


Decision maker and date of Leadership Team meeting	Leadership Team Date of report: 10 November 2021 Date of decision (i.e. not before): 10 November 2021	 THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA
Forward Plan ref:	KD06015	
Report title	Update on Medium Term Financial Plans and consultation for 2022/23 Budget and Capital Programme	
Reporting officer	Mike Curtis, Executive Director (Resources and Customer Delivery)	
Key decision	Yes	
Access to information classification	Public	
Wards	All	

1. EXECUTIVE SUMMARY

- 1.1 This is the first report to Leadership Team on the preparations for the 2022/23 Revenue Budget and Capital Programme that will be recommended to Council in March 2022. This report builds on the Medium Term Financial Strategy that was agreed in June 2021 and provides an update on the financial position, progress with closing the budget gap for 2022/23 and an update on the three year outlook.
- 1.2 The budget for 2022/23 and the Capital Programme will be developed within the context of the Council Plan and Medium Term Financial Strategy and the Council's spending plans will be targeted to ensure that objectives and the delivery of services are affordable and achievable within current and future budgets.
- 1.3 In June 2021, the Council was reporting a budget gap of £28m over the three years from 2022/23, of which £7.6m is for 2022/23. Over the summer, all assumptions driving levels of income and spending have been subject to review. The economic recovery following the pandemic continues to be challenging and which creates uncertainty for financial planning. It is having a lasting impact on some income streams, such as business rates and council tax but also ongoing increased demand for key support services – such as housing, social care, supporting those with special educational needs to access

education, community safety, building control and emergency resilience. As a result of reviewing all assumptions there has been a small increase in the budget gap for next year to £7.8m.

- 1.4 This budget gap takes into account what we know and what can be quantified. However, there are a number of other risks that are likely to materialise but the financial impact is not yet known. Some of these are national issues but will impact locally whilst others are more specific to London and Kensington and Chelsea.
- 1.5 The wider economic recovery will determine a number of our income streams and demand for support services. The borough has a vibrant hospitality sector but there are already signs of businesses struggling to fill vacancies, visitor numbers are slowly increasing but remains well below pre-pandemic levels because of international travel. New ways of working and some of the national concerns around construction supply chain and shortage of HGV drivers is starting to impact locally.
- 1.6 The first population figures from the 2021 Census will not be known until 2022 but there is a risk that the borough's population numbers have reduced. This has an economic impact on the borough but also will impact on Government funding levels in the future – many of which are influenced by population numbers. The Spending Review on 27 October made no mention of the new Fair Funding Formula so although this is expected to still be on Government's agenda, the timing remains unknown. The Government has announced Social Care reforms that are likely to increase the numbers supported by the Council but also will mean the Council may be funding care costs that they did not previously. Government funding for three years was confirmed in the spending review but the allocation will not be available until the Local Government Settlement is published in December. It is also unclear whether this will be sufficient for the longer term.
- 1.7 The Council has a statutory requirement to set a balanced budget. Over the summer officers and Lead Members have been developing opportunities for additional income and cost reductions to close the £7.8m budget gap whilst still ensuring that resources are available to deliver the objectives in the Council Plan. Full details are set out in the Appendix A and Leadership Team is asked to agree for these to be launched for consultation from 12 November to 12 January 2022.
- 1.8 If all of budget proposals set out in this report are agreed following consultation, there will remain a £2m budget gap for 2022/23. A Council tax increase of 2% would largely generate the additional income required to set a balanced budget but this remains subject to decision by Council in March 2022. If there is no increase in Council tax, additional savings will need to be identified over the next few months.
- 1.9 The current capital programme has been subject to review over the last few months to ensure that the schemes included remain a priority and are

deliverable within the next three years. As a result, £4.8m is proposed for deletion from the programme and £22.6m moved to the pipeline. This means they will be removed from the programme until further details are known and the timing for investment. Requests for new investment of £18.8m have been put forward for inclusion in the programme and £28m to be included in the capital pipelines. Full details are set out by Lead Member in Appendix A.

- 1.10 If a balanced budget is achieved for 2022/23, a budget gap of £22m will remain from 2023/24. Achieving reductions of this scale will require a more radical approach to deliver outcomes within a smaller financial envelope and further details on managing the longer term financial position is set out in Section 13.
- 1.11 The financial position of school funding is challenging. The DSG had a deficit of £5.390m at the end of March 2021. This trend in increasing pupils with high needs is likely to continue. The deficit management plan is in place but is unlikely to balance within the three years. Other Local Authorities are in a similar position and the Council will continue to lobby Government for additional funding for children with special educational needs. Ongoing work will also continue through Schools Forum. The DfE will issue the final 2022/23 DSG in December and this will be reported to the Schools Forum in January 2022 and reflected in the February budget report.

