



Glasgow City Council

Executive Committee

Report by City Treasurer, Councillor Stephen Curran

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Item 3

23rd January 2009

Common Good Fund Policy

Purpose of Report:

The purpose of this report is to review existing arrangements for the governance, budget and investment strategies and incorporate them into a documented policy for the Common Good Fund. The aim of these proposals is to strengthen current governance arrangements and clarify the investment strategy for the investments of the fund.

Recommendations:

It is recommended that the Executive Committee approve revised governance arrangements and policy as set out in the report.

Ward No(s):

Citywide: x

Local member(s) advised: Yes No Consulted: Yes No

Revised Governance Arrangements for Common Good Fund

1. Introduction

- 1.1 The work plan for the Finance, Corporate and Trading Services Policy and Scrutiny Committee included reviewing the Governance and policy of Common Good Fund. The Committee considered the policy, as set out in this report, at its meeting on 3 December 2008 and remitted it to the Executive Committee for consideration and decision.
- 1.2 The governance of the Common Good Fund is undertaken in accordance with legislative and accounting practice requirements however the existing arrangements for its administration have not been subject to review for a number of years. The purpose of this report is to present a documented policy that incorporates revised governance arrangements, budget and investment strategies for the Common Good fund. The aim of this policy proposals is to strengthen current governance arrangements and clarify the investment strategy for the investments of the fund as set out in this report. The policy at its meeting on 3 December 2008 and remitted it to Executive Committee for consideration and decision.

2. Existing Arrangements

- 2.1 The existing arrangements for governance of the Common Good Fund are based on scrutiny of the budget and monitoring of expenditure as undertaken by this Committee. The Executive Committee have responsibility for approving the Common Good Fund budget at the start of the financial year at the same time as the detailed Service budgets are approved.
- 2.2 In addition, this Committee receives reports detailing Civic Hospitality approved by officers and which comprise the majority of expenditure from the Common Good Fund. Where the cost of a function exceeds £10,000 the decision has to be taken by the Executive Committee.
- 2.3 Over recent years the expenditure budget for the Common Good fund has exceeded the budgeted level of income raised through investments and rentals from investment properties. This approach reduces the value of the Fund and is therefore not sustainable. In 2007-08 this position changed and a significant surplus was made on the Common Good fund. This was as a result of gains on investments due to which, in line with revised proper accounting practice, are now shown through the Common Good Income and Expenditure Account rather than directly through the balance sheet.
- 2.4 Investments for the Common Good Fund are currently managed by Ruffer LLP and as at March 2008 these totalled £10.8 million. Ruffers approach is based on capital preservation and low volatility of returns. Their performance objective is to achieve a positive total annual return, after all expenses, of two times the Bank of England base rate. This return on investment comprises both dividend income and capital gains on revaluation or sale. Ruffer have managed the investments since June 2007. Their performance for the year to 30th June 2008 was a return of +6.53%. The performance of Ruffer is independently verified but is currently only reported to officers.

3. Proposed Changes

- 3.1 In line with existing governance arrangements, scrutiny of the budget for Common Good and its regular monitoring by this Committee will continue. In addition, the Executive Committee will continue to approve the budget. However, in preparing the budget for 2009-10 and future years it is proposed that the overall capital value of the Common Good Fund is not eroded and this will be reflected when setting the expenditure and income budgets for the Fund or when any operational decisions are taken.
- 3.2 The Investment strategy for the Common Good Fund will be as set out in paragraph 2.3 above. It is proposed that in future the performance of the investments of the fund will be reported to this Committee on a twice-yearly basis.
- 3.3 Based on the above a policy for the administration of the Common Good Fund is set out in Appendix 1.

4. Service Implications

- 4.1 Financial: None
- 4.2 Legal: None.
- 4.3 Personnel: None
- 4.4 Service Plan: None

5. Recommendations

- 5.1 It is recommended that the Executive Committee approve the Governance Arrangements and Policy relating to Common Good Fund.

COMMON GOOD FUND POLICY

Governance Arrangements

1. The governance of the Common Good Fund is undertaken in accordance with legislative and accounting practice requirements. The Annual Accounts state that the most concise statement of the administration of the Common Good Fund is contained in a judgement of Lord Kyllachy - "the Common Good is corporate property and falls as such to be administered by the Council - and applied by this for the benefit of the community in such manner as, and using reasonable judgement as they think proper".
- 2(i) The annual budget for the Common Good Fund will be approved by the Executive Committee. This will be incorporated into the report approving the detailed Service budgets.
- (ii) The Council shall make every reasonable effort to include all known assets, both moveable and immovable in the Common Good Asset Register. A note to the Accounts will direct the public to a list of the assets and set out on Council website. The list to include operational assets or otherwise.
- 3(i) The Finance, Corporate and Trading Services Policy, Development and Scrutiny Committee will monitor the budget for the Common Good Fund. (Four-weekly)
- (ii) The Finance, Corporate and Trading Services Policy, Development and Scrutiny Committee shall review annually the purposes of the Fund and recommend for approval to the Executive, for implementation for the coming financial year. The purposes and issues for applying for funding shall be a matter of public information on the Council's website.
4. The Finance, Corporate and Trading Services Policy, Development and Scrutiny Committee will monitor the performance of the investments of the Common Good Fund. (Twice-yearly)

Budget Strategy

5. The budget strategy is to maintain the capital value of the Common Good Fund, allocate income appropriately and sustain the assets. This will be reflected when setting the expenditure and income budgets for the Fund or when any operational decisions are taken.

Investment Strategy

- 6(i) The objective of the investment strategy is to protect the capital value of Common Good investments and to achieve a return on investments of 2 times the Bank of England Base Rate. The strategy to achieve this objective will be determined by the Investment Manager but will take into account the principles of Responsible Investment as used in the governance of Strathclyde Local Government Pension Scheme.
- (ii) The physical assets held on the Fund should be part of a clear asset management strategy to enhance the value of the Fund.