Kenilworth Town Council (KTC) Financial Reserves Forecast

Background:

KTC has a general reserves policy as stated below. This requires councillors, when setting an annual budget, to ensure that, at the very least, the minimum general reserves level will not be breached.

The precept received by KTC is the Council's main source of income. It's the income received from Warwick District Council as our share of Council Tax collected by WDC. It is determined by whatever rate of tax is agreed by KTC for a typical Band D household in Kenilworth at its January meeting based on a recommendation of the Finance & General Services Committee meeting in the preceding December. The number of households in Kenilworth is forecast to increase significantly in the next few years when 2,000+ new properties (or more than 15% of the existing number of properties) new are built. The forecast in this paper does NOT, however, take account of the number of new properties built in Kenilworth because this is determined by market conditions and outside KTC's control. As a result, the forecasts have significant inbuilt caution.

KTC also gets income from other sources. These include rent from the allotments, and from castle passes. This income is included in these forecasts because it is within the control of KTC. However, other sources of income – e.g. grant income from WDC, WCC or other sources for specific spending – are excluded because a) they're not wholly within the control of KTC and b) are often received unexpectedly during a financial year. This adds to the conservative nature of the forecasts.

These forecasts do not include any income from Community Infrastructure Levy or spending on CIL projects. The forecast spending does include, however, the cost of staff time spent on managing CIL income and spending.

Over the past 12 months the rate of inflation has reduced but is still uncertain so these forecasts exclude inflation.

Finally, these forecasts take no account of any possible future change in KTC's general reserves policy.

Reserves policy

The KTC Reserves Policy 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."*

This Policy has been agreed in accordance with good governance principles. This report relates only to 'general reserves'. It excludes both earmarked reserves (reserves allocated for specific purposes) and hidden reserves (reserves arising when an asset or assets is or are undervalued in KTC's balance sheet).

The budgeted amount to be transferred from/to the general reserves is the budget deficit/surplus and is the difference between KTC's budgeted income and spending.

Useful Input values to the 2024/25 forecast

Description	Amount	
General Reserve in year-end accounts for 2023/2024	£162,614	Note 1
Budgeted increase/(decrease) in General Reserve level for 2024/2025	(£20,000)	Note 2
The budgeted precept income for 2024/2025	£249,555	Note 2
The budgeted total spending for 2024/2025	£298,625	Note 2
The budgeted income excluding the precept for 2024/2025	£29,070	Note 2
The budgeted gross salaries for 2024/2025	£122,000	Note 2

Note 1: This figure is taken from the '2023/24 Balance Sheet as at 31st March 2024' which was published as Enclosure 27 for the KTC Meeting on 13th June 2024.

Note 2: These figures have been taken from the 'PROPOSALS FOR BUDGET 2024 -2025' which was published as Enclosure 9 and approved by KTC on 11th January 2024.

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

- Spending
  - Gross Salaries
  - Other Spending

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 spending which can be used to adjust the budgeted spending levels are:-

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

However, because 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.

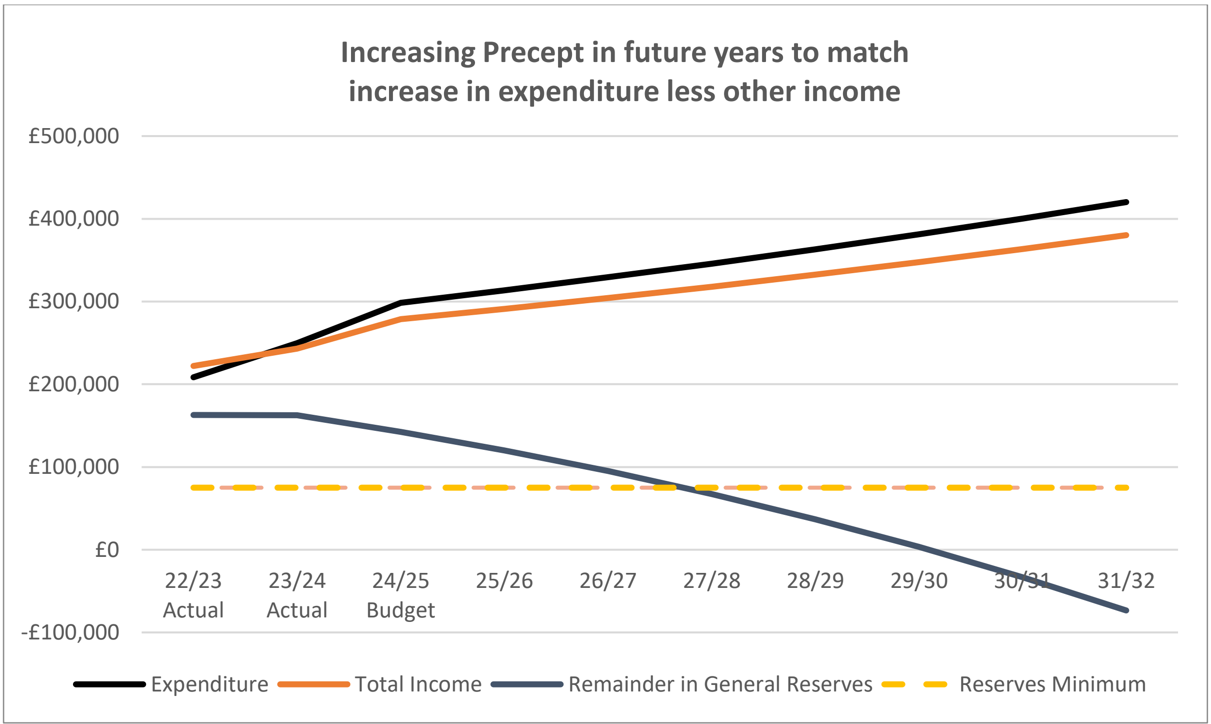
Financial Forecast of General Reserve Levels