2. RECOMMENDATIONS

Leadership Team is asked to:

- 2.1. Review the Council's financial position as set out in this Budget Report.
- 2.2. Agree for the savings proposals set out in full in Appendix A to be launched for consultation in line with the approach set out in Section 17.
- 2.3. Agree for the £22.553m capital investments summarised in paragraph 16.3 Table 6 and set out in full in the Appendix A to be removed from the capital programme and to be placed in the capital pipeline for consideration at a future date.
- 2.4. Agree for the £4.812m capital investments summarised in paragraph 16.3 Table 6 and set out in full in the Appendix A to be removed from the capital programme.
- 2.5. Agree for the new capital investment proposals summarised in paragraph 16.4 Table 7 for 2022/23 and set out in full in the Appendix A to be launched for consultation in line with the approach set out in Section 17.

3. REASONS FOR DECISION

- 3.1. The Council is legally required to set a balanced budget each year. This report sets out the proposed approach for balancing the budget for 2022/23 and setting the capital programme for 2021/22 to 2024/25.

- 3.2. The proposals in the report are being recommended for consultation. The feedback from the consultation will be considered in developing the draft budget and capital programme that will be presented to Leadership Team in February 2022.

4. PROPOSAL AND ISSUES

- 4.1. Full details of the proposals and issues are set out through the report.

5. OPTIONS AND ANALYSIS

- 5.1. Leadership Team could choose not to fund the budget pressures as set out in the Appendix A. However, the Council is required to set a balanced budget and the Section 151 Officer will be required to recommend a budget that is robust. Additional budget provision for known pressures must be included. **This option is not recommended.**
- 5.2. Leadership Team could choose to fund the budget pressures as set out in Appendix A. The Council is required to set a balanced budget and the Section 151 Officer will be required to recommend a budget that is robust. **This option is recommended.**
- 5.3. Leadership Team could choose not to fund the additional budget growth of £894,000 as set out in Appendix A. **This option is not recommended and the reasons for the growth are provided in the appendix A and most (£702,000 will be funded as one off from Special Projects Reserve as a one off.**
- 5.4. Leadership Team could choose not to recommend the revenue savings as set out in Appendix A for consultation. The Council has a requirement to set a balanced budget and the savings proposals will support in the delivery of this whilst also delivering on the Council's priorities. Alternative savings proposals will need to be identified. **This option is not recommended.**
- 5.5. Leadership Team could choose to recommend the revenue savings as set out in Appendix A for consultation. The Council has a requirement to set a balanced budget and the savings proposals will support in the delivery of this whilst also delivering on the Council's priorities. **This option is recommended.**
- 5.6. Leadership Team could choose not to re-phase the capital schemes set out in Appendix A and move current capital schemes set out in Appendix A to the pipeline. **This option is not recommended** because these are the results of the officer review of the existing capital programme. Based on feedback from officers, these changes reflect the latest forecast of deliverability of the schemes.
- 5.7. Leadership Team could choose to re-phase the capital schemes set out in Appendix A and move the capital schemes set out in Appendix A to the pipeline. **This option is recommended** because these are the results of the review of

the existing capital programme. Based on feedback from officers these changes reflect the latest forecast of deliverability of the schemes.

- 5.8. Leadership Team could choose not to remove the capital schemes from the existing capital programme set out in Appendix A. **This option is not recommended** because these are the results of the officer review of the existing capital programme. Based on feedback from officers, these changes reflect the latest forecast of deliverability of the schemes.
- 5.9. Leadership Team could choose to remove the capital schemes from the existing capital programme set out in Appendix A. **This option is recommended** because these are the results of the review of the existing capital programme. Based on feedback from officers these changes reflect the latest forecast of deliverability of the schemes.
- 5.10. Leadership Team could choose not to recommend the proposals for new capital investment, required to meet identified needs in respect to the borough's assets in line with the approved Capital Strategy, to be launched for consultation. **This option is not recommended.**
- 5.11. Leadership Team could choose to recommend the proposals for new capital investment, required to meet identified needs in respect to the borough's assets in line with the approved Capital Strategy, to be launched for consultation. **This option is recommended.**
- 5.12. This report aims to set out the approach for spending plans for 2022/23 and demonstrates good progress towards setting a balanced budget for next year in a period of ongoing uncertainty. Priorities over the medium term must be flexible and may change as part of recovery from the pandemic. The factual information of the financial position will remain but officers could review the plans for dealing with the challenges and further information and intelligence may become available over the next few months which changes the financial position.

