Scottish Borders COUNCIL

Monitoring Report for 12 Months to 31 March 2018

Report by the Chief Financial Officer

LAUDER COMMON GOOD SUB-COMMITTEE

19 June 2018

1 PURPOSE AND SUMMARY

1.1 **This report provides the details of the income and expenditure for the Lauder Common Good Fund for the year 2017/18 including balance sheet values as at 31 March 2018 and proposed budget for 2018/19.**

1.2 Appendix 1 provides actual income & expenditure for 2017/18. This shows a surplus of £576 which varies from the projected surplus figure reported at 20 February 2018 meeting due to additional net costs associated with the transfer of the investment fund to a new fund manager.

1.3 Appendix 2 provides a projected Balance Sheet as at 31 March 2018. It shows a projected decrease in the reserves of £9,848.

1.4 Appendix 3 provides a breakdown of the property portfolio showing projected depreciation charges and actual property expenditure to 31 March 2018.

1.5 Appendix 4 shows the value of the Investment Fund as at 31 March 2018, now with Kames Capital PLC.

2 RECOMMENDATIONS

2.1 **It is recommended that the Lauder Common Good Sub-Committee:**

(a) Notes the actual income and expenditure for 2017/18 in Appendix 1;

(b) Agrees the proposed budget for 2018/19 as shown in Appendix 1;

(c) Notes the final balance sheet value as at 31 March 2018 in Appendix 2;

(d) Notes the summary of the property portfolio in Appendix 3;

(e) Notes the current position of the investment in the Kames Capital Investment Fund in Appendix 4.

3 BACKGROUND

3.1 This report provides the Committee with financial information for the period to 31 March 2018 and proposed budgets for 2018/19. The report also contains a projected balance sheet for the Common Good Fund as at 31 March 2019.

4 FINANCIAL POSITION 2017/18

4.1 Appendix 1 provides detail on income and expenditure for the 2017/18 financial year, which resulted in a surplus of £576. Additional dividend income and lower than anticipated grant expenditure were off-set by costs associated with the investment fund transfer to Kames Capital, resulting in a change to the surplus of £1,645 reported at the last meeting on 8 March 2018.

4.2 **Income & Expenditure – Rental Income**
Rental income for 2017/18 is shown on Appendices 1 & 3 with Appendix 3 detailing the projected annual rental income by individual property. A positive variance of £100 has been realised due to arent review resulting in slight increase to rent due at Old Castleriggs Grazings.

4.3 **Income & Expenditure – Non-Property Related Income**
Also included are dividends from Newton until the point of disinvestment (£5,966) and the first monthly dividend from Kames Capital amounting to £994. The projected budget for 2018/19 includes a full year estimate of the Kames dividend amounting to £12,429, reflecting the fact that Kames have historically generated and also target dividend income in the region of 5% of total investment.

4.4 The final outturn shows an amount of (£68) relating to interest receivable on cash held by SBC.

4.5 **Income & Expenditure – Property Expenditure**
The property expenditure to 31 March 2018 is detailed in Appendix 3 by property. Costs to replace kitchen doors and worktops at Lauderhill Farmhouse as well as external pointing are anticipated to amount to £2,700.

4.6 **Income & Expenditure – Grants & Other Donations**
The grants and other donations distributed and committed to 31 March 2018 are shown below.

Grant Recipients	Approved	£
Approved and Paid to 31 March 2018		
Lauder Golf Club – Ride-on Mower	20/06/17	5,000
Lauder Amateur Dramatics Society	22/09/17	500
Total Paid to 31 March 2018		**5,500**
Approved Budget 2017/18		**6,300**
Unallocated/(Overallocated) Budget		***800***

4.7 **Income & Expenditure – Running Costs**
As part of the move from Newton to Kames Capital, a fee of £15,000 was incurred for KPMG, the Council's Pension Fund Investment advisor for their role in the selection and recommendation of Kames. This cost has been apportioned across Common Good and Trust Funds, as approved at Council on 21 December 2017, resulting in a charge to Lauder Common Good of £852.

4.8 As approved in the Scottish Borders Council Financial Plan for 2018/19, the SBC grant paid to Common Good Funds towards the Central Support Service Recharge has been removed. This has resulted in a net expenditure budget for Running Costs for 2018/19 of £9,762.

4.9 **Income & Expenditure – Depreciation Charge**
The depreciation charge is projected to be £11,493. 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.

4.10 Appendix 2 provides the balance sheet value as at 31 March 2018, the projected movement in year and a projected balance at 31 March 2019.

4.11 **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 2017/18 and projected value at 31 March 2018.

