ENCLOSURE 3

KTC Financial Reserves Forecast – Year End 2021/2022

Prepared by Cllr Rob Barry, Chair of Finance and General Services Committee

Dated 08/05/2022

1. Introduction

This document has been produced as required by the KTC Reserves Policy which states:-

"The reserves will also be considered as part of the budget setting process. This is to include a general reserves projection over an eight-year period beyond the year being budgeted for. This is to demonstrate how the general reserves are forecast to be maintained within the levels detailed in item 3.3 over the longer term. This information is to be presented as part of the approval of the budget for the forthcoming year."

Section 3.3 of the Financial Reserves Policy states:

"The Council will plan to retain a level of general reserves of ***not less that £75,000*** *and must not exceed 100% of its annual expenditure."*

Note that this report specifically relates to the 'General Reserves' and therefore does not include the earmarked reserves.

2. Input values to the forecast

Description	Amount	
General Reserve in year-end accounts for 2021/2022	£169075	Note 1
Budgeted increase/(decrease) in General Reserve level for 2022/2023	(£22600)	Note 2
The budgeted precept income for 2022/2023	£204280	Note 2
The budgeted total expenditure for 2022/2023	£235377	Note 2
The budgeted income excluding the precept for 2022/2023	£8497	Note 2
The budgeted gross salaries for 2022/2023	£95000	Note 2

Notes to table

Note 1: This figure is taken from the '2021/22 Balance Sheet as at 31st March 2022' which was published as Enclosure 2 for the KTC Town Assembly on 5th May 2022.

Note 2: These figures have been taken from the 'PROPOSALS FOR BUDGET 2022 -2023' which was published as Enclosure 8 and approved by KTC on 13th January 2022.

3. Forecasting variables

The actual budget levels set at future budget setting are a matter for the council at that time and will also take into account proposed changes of strategy and priorities. This forecast does not impose any limitation on the actions of the council in making these decisions. Although the council must adhere to any relevant policies.

There are a large number of budget lines but the following are considered as the main items to be considered in creating this forecast.

- Income
  - Precept
  - Other Income

- Expenditure
  - Gross Salaries
  - Other Expenditure

Note that 'Other Expenditure' could also be split into 'semi-variable' and 'discretionary'. For example, the semi-variable elements would include the items that fall under 'Administration'.

Examples of discretionary which provide easier levers to adjust the budgeted expenditure levels are:-

- General Projects and Grants
- Working Group Initiatives
- Town Event Support
- Tourism Development

However, as decisions about budget levels for these budget lines fall within the strategy and priority element of budget setting these are included together in 'Other Expenditure' for the purposes of these forecasting guidelines.

4. Financial Forecasts of General Reserve Levels

The following forecasts include the following limitations as follows: -

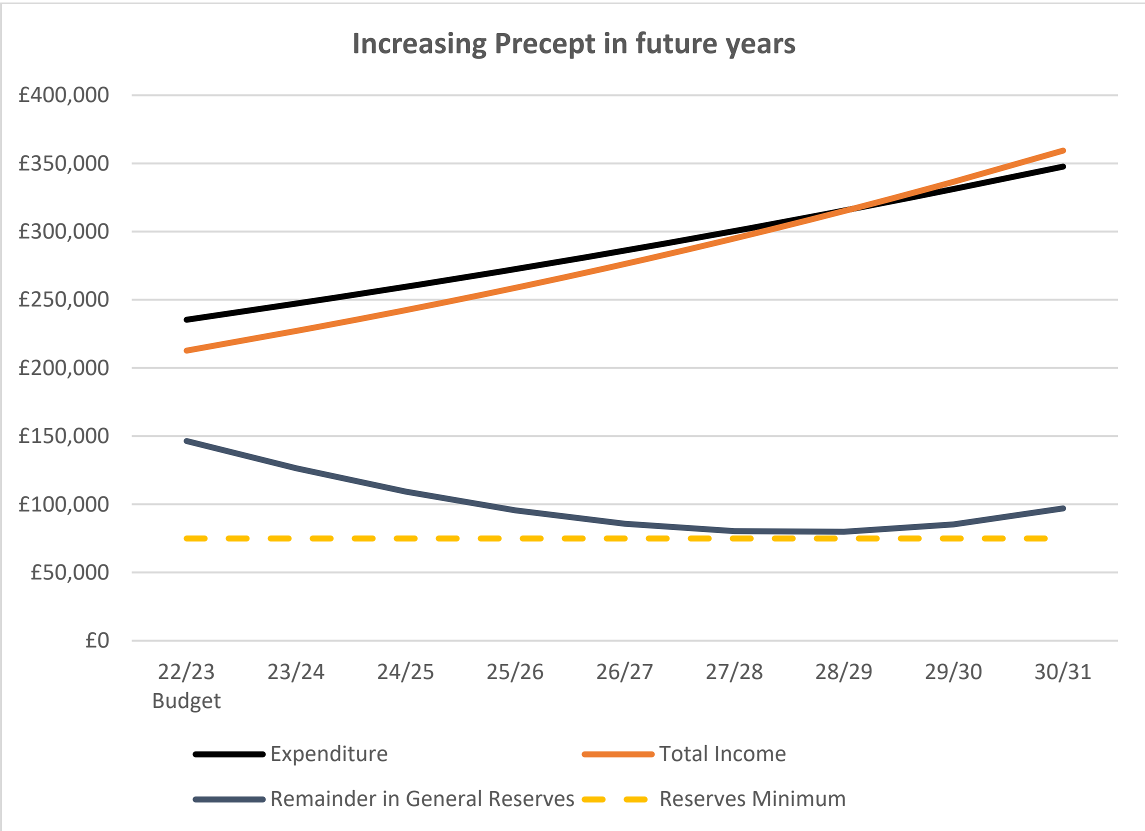
- It is assumed that the annual changes in the forecasting variables will remain for the whole period of each projection.
- The forecast does not account for actual over/underspends. Although these will affect the actual levels of reserves, they cannot be taking into account when looking at budgeting strategy. It is not logical for an under/over spend to be included for future years. At the point of the budget being set the assumption is that it will be met.