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 forecasts do not account for actual over/underspends. Although these will affect the actual levels of reserves, they cannot be taken 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.

Scenario 1: The Town Council increases the precept in line with a 5% increase in overall spending

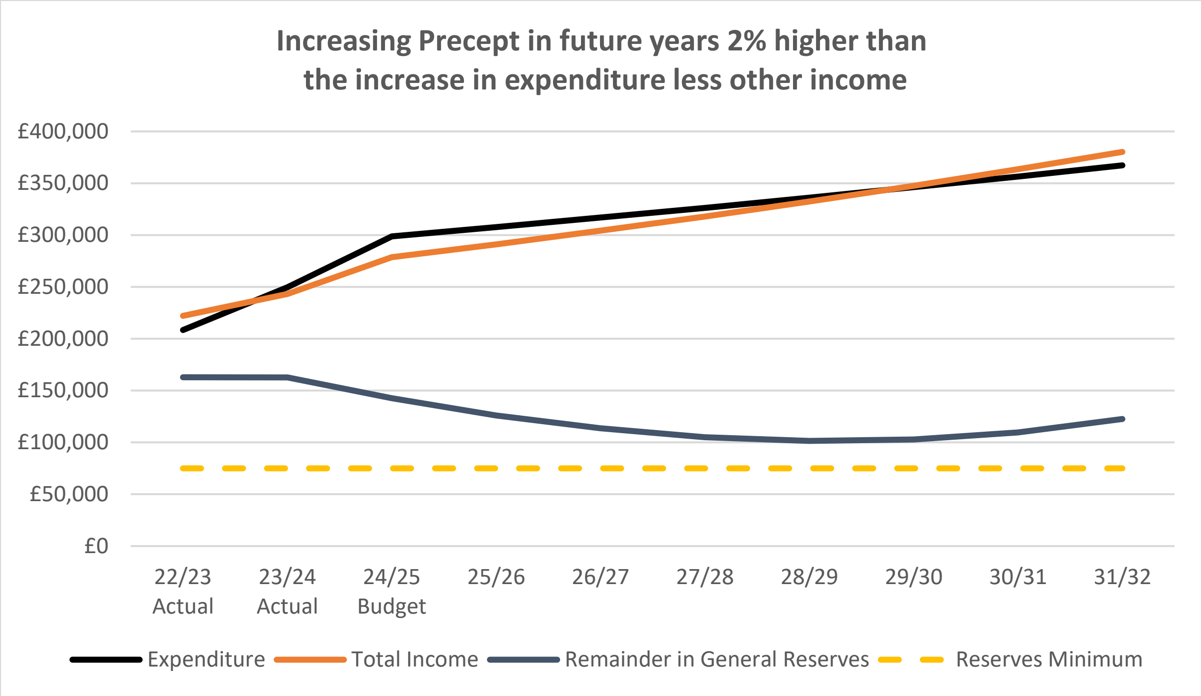
This shows that the 24/25 budgeted transfer of £20,000 from the general reserves can not be maintained over the 7-year period of the forecast without running out of reserves.



The reduction in the reserves is not sustainable but the council needs to consider at what level the reserves should be maintained at between the minimum and maximum limits. With the maximum reserve limit being 100% of annual spending, this currently stands at approximately £250,000 and the minimum reserve limit is £75,000. The midpoint between the minimum and maximum limits is currently £162,500.

Scenario 2: The Town Council increases the precept at a 2% higher rate than the 3% increase in overall spending

A precept level set at 2% higher than the budgeted increase in expenditure less other income would result in the general reserve always exceeding the midpoint between the upper and lower limit within the 7 year forecast period.



Conclusion

The budget proposals for 2025/26 must not contravene the minimum level of the general reserve as detailed in the Reserves Policy.

Budgets set beyond 2025/26 will need to consider how the balance between income and spending is managed. The main levers in the budget are the precept level and the 'discretionary spending' items.

Finally it should be remembered that budget setting is always an inexact science because the general reserves level will vary from that included in the budget. This will be due to any under/over spend in the financial year in which the budget is set and/or associated release of earmarked reserves into the general reserve.

Cllr Richard Dickson, Chair of Finance and General Services Committee

3rd October 2024