4.12 **Balance Sheet – Investment Fund**

(a) As reported at the last Lauder Common Good Sub-Committee meeting on 20 February 2018, the disinvestment from the Newton Fund was carried out in early February just prior to the opening of the Kames Capital account. This was at a time when volatility of global equity markets increased and UK markets began to slide due to indications from the Bank of England around sooner than anticipated interest rate rises. In turn the market value of the Newton Fund was negatively impacted and a realised loss on investment amounting to £803 was incurred. However, this was largely off-set by the first monthly dividend payment of £997 at the end of March.

(b) The Kames Capital Diversified Income Fund was chosen to replace Newton following a procurement process carried out in January 2018. The total return delivered by Kames over a 1 year and a 3 year period as at September 2017 were both in the region of 10%. Part of this total return includes a targeted 5% dividend income generation and a 2% to 3% capital growth over the medium term. The fund holds diversified assets across a wide range of investments, tailored to target half to two thirds the volatility of global equities.

(c) Unfortunately, due to the increase in market volatility which started in February, the value of the Kames Fund fell by 0.3% as at 31 March 2018, resulting in an unrealised loss at this time of £803.

4.13 **Balance Sheet – Long Term Debtors**
Long Term Debtors have reduced by £2,904 in 2017/18 and are projected to reduce by the same amount in 2018/19, leaving a balance at 31 March 2019 of £2,094 which is projected to be paid in full in 2019/20.

4.14 **Balance Sheet – Cash Balance**
The cash held by the fund is projected to be £27,711 at 31 March 2018 and is detailed below:

Cash Balance	£
Opening Balance at 1 April 2017	**21,265**
Repayment of Principal (Long Term Debtors)	
Lauder Golf Club Loan	2,904
Projected Surplus/(Deficit) for year from Income & Expenditure Statement	576
Net movement in debtors / creditors	2,966
Closing Balance at 31 March 2018	**27,711**

4.15 **Balance Sheet – Capital Reserve**
The projections for the Capital Reserves include the unrealised gain for the Newton Fund as at 31 March 2018 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 Kames 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, 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 **Signature .....**
Chief Financial Officer

Author(s)

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Background Papers:
Previous Minute Reference: Lauder Common Good Committee 20 February 2018

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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APPENDIX 1

LAUDER COMMON GOOD FUND

INCOME AND EXPENDITURE 2017/18

	Actuals at 31/12/17 £	Full Year Approved Budget 2017/18 £	Over/ (under) Spend 2017/18 £	Proposed Budget 2018/19 £	Para Ref	Commentary
Property Income						
Rentals Receivable	(11,015)	(10,915)	(100)	(11,015)	4.2	
Non-Property Related Income						
Interest on Cash deposited with Council	(68)	(68)	0	(67)	4.4	
Investment Fund Dividends	(6,963)	(6,193)	(770)	(12,429)	4.11	
Total Income	**(18,046)**	**(17,176)**	**(870)**	**(23,511)**		
Property Costs – General	**5,459**	**5,000**	**459**	**7,500**	4.5	
Grants & Other Donations	**5,500**	**6,300**	**(800)**	**2,600**	4.6	
Realised Loss on Newton Fund Disinvestment	**1,429**	**0**	**1,429**	**0**	4.11	
Running Costs						
Central Support Service Charge	9,762	9,762	0	9,762	4.8	
SBC Grant towards Service Charge	(5,531)	(5,531)	0	0		
Procurement Costs	852	0	852	0	4.7	
Net Running Costs	**5,083**	**4,231**	**852**	**9,762**		
Depreciation						
Depreciation Charge	11,493	11,493	0	11,493	4.9	
Contribution from Revaluation Reserve	(11,493)	(11,493)	0	(11,493)	4.9	
Net impact of Depreciation on Revenue Reserve	**0**	**0**	**0**	**0**		
Total Net (Surplus)/Deficit for year	**(576)**	**(1,645)**	**1,070**	**(3,649)**		

