

## 1: INTRODUCTION

As well as managing "operational" budgets on a year to year basis, Selby Town Council takes pride in also managing its sustainable long term future. This document explains how this is being achieved.

## 2: EAR MARKED RESERVES

Selby Town Council has established a number of Earmarked Reserves (EMR's) to allow for future expenditure commitments. Each one of these EMR's has been built up over a number of years by "topping up" the appropriate EMR from the annual operational accounts. At this time, none of these EMR's has been funded from the disposal of any capital assets.

Town Council approval is required for any expenditure from Earmarked Reserves.

At the annual Budget Setting Meeting, Selby Town Council decides the values to be allocated from forthcoming year's operational expenditure in to each EMR.

Selby Town Council also considers whether any unallocated balances (eg at financial year end) should be re-allocated to some / all of the EMR's.

The purpose and operation of each of the EMR's is detailed below.

### **Abbey Clock Fund**

#### Purpose:

To fund the electrification of the Selby Abbey clock as and when a grant funding is also available.

#### Method of operation:

This fund is currently static - ie it is not being topped up each year. It is being kept until a suitable opportunity for grant funding arises. Such funding is highly likely to require a proportion of match funding - which is the purpose of this EMR.

#### Background:

The current Abbey clock relies on a relatively fragile clockwork mechanism. Not only does this require winding at regular intervals (incurring a cost), it also means that the mechanism is vulnerable to failure - both from regular mechanical wear and tear, and from the processes required to isolate the bells when the bells are rung manually.

#### Investment strategy:

Appropriate grant funding (as and when identified) is likely to take some time to draw down. It is therefore appropriate for the value of this fund to be invested on a six/twelve month term.

### **Capital Fund**

#### Purpose:

To enable the purchase of NEW capital assets (eg buildings or land) as and when an opportunity arises that Selby Town Council wishes to pursue. This fund is also (occasionally) used for the purchase of small assets (eg air conditioning units for the town hall), but this is not the primary purpose of this fund.

### Method of Operation:

This is an active fund - ie it is topped up each year from the annual operational budget. The intention is to build up a suitable fund that can be used for outright purchase (or to provide a significant "deposit" in conjunction with loans) to purchase buildings / land. Such assets might be purchased solely by Selby Town Council or in partnership with other organisations. Because the size of capital asset that is likely to be purchased cannot yet be predicted, there is no upper target value for this fund.

### Background:

Previous opportunities to purchase land (eg to secure open recreational land) have not been successful because Selby Town Council did not have sufficient funds available. As this fund grows, it will put Selby Town Council in a stronger position as and when a suitable opportunity arises to purchase land or buildings that would benefit Selby Town Council (for instance, for recreational open space, expansion of the Town Hall arts provision).

### Investment strategy:

Suitable land or buildings may come on the market at short notice, so the value of this fund should not be tied up beyond twelve months. However, the legal arrangements required to purchase such assets make it appropriate to invest the value of this fund on a six/twelve month term.

## **Cemetery Perpetuity / Maintenance Fund**

### Purpose:

To enable the continued maintenance of Selby Cemetery after it ceases to yield a regular income (ie when it becomes full and "inactive"). Whilst this EMR is intended for use after the cemetery becomes inactive, it has been used for occasional larger refurbishment and repairs (eg resurfacing of the paths), although this is not its primary purpose.

### Method of Operation:

Part of the normal Cemetery Charges are identified as being a contribution to this EMR. At the end of each year, the relevant amount of earned income is added to this EMR. The future cost of running an inactive cemetery cannot be predicted at this stage, so a target value has not yet been set. It is likely that a future inactive cemetery would still rely on subsidy through the precept - but this fund will reduce the precept subsidy required from future generations.

### Background:

Whilst the Cemetery currently appears (at face value) to generate enough earned income to cover its costs, the Cemetery Expenditure budget does not take in to account staff costs, overheads etc (which are covered in other budget headings). As a result, the Cemetery is, in reality, subsidised through the precept. Whilst the cemetery currently has an amount of un-used space, there will come a time when it is effectively full. This will result in virtually no earned income to offset the ongoing maintenance costs (eg grass cutting etc will need to continue). Rather than the precept having to be increased to balance all the loss of earned income, this fund can be drawn down to fund ongoing maintenance and repair of the inactive cemetery.

Whilst closed cemeteries may (currently) be transferred to Selby District Council, it is not possible to guarantee that this arrangement will be available in the future, nor whether Selby Town Council would wish to transfer its cemetery to another authority.