DELIVERING THE COUNCIL PLAN

- 5.13. The Council Plan is aligned to the Medium-Term Financial Strategy to ensure objectives and delivery of services are affordable and achievable within current and future budgets. Together these documents describe what the Council will focus on in a way that is affordable and how activities will be resourced. The Council Plan is informed by:
 - Insight, analysis and understanding of the impact of recent external factors on the borough;
 - The priorities and values of residents, businesses, partners and voluntary and community groups in this context;
 - The priorities and commitments of the Leadership Team;
 - Insight and input from services and the workforce;

- Ongoing work to support the bereaved, survivors and local community affected by the Grenfell tragedy and continuous learning from this; and
 - The continued programme of organisational change and improvement at the Council.
- 5.14. The impact of the global pandemic has been unprecedented and the public health and economic crisis has significantly impacted on the borough, the Council and the country. For Kensington and Chelsea, the lasting impact of the Grenfell tragedy adds to our residents' experiences of the pandemic. The borough's main employment sectors, retail, accommodation and food services, have been dramatically affected by the lockdowns and the lack of international tourism and domestic travel. It will likely take several years to fully recover from the impact of Covid-19.
- 5.15. In June 2021 the Council published the annual update of the 2019 to 2023 [Council Plan](#) which set its five priority areas and describes the activity the Council will undertake to deliver and achieve these aims. These priorities continue to be underpinned by three cross cutting themes – community involvement, narrowing the gap and prevention and early intervention. The Council recognises the fundamental impact the Covid-19 pandemic has had on residents, businesses, and communities across the borough. In particular the impact on those in the community also affected by the Grenfell tragedy. Full details of the priorities, what we want to see and what we will do is set out in the Council Plan.
- 5.16. In June 2021, the Leadership Team agreed that:
- The future allocation of resources from Council revenue and capital budgets will align with agreed priorities set out in the Plan;
 - Future policy and strategy development will be directly informed by those priorities; and
 - They are committed to working collaboratively with communities and partners to deliver the priorities set out in the Council Plan.
- 5.17. In March 2022, the Council's budget will be recommended to Council that will ensure the financial resources are available to deliver on these priorities for the 2022/23 financial year.

Grenfell Recovery

- 5.18. Grenfell Recovery remains at the heart of everything the Council does and in 2022/23 the Council will deliver on Year 3 of its Grenfell Recovery Strategy, as set out in the Resourcing Framework agreed in December 2020 [Tri-Borough Executive Decision Report \(rbkc.gov.uk\)](#). During 2022/23, £10m will be spent on supporting the continuation of our adapted support to the bereaved and survivors, supporting community led recovery and ensuing we build a legacy from this tragedy.

A Great Place to Live, Work and Learn

- 5.19. The borough faces new economic challenges and uncertainty. The council will work with residents, schools and businesses to ensure a fair recovery for all, so that Kensington and Chelsea continues to be a great place to live, work and learn. During 2022/23, the Council intends to spend around £100m on delivering day to day services that align with this priority and invest just under £600m in its infrastructure. This will mean continued support to the sectors most effected by the pandemic, maintaining outstanding schools, helping to improve local employment opportunities and investment in affordable housing.

Supporting and Safeguarding Vulnerable Residents

- 5.20. The pandemic has had a disproportionate impact on some residents' lives and has widened some existing inequalities. In this context, the Council will look beyond recovery to building resilience, with a renewed emphasis over the next few years on mental health and prevention in its support of adults, children and families at risk. This will be achieved through greater partnership working to help focus interventions. During 2022/23, the Council intends to spend around £280m on delivering day to day services that align with this priority and invest £10m in its infrastructure, including essential maintenance to buildings, day care centre re-provision and Disabled Facilities Grants.

Healthy, Clean, and Safe

- 5.21. The Council will help residents experience a better quality of life. This means exploring different approaches to address increased health inequalities and continuing to work with residents to make our place green, safe and clean. During 2022/23, the Council intends to spend around £90m on delivering day to day services that align with this priority and invest around £35m in its infrastructure.
- 5.22. The pandemic has had a significant impact on mental health and well-being. The council will be making investments into more support improvements in well-being through digital inclusion, leisure centres and investment in outdoor spaces, as well as in the new Green Plan.

