
Monitoring Report for 9 Months to 31 December 2017

Report by the Chief Financial Officer

KELSO COMMON GOOD SUB-COMMITTEE

7 February 2018

1 PURPOSE AND SUMMARY

- 1.1 This report provides the details of the income and expenditure for the Kelso Common Good Fund for the six months to 31 December 2017 and full year projected out-turn for 2017/18 and projected balance sheet values as at 31 March 2018.**
- 1.2 Appendix 1 provides a projected income and expenditure position. This shows a projected surplus of £347.
- 1.3 Appendix 2 provides a projected balance sheet to 31 March 2018. It shows a projected decrease in the reserves of £42,153.
- 1.4 Appendix 3 provides a breakdown of the property portfolio showing projected depreciation charges and actual property expenditure to 31 December 2017.
- 1.5 Appendix 4 shows the value of the Newton Fund to 31 December 2017.

2 RECOMMENDATIONS

- 2.1 It is recommended that the Common Good Sub-Committee:**
 - (a) Agrees the projected Income and Expenditure for 2017/18 in Appendix 1 as the revised budget for 2017/18;**
 - (b) Notes the projected balance sheet value as at 31 March 2018 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 2017 and projections to 31 March 2018. The report also contains a projected balance sheet for the Common Good Fund as at 31 March 2018.

4 FINANCIAL POSITION 2017/18

4.1 Appendix 1 provides detail on income and expenditure for the 2017/18 financial year. The projected net position for the year is a surplus of £347.

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 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 0.30%.

4.4 The capital reserve is invested in the Newton Fund and distributions are made twice a year in September and February. The first of two annual Dividends (£3,392) shown in the actuals in Appendix 1. The proposed budget for 2017/18 is based on a distribution of 2.4% which will be subject to the overall performance of the fund. It is anticipated that the second dividend will be in line with the annual proposed budget.

4.5 Income & Expenditure – Property Expenditure

A cost of £1,000 is projected to be spent this year on fence repairs at Pinnaclehill Woodlands. It is anticipated that a 50% contribution of £500 will be received from the adjoining landowner and that this work will be carried out this financial year. This cost has been included in the projected outturn in Appendix 1.

4.6 Income & Expenditure – Grants & Other Donations

Details of grants approved and paid are shown in the table below. At the meeting on 06 December 2017, an application from the Kelso Christmas Decoration Fund was deferred and will be considered at the meeting on 07 February 2018.

Grant Recipients	Approved	£
Approved and Paid to 31 December 2017		
Roxburgh Street Traders	07/11/17	1000
Kelso Over 60's Club	06/12/17	400
Total Paid to 31 December 2017		1400
Approved but not yet paid		0
Total Grants Approved		1,400
Budget 2017/18		4,500
Unallocated/(Overallocated) Budget		3,100

4.7 **Income & Expenditure – Depreciation Charge**

The depreciation charge is projected to be £42,500. 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.

4.8 Appendix 2 provides the balance sheet value as at 31 March 2017, the projected movement in year 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 5 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 2017, projected depreciation charges for 2017/18 and projected value as at 31 March 2018.

4.10 **Balance Sheet – Newton Investment**

- (a) The fund produced a positive return in the quarter to 31 December 2017, albeit below its benchmark (0.4% against benchmark of 1.1%). This return was largely driven by strong equity performances, but again, hedging against losses came at a cost and negated some of the returns achieved.
- (b) For the second consecutive quarter the 5 year annualised return, which the fund is ultimately measured against is below benchmark (4.1% against 4.4%).
- (c) Following the Council approved procurement exercise undertaken in November 2017, Kames Capital has been appointed as a new Fund Manager for Common Good and Trust Fund investments. Kames Capital offer a Diversified Income Fund, designed to give the same capital preservation and divided income structure but with a track record of better returns on capital and dividend income. The appointment of this Fund Manager is in line with the Common Good & Trusts Investment Strategy and was approved at Council on 21 December 2017.
- (d) The transfer of investments from Newton to Kames will be carried out as soon as possible. The market value of the Newton Investment at this time will result in a gain or loss on investment with Newton. The full balance disinvested from Newton will be invested with Kames Capital.

4.11 **Balance Sheet – Cash Balance**

The cash held by the fund is projected to be £38,171 at 31 March 2018 and is detailed below:

Cash Balance	£
Opening Balance at 1 April 2017	37,324
Projected Surplus/(Deficit) for year from Income & Expenditure Statement	347
Projected Closing Balance as at 31 March 2018	37,671

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

In addition to the financial implications explained above in Section 4, costs incurred in the procurement of a new Investment Fund Manager will be apportioned on a pro-rata basis per the report approved at Council on 21 December 2017.