APPENDIX 2

LAUDER COMMON GOOD FUND

BALANCE SHEET VALUE AS AT 31 March 2018

	Opening Balance at 01/04/17 £	Movement in Year £	Closing Balance at 31/03/18 £	Projected Balance at 31/03/19 £
Fixed Assets				
Land & Buildings	1,004,621	(11,493)	993,128	981,635
Heritable Assets	0	0	0	0
Total Fixed Assets	**1,004,621**	**(11,493)**	**993,128**	**981,635**
Capital in Investment Funds				
Investment in Newton Fund	250,000	(1,428)	248,571	248,571
Unrealised Gains/(Loss)	8,038	(8,841)	(803)	(803)
Market Value	**258,038**	**(10,269)**	**247,768**	**247,768**
Long Term Debtors				
Loan to Lauder Golf Club	**8,713**	**(2,904)**	**5,809**	**2,904**
Current Assets				
Debtors	7,407	123	7,530	7,530
Cash deposited with SBC	21,265	6,446	27,711	34,264
	28,672	**6,569**	**35,241**	**41,794**
Current Liabilities				
Creditors	0	(2,700)	(2,700)	(2,700)
Receipts in Advance	(591)	(390)	(981)	(981)
	(591)	**(3,090)**	**(3,681)**	**(3,681)**
Net Assets	**1,299,453**	**(21,187)**	**1,278,266**	**1,270,421**
Funded by:				
Reserves				
Revenue Reserve	(31,793)	(576)	(32,368)	(36,017)
Capital Reserve	(264,688)	10,270	(254,418)	(254,418)
Revaluation Reserve	(1,002,971)	11,493	(991,479)	(979,986)
Total Reserves	**(1,299,453)**	**21,178**	**(1,278,266)**	**(1,270,421)**

APPENDIX 3

LAUDER COMMON GOOD FUND

PROPERTY PORTFOLIO PERFORMANCE FOR 2017/18
(Actual Income and Expenditure to 31 March 2018)

Fixed Assets – Land & Buildings	**Net Book Value at 31/03/17**	**Depn Charge 2017/18**	**Net Book Value at 31/03/18**	**Rental Income 2017/18**	**Actual Property Expenditure at 31/03/18**				
					Repairs	Rates, Water & Power	Ins	Other	**Total**
	£	**£**	**£**	**£**	**£**	**£**	**£**	**£**	**£**
Lauder Cemetery	0	0	0	0	0	0	0	0	**0**
Croft Road Play Area (East Side)	0	0	0	0	0	0	0	0	**0**
Lauder War Memorial	0	0	0	0	0	0	0	0	**0**
Old Castleriggs Grazings	7,000	0	7,000	270	0	0	0	0	**0**
Raiths Acre & Chesters Acre	12,000	0	12,000	235	0	0	0	0	**0**
Lauder Golf Course	72,500	0	72,500	0	0	0	0	0	**0**
Lauder Town Hall	51,330	6,890	44,440	0	465	2,182	0	112	**2,759**
Lauder Common Farm	799,171	1,943	797,228	8,800	2,700	0	0	0	**2,700**
Lauder Common Farm Shootings	12,000	0	12,000	1,200	0	0	0	0	**0**
Lauder Common Plantations	5,000	0	5,000	0	0	0	0	0	**0**
Land Refuse Tip (1) Grazings	1,500	0	1,500	105	0	0	0	0	**0**
Land Refuse Tip (2) Grazings	1,500	0	1,500	105	0	0	0	0	**0**
Calfward Park Grazings	6,500	0	6,500	210	0	0	0	0	**0**
Burnmill Woodland	0	0	0	0	0	0	0	0	**0**
Lauder Library (Old Jail)	21,520	2,660	18,860	0	0	0	0	0	**0**
Old Castleriggs Recreation Grnd	0	0	0	0	0	0	0	0	**0**
Land at Lauder Village Hall	11,500	0	11,500	0	0	0	0	0	**0**
Land at Lauder Public Toilets	600	0	600	0	0	0	0	0	**0**
Pavilion Site	2,500	0	2,500	0	0	0	0	0	**0**
Lauder Play Park	0	0	0	0	0	0	0	0	**0**
Lauder Recreation Park	0	0	0	0	0	0	0	0	**0**
Property Expenditure (Summary)	-	-	-	-	0	0	0	0	**0**
Total	**1,004,621**	**11,493**	**993,128**	**11,015**	**3,165**	**2,182**	**0**	**112**	**5,459**

Fixed Assets – Moveable Assets
Charter Snuff Mull Certificate of Matriculation, Royal Burgh of Lauder 1938 Burgess Roll (2) Map of Burges Acres, Royal Burgh of Lauder 1803 Set of Imperial Weight and Measures Brass Yard Stick 1824 Burgh of Lauder Seal Provosts Chain Provosts Robes Silver Punch Ladle o/w Toddy Ladle 1831

APPENDIX 4

LAUDER COMMON GOOD FUND

INVESTMENTS EXTERNALLY MANAGED

Cost of Investment	Units	£
Initial Investment - 13 December 2013	104,295	195,000
Further 2013-14 Investments	2,530	5,000
Further 2015-16 Investments	21,041	40,000
Further 2016-17 Investments	5,290	10,000
Newton Fund Disinvestment (February 2018)	131,181	(250,000)
Kames Capital Investment (February 2018	229,584	248,572
Total Invested to 31 March 2018	**229,584**	**248,571**

Value of Investment	£
31 March 2017	248,812
30 June 2017	260,942
30 September 2017	255,029
31 December 2017	250,000
31 March 2018	248,572
Increase/(Decrease) from Total Cash Invested	**1,428**