals Receivable	0	0	0	0		
Non-Property Related Income						
Interest on Cash deposited with Council	(19)	(19)	0	(15)	4.3	2017/18 Calculated at 0.30%
Newton Fund Investment – Dividends Rec'd	(3,888)	(517)	(3,371)	(3,684)	4.4	2017/18 Calculated at 2.4%
Other Income	(38)	(3,000)	2,962	(31)	4.3	
Total Income	(3,946)	(3,536)	(410)	(3,730)		
Property Expenditure						
Property Costs – General	0	1,000	(1,000)	0		
Total Property Expenditure	0	1,000	(1,000)	0		
Grants & Other Donations	0	2,000	(2,000)	500	4.6	
Running Costs						
Central Support Service Charge	1,922	1,922	0	1,922		
SBC Grant towards Service Charge	(1,322)	(1,322)	0	(1,322)		
Net Running Costs	600	600	0	600		
Depreciation						
Depreciation Charge	36,192	36,192	0	36,192		
Contribution from Revaluation Reserve	(36,192)	(36,192)	0	(36,192)		
Net impact of Depreciation on Revenue Reserve	0	0	0	0		
Total Net (Surplus)/Deficit for year	(3,346)	64	(3,410)	(2,630)		

GALASHIELS COMMON GOOD FUND

BALANCE SHEET VALUE 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 £
Fixed Assets				
Land & Buildings	624,558	(36,192)	588,367	552,173
Heritable Assets	0	0	0	0
Total Fixed Assets	624,558	(36,192)	588,367	552,173
Capital in Newton Investment Fund				
Investment in Newton Fund	25,476	123,254	148,730	148,730
Unrealised Gains/(Loss)	390	4,363	4,753	4,753
Market Value	25,866	127,617	153,483	153,483
Current Assets				
Debtors	0	0	0	0
Cash deposited with SBC	6,533	3,346	9,879	12,509
	6,533	3,346	9,879	12,509
Current Liabilities				
Creditors	0	0	0	0
	0	0	0	0
Net Assets	656,956	94,771	751,727	718,165
Funded by:				
Reserves				
Revenue Reserve	(6,533)	(3,346)	(9,879)	(12,509)
Capital Reserve	(179,190)	(127,617)	(306,808)	(153,483)
Revaluation Reserve	(471,233)	36,192	(435,041)	(552,173)
Total Reserves	(656,956)	(94,771)	(751,727)	(718,165)

GALASHIELS 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
	£	£	£	£	£	£	£	£	£
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 Groud	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	588,367	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	10,659	20,476
Further 2015-16 Investment	2,636	5,000
Transfer of Ladhope Trust Investment	65,922	123,254
Total Invested to 31 March 2017	79,217	148,730

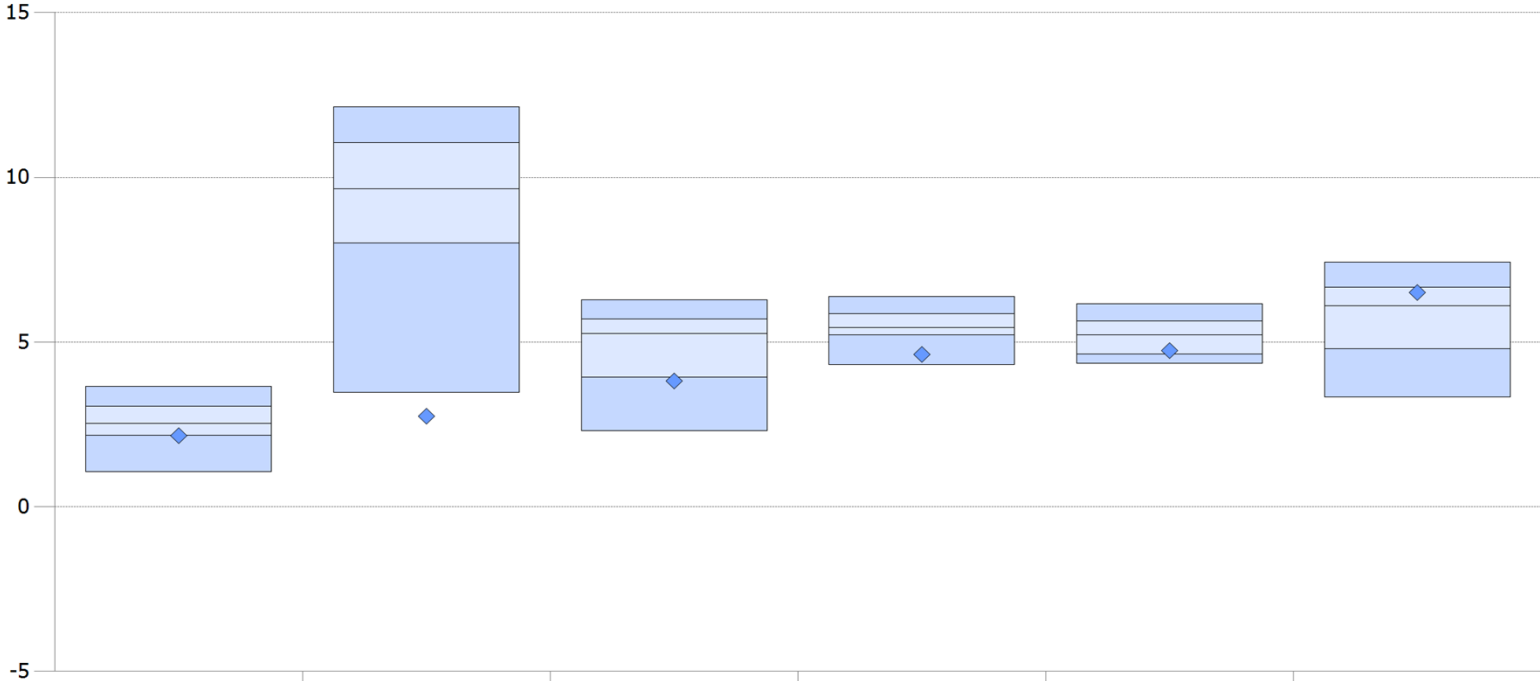
Value of Investment	£
31 March 2016	25,866
31 March 2017	153,483
Increase/(Decrease) from Total Cash Invested	4,753

GALASHIELS 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)