### Investment strategy:

The cemetery has an active future for a number of years, so the value of this EMR can be invested long term (eg five years plus). To allow for the occasional use of this fund for current repairs, the investment strategy has allowed for only 50% of the annual "top-ups" to be added to this fund, allowing the other 50% of the top ups to be available for shorter term repairs should they be necessary. This is considered a "safe side" assumption.

### **Cemetery Trees Fund**

#### Purpose:

To fund the planting of more trees in the newer parts of the cemetery (including the farm field).

#### Method of Operation:

This fund is currently static - ie it is not being topped up each year. It is being kept until further parcels of the cemetery / farm field are about to come on-stream for burials, at which stage a planting layout will be developed and implemented (prior to burials starting to take place in each parcel of land).

#### Background:

The original parts of the cemetery are graced with a beautiful arrangement of mature trees, including a wonderful avenue of copper beeches. The initial phase of the newer cemetery was brought in to use without any trees being planted and, by comparison, looks bare and relatively uninteresting. A tree planting scheme was implemented in the part of the new cemetery that was not (at that time) being used for burials, so that a framework of trees would eventually mature to provide a similar arrangement of avenues. This area is now being used for burials, with the burials taking place around the saplings. Tree planting also assists (in a small way) in providing habitats for wildlife and for capturing carbon dioxide.

#### Investment strategy:

The value of this EMR is relatively small, which means that it could probably be mobilised from the current account, which could then be replenished from either the short term (six/twelve month) investments or longer term (eg five year plus) investments.

### **Asset Replacement Fund**

#### Purpose:

To fund the replacement or major refurbishment of Selby Town Council's assets.

#### Method of Operation:

This is an active fund - ie it is topped up each year from the annual operational budget. The intention is to maintain adequate funds so that Selby Town Council's assets can be replaced when they are life expired. The annual top-up value was validated at Finance & Staffing on 13/10/2014 by a review of predicted asset replacements, based on the current asset register and predicted replacement dates. At this stage, inflation was not included in the calculations, but was considered to be a relatively minor factor when compared to the more significant variables of asset life.

#### Background:

Before the Asset Replacement Fund was established, any major asset replacement (eg purchase of a replacement van, tractor etc) had to be found from the annual operational accounts. This risked the operational accounts going in to deficit &/or the

need for a sudden and significant increase in the subsequent year's precept to replenish the money spent. By setting aside a regular amount each year and maintaining an appropriate level in this EMR, assets can be replaced without the resulting instability in the precept.

### Investment strategy:

The predicted spend from the Asset Replacement EMR has been analysed (as above) to determine the values that are likely to be required in the short, medium and longer term. Therefore, the value of this EMR can be spread across short term (six/twelve month) investments and longer term (eg five year plus) investments.

### **Election Costs Fund**

#### Purpose:

To fund the costs payable by Selby Town Council relating to regular four-yearly elections and by-elections as they arise.

#### Method of Operation:

This is an active fund - ie it is topped up each year from the annual operational budget. The annual top up value is set at just over a quarter of the last known "all-out" election cost.

#### Background:

Before this EMR was established, the election costs would have been met (every four years) from the annual operational accounts, with the risk that the operational accounts would go in to deficit, or a four-yearly cycle of the precept having to be higher than other years. Establishing this fund enables the precept figure to remain stable, with the cost of elections being spread across the years.

#### Investment strategy:

The cost of elections and their frequency are easy to predict (with the exception of by-elections). It is therefore possible to predict the values from this EMR that can be spread across short term (six/twelve month) investments and longer term (eg five year plus) investments.

### **Longmann Hills Farm Fund**

#### Purpose:

To fund the refurbishment of the Longmann Hills Farmhouse so that it can be brought in to use as a residential property for letting.

#### Method of Operation:

This account is no longer in operation, seeing as the refurbishment has been completed. The annual operational budgets allow for expected regular maintenance, and the Asset Replacement EMR allows for any major future refurbishments etc. This EMR is included here to explain why this EMR has appeared in previous records, but no longer appears in current documentation.

### **Reserves Fund**

#### Purpose:

To fund the cost of continuing Selby Town Council's operations in the event of significant income streams being delayed (eg Selby District Council not transferring Selby Town Council's precept) or the cost of winding up Selby Town Council's operations.

### Method of Operation:

This is an active fund - ie it is topped up each year from the annual operational budget. The value of this EMR (as at October 2014) represents approximately one twelfth of Selby Town Council's annual budget. It, therefore, represents approximately one month's running costs (or just over two months staff salary costs). One month is a relatively short duration, so the intention is to increase the value of this EMR until three or six months' worth of running costs is allowed for.