A Place of Culture to Visit and Explore

- 5.23. Kensington and Chelsea has many national and local cultural gems and visitor attractions. The Council has a role in contributing to the local, London and UK economic recovery through domestic and future international tourism, and will work alongside residents, businesses, and partners to achieve this. During 2022/23, the Council plans to spend around £20m on delivering day to day services that align with this priority and invest around £5m in its infrastructure.
- 5.24. The Council will be focussed on maintaining investment in our iconic landmarks and locations, enhancing our support for retail and hospitality, and supporting local talent and culture. This includes the recent approval of the boroughs first Business Improvement District in Brompton Road to bring £6m of private investment into the area to help recover from the impact of COVID-19, upgrade the public realm, improve traffic management, enhance the local environment

and promote the district as one of high-end luxury with good amenities for people who live and work in the area.

Cross Council Services.

- 5.25. There are some services which are cross Council and do not align naturally with one single priority or support the delivery of all five priorities. This includes the Council's front door, Information Technology, Finance, Human Resources, Legal and other support services. Together these services safeguard the organisation to deliver on its priorities in line with guidance and legislation, its resources and provide the access to services that residents and businesses expect.

6. DRAFT BUDGET 2022/23

The last update on the Council's financial position was published as part of the Medium Term Financial Strategy in June 2021. The assumptions underpinning the financial position have been reviewed and updated where relevant, but the uncertainty reported back in June 2021 remains. This report focuses on preparing the budget for 2022/23 and provides an update on any known changes or new risks emerging for the medium term.

The Local Context

- 6.1. Kensington and Chelsea is a unique place in central London. It has one of the smallest populations of any London borough – the last estimate was 156,000. However, population density is the fourth highest which brings challenges around traffic congestion, air pollution, noise nuisance and high numbers of visitor population – commuters and tourists.
- 6.2. Early forecasts from the Greater London Authority indicate the borough's population may fall in the coming years, and London's population is expected to decline for the first time in 35 years due to the combined impact of the pandemic and Brexit. The official census figures confirming this will not be available until 2022. Any drop in population could reduce the Council's allocations for Government funding, which are quite often based on resident population numbers.
- 6.3. The average price of homes sold locally last year was £1.9m, one of the highest in London. This means the borough remains the most expensive place to buy a house in the country. The number of new affordable homes has increased in the last two years in the borough and more are planned through the New Homes Programme. However, genuinely affordable housing remains far too scarce which in turn creates financial pressures for the Council as numbers in temporary accommodation awaiting permanent housing are currently at 2,165 in October 2021.
- 6.4. Despite having areas of wealth, the borough also has some areas within the most deprived in the country. Overall, the borough continues to have one of the highest life expectancies in the country which brings long term cost implications for adult social care. Life expectancy and support needs vary between the north

and the south; between people from different ethnic minorities; and between homeowners, private renters, and those in social housing. These existing inequalities have been amplified and underlined by the pandemic, resulting in the Council's renewed yet ongoing focus on narrowing the gap as illustrated in the Council Plan.

- 6.5. Since March 2020, Covid-19 has affected everyone. Covid-19 is a conjoined public health and economic crisis and the Council is committed to working with its communities to understand the impact, address the challenges and plan longer-term recovery.
- 6.6. The impact of Covid-19 will not be short-term or time bound. The borough's main employment sectors, retail and accommodation and food services, have been heavily impacted by successive lockdowns. There were 6,350 more residents claiming Universal Credit (UC), as at August 2021, compared to March 2020. This represents an increase of 131%. In this same period, the number of 16 to 24 year-olds claiming UC has increased by 138% and 25 to 34 years olds has increased by 154% compared to pre-pandemic.
- 6.7. Over the last 19 months, the Council has directed essential expenditure to support the borough's residents and to aid vulnerable people living at risk. This has included paying out 17,813 grants amounting to £111m of Government grant. Catering and hospitality are the borough's biggest employers. The sector is starting to see some early signs of recovery. The Council will continue to work closely with local industry to support recovery.
- 6.8. The Council received Government financial support in 2020/21 for funding the financial pressures from Covid-19 and which supported the Council in delivering extra services, addressing increased cost pressures and the shortfall in income. Some funding has been received for the first quarter of 2021/22 as pressures continue, however, the pandemic may also have a longer term impact. The scale and extent is unknown but is very much part of the financial planning over the next few years. This may include long term changes in behaviour for travelling around London, increased use of online services reducing footfall for high streets, long term impact on those forced into financial hardship or the lasting impacts on our children and young people for their education and emotional wellbeing. These are just a few examples which may have a negative impact on the Council's finances and even before any impact of the Government's Fair Funding Review and the impact of falling population.
- 6.9. Nobody could really have foreseen the way the Covid-19 pandemic swept through the nation and the longer-term impact it would have on our citizens and our economy. As well as the personal grants, business support and additional service support delivered as part of the immediate response, the Council has earmarked an £8m recovery fund to meet the challenge of supporting residents and businesses to recover. Just under half of that funding has now been allocated to a variety of projects and interventions focussed on those who have been most disproportionately impacted. Areas of focus to date for the programme have included employment and skills, mental health, support to local businesses and high streets and targeted support for young people. The