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 Service Director 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: Kelso Common Good Committee 06 December 2017

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KELSO COMMON GOOD FUND

INCOME AND EXPENDITURE 2017/18

	Out-turn 2016/17	Actuals at 31/12/17	Full Year Approved Budget 2017/18	Full Year Projected Out-turn 2017/18	Full Year Projected Over/ (Under) Spend £	Para Ref
	£	£	£	£	£	
Non-Property Related Income						
Interest on Cash deposited with Council	(107)	0	(86)	(86)	0	4.3
Newton Fund Investment – Dividends Rec'd	(6,432)	(3,392)	(6,093)	(6,093)	0	4.4
Total Income	(6,179)	(3,392)	(6,179)	(6,179)	0	
Property Expenditure						
Property Costs – General	0	0	0	500	500	4.5
Total Property Expenditure	0	0	0	500	500	
Grants & Other Donations	4,650	1,400	4,500	4,500	0	4.6
Running Costs						
Central Support Service Charge	1,645	1,645	1,645	1,645	0	
SBC Grant towards Service Charge	(813)	(813)	(813)	(813)	0	
Net Running Costs	832	832	832	832	0	
Depreciation						
Depreciation Charge	42,500	0	42,500	42,500	0	4.7
Contribution from Revaluation Reserve	(42,500)	0	(42,500)	(42,500)	0	4.7
Net impact of Depreciation on Revenue Reserve	0	0	0	0	0	
Total Net (Surplus)/Deficit for year	(1,056)	(1,160)	(847)	(347)	500	

KELSO COMMON GOOD FUND

PROJECTED BALANCE SHEET VALUE AT 31 March 2018

	Opening Balance at 01/04/17 £	Projected Movement in Year £	Projected Balance at 31/03/18 £
Fixed Assets			
Land & Buildings	779,200	(42,500)	736,700
Moveable Assets	19,080	0	19,080
Feu Duties	0	0	0
Total Fixed Assets	798,280	(42,500)	755,780
Capital in Newton Investment Fund			
Investment in Newton Fund	246,112	0	246,112
Unrealised Gains/(Loss)	7,752	0	7,752
Market Value	253,864	0	253,864
Current Assets			
Debtors	0	0	0
Cash deposited with SBC	37,324	347	37,671
	37,324	347	37,671
Current Liabilities			
Creditors	0	0	0
Receipts in Advance	0	0	0
	0	0	0
Net Assets	1,089,468	(42,153)	1,047,315
Funded by:			
Reserves			
Revenue Reserve	(37,324)	(347)	(37,671)
Capital Reserve	(253,864)	0	(253,864)
Revaluation Reserve	(798,280)	42,500	(755,780)
Total Reserves	(1,089,468)	42,153	(1,047,315)

KELSO COMMON GOOD FUND

PROPERTY PORTFOLIO PERFORMANCE FOR 2017/18
(Actual Income and Expenditure to 31 December 2017)

Fixed Assets – Land & Buildings	Net Book Value at 31/03/17 £	Projected Depn Charge 2017/18 £	Projected Net Book Value at 31/03/18 £	Projected Rental Income 2017/18 £	Actual Property Expenditure at 30/09/17				
					Repairs £	Rates, Water & Power £	Ins £	Other £	Total £
Tait Hall	772,500	42,500	730,000	0	0	0	0	0	0
Pinnaclehill Woodlands	6,700	0	6,700	0	0	0	0	0	0
Total	779,200	42,500	736,700	0	0	0	0	0	0

Fixed Assets – Moveable Assets	Net Book Value at 31/03/17 £
Silver Bowl & Salver	19,080
Total	19,080

KELSO COMMON GOOD FUND**INVESTMENTS EXTERNALLY MANAGED IN NEWTON REAL RETURN FUND**

Cost of Investment	Units	£
Initial Investment - 13 December 2013	72,185	134,964
Further 2013-14 Investments	58,841	111,148
Total Invested to 30 September 2017	131,026	246,112

Value of Investment	£
31 March 2017	254,913
30 June 2017	256,721
30 September 2017	250,903
31 December 2017	251,576
31 March 2018	
Increase/(Decrease) from Total Cash Invested	5,464