### Background:

If there was a delay in Selby District Council transferring the precept to Selby Town Council, this fund would enable some of our key our operations (eg paying staff) to continue for a limited period. Similarly, if Selby Town Council were to be wound up, this EMR would contribute to the payment of winding up costs (eg redundancy)

### Investment strategy:

The probability of needing to use this fund is relatively low and, in such unlikely and problematic circumstances, any loss of interest would be an insubstantial issue by comparison. It is therefore appropriate for the value of this EMR to be invested longer term (eg five year plus).

## **Short Term Reserve Fund**

### Purpose:

To fund any shortfalls that may arise from further changes in the Tax-Base Calculation or similar changes to the way Council Tax is calculated from the precept.

### Method of Operation:

This is a static fund – ie it is not being topped up each year. It is being kept as mitigation against any further changes in the way Council Tax is calculated which might otherwise lead to a sudden and significant increase in Council Tax (despite keeping the precept under control) or a sudden and significant reduction in Selby Town Council's expenditure budgets (if the Council Tax is kept the same).

### Background:

Up to (and including) 2012/13, the number of Band-D equivalent properties ("Tax Base") in the Selby Town Council area increased steadily each year. This meant that reasonable increases in the total running costs resulted in very small increases in the Council Tax. However, in 2013/14, Central Government radically changed the way that the Tax Base was calculated, resulting in a significant reduction in the number of Band-D equivalent properties. This meant that even a zero increase in running costs would have resulted in a significant jump in Council Tax. The alternative would have been significant reduction in total running costs, just to keep the Council Tax within reasonable limits. This fund was established to guard against further sudden changes in the Tax Base / Council Tax formulae and therefore avoid sudden increases in Council Tax or sudden cuts to funding and services.

### Investment strategy:

Given that the previous change to the Tax Base Calculation happened with virtually no warning, it is possible that future changes might also come unannounced. Therefore, the value of this fund should not be tied up beyond twelve months – but a six / twelve month investment term is appropriate.

## Efficiency Savings Fund

### Purpose:

To enable the purchase of plant / equipment or other assets that would result in significant efficiencies and reductions in future running costs.

### Method of Operation:

This is a static fund – ie it is not being topped up each year. It is being kept so that funds are available when the opportunity arises to purchase plant / equipment etc that would reduce ongoing expenditure in the long term.

### Background:

The changes to the Tax Base in 2013/14 (described above) were initially offset by a grant from Central Government. In 2014/15, the amount of this grant passed on from Selby District Council to Selby Town Council was reduced. It is anticipated that this grant funding will dry up, leaving Selby Town Council with a reduced Tax Base. There is a risk that normal “cost of living” increases in running costs may then result in disproportionate increases in Council Tax. Selby Town Council needs to have funds available to exploit new (or existing) technology as and when they arise, which can reduce running costs in the long term.

### Investment strategy:

It is difficult to predict when a suitable opportunity may arise; if the value of this fund were tied up for a long period, Selby Town Council may miss that opportunity. It is considered appropriate to invest the value of this fund on a six / twelve month term.

## 3: INVESTMENT STRATEGY

Selby Town Council recognises its duty to the Council Tax payers of Selby Town to use their money wisely. Therefore, Selby Town Council seeks to maximise the interest / return on the money it holds on behalf of Selby Town Residents, without incurring inappropriate risks. This will enable the value of the money held to increase, thereby decreasing the impact on future precepts.

Selby Town Council has determined the value of combined EMR funds that need to remain available for short-term / short-notice use, and the value of combined EMR funds that can be invested on a longer term basis. This has been done by analysing

- the current value of each EMR fund
- the anticipated top-ups to each of the EMR funds (again, over a nine-year time frame)
- Where expenditure can be predicted with a fair degree of confidence, the anticipated expenditure from each of the relevant EMR funds (initially over a nine-year timeframe)
- Where expenditure cannot be predicted with a fair degree of confidence, the nature and predictability of the expenditure, and the consequences of not having that money readily available.

Selby Town Council has therefore decided to invest in the following:

- a) Longer Term Investments which are likely to result in a higher rate of return over an extended timeframe (eg 5-years or more). This may include investments in suitable approved property funds or similar.

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- b) Twelve-Month Maturity Fixed Rate Investments, which are likely to yield less than the longer term investments, but more than shorter term investments.
- c) Six-Month Maturity Fixed Rate Investments, which are likely to yield less than twelve-month investments, but more than a current account.
- d) An interest bearing current account for normal day-to-day running of Selby Town Council.

The values invested and the type of investments will be reviewed before the maturity of each fixed term investment and at least every year.

Fred Matthews  
Chair of Finance & Staffing, Selby Town Council

<b>Status</b>	Approved
<b>Approved by Full Council</b>	24 November 2014
<b>Date of next review</b>	24 November 2015 (annually pre budget)
<b>Cross-Reference Documents</b>	None