Council will continue to use data and insight to adapt the recovery response and interventions to ensure they have the most impact.

- 6.10. For Kensington and Chelsea, the lasting impact of the Grenfell tragedy adds another dimension to the experience of the pandemic. The bereaved, survivors and those in the local community are living through two crises in short succession and for many affected by Grenfell, Covid-19 risks amplifying and compounding existing challenges. Phase 2 of the Public Inquiry continues and the Council will be providing evidence in early 2022 for module 4.
- 6.11. The council also continues to respond to critical events – supporting 100 households and 31 businesses following the flooding on 12 July 2021. This support included, providing emergency accommodation, food and other essentials and supporting businesses with the clearance of damaged items from their premises. More recently, the Council is directly supporting over 750 Afghan evacuees in three bridging hotels across the borough whilst awaiting support to resettle. Both add financial pressures and although some costs for both incidents will be funded by Government financial support, there is likely to be some ongoing financial implications for the Council over the coming year.

7. NATIONAL CONTEXT

- 7.1. The Council's financial position must take into account the national context and issues affecting all local authorities.
- 7.2. The UK economy has estimated to have grown by 4.8% in the 2nd quarter of 2021. However, the UK economic recovery is projected to slow into the autumn as staff shortages and supply chain disruption dampen gains from the lifting of the restrictions in July 2021. As a result, the UK economy recovery remains uncertain and is not forecast to return to the pre-pandemic level until at least quarter 1 of 2022 with the Office of Budget Responsibility forecasting GDP of 5.2% in 2022.
- 7.3. Inflation has been fluctuating over the last few months and now above the Governments target rate of 2%. Financial Plans assume a 2% (£4.4m) inflation rate as published by the Office For Budget Responsibility and in line with the Government's target. The Office for National Statistics (ONS) has published a consumer price index of 3% for the 12 months to August 2021 but the forecasts from the OBR as part of the Autumn Budget on 27 October now projects a CPI inflation increase of 4% for 2022/23. This is clearly a risk to the Council's financial position and every 1% increase in inflation could see an increase in revenue expenditure by around £2.2m. The Council will look to keep inflation for contracts and services at a minimum but this may be a challenge given external factors. Inflation forecasts and assumptions within financial plans will be kept under review as this may continue to change.

7.4. The Office for National Statistics (ONS) September 2021 briefing included other economic updates:

- Online job advertisements were at 133% of February 2020 level;
- Retail sales continues to fall as Covid-19 restrictions ease;
- Hospitality sector is likely to be struggling to fill vacancies; and
- 36% of construction businesses reported supply chain issues.

8.3 After the 18 months of lockdown, social distancing and working from home, the country is gradually opening up and attempts to return to its pre-pandemic level of normality. This recovery process is likely to be lengthy and with difficulties, most recently with the filing of vacancies in the hospitality sector and the shortage of HGV drivers causing a significant blockage in the supply chains in all industries and likely rippling effects on other hired drivers in other sectors. These national pressures may impact on the council directly or in-directly through suppliers.

Comprehensive Spending Review and Autumn Budget 2021

8.4 On 7 September 2021, the Chancellor launched consultation on the Spending Review 2021. This concluded and was published alongside the Autumn Budget on 27th October 2021.

8.5 The Spending Review sets out the plan for how Government public spending will deliver the people's priorities over the next three years. The full details are published on the Government website at <https://www.gov.uk/government/publications/autumn