Forecast 1 – Increasing the precept

Scenario: The Town Council increases the precept in order to meet expenditure from income.

Note that for this forecast the expenditure has been set to increase by 5% a year due to inflation. In previous forecasts this has been set to 2%. However, given the current national inflation rate it is deemed prudent to increase this. Note that as the vast majority of the income is through the precept raised, any adjustment to the percentage increase in expenditure would require a similar increase in the precept level.

By increasing the precept by **7%** per year from 2023/2024 we would continue to see reserves fall until 2028/29 but not go below the threshold set.



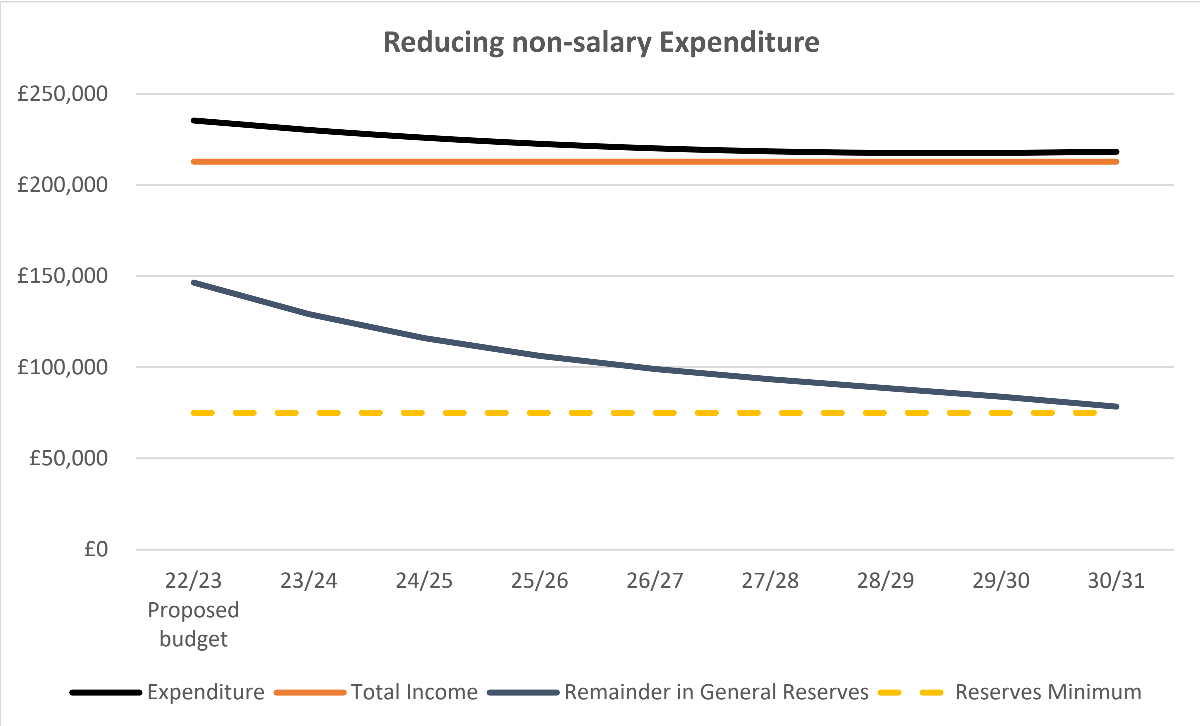
Forecast 2 – Decreasing the non-salary expenditure

Scenario: The Town Council decreases the non-salary expenditure in order to meet expenditure from income.

Note that for this forecast the salary related expenditure has been set to increase by 5% a year due to inflation and all income is set to be the same value as budgeted in 22/23. In previous forecasts the increase in salary related expenditure was set to 2%. However, given the current national inflation rate it is deemed prudent to increase this.

Reducing non-salary expenditure by **7.1%** per annum would ensure that the General Reserves remain above the minimum permitted level over the 8-year forecast period.

However, with the higher increase rate used for salary related expenditure this results in the salary increase being greater than the non-salary decrease by 30/31. As a result, if this scenario was extended beyond the 8-year forecast the reserves minimum limit would be breached.



5. Conclusion

The year-end figures for 21/22 and budget set for 2022/23 do not contravene the levels of the general reserve as detailed in the Reserves Policy.

Budgets set beyond 22/23 will need to consider how the balance between income and expenditure is to be managed to maintain the levels of the reserves. The main levers in the budget are the precept level and the ‘discretionary expenditure’ items.

It is important that these forecasts are an integral part to the budget setting process and the Chair of the F&GS committee will provide support upon request to any council member in generating forecasts as they formulate a budget proposal.

It would be a fairly straight-forward exercise to provide forecasts that include a one-off reduction/increase in a single year if required at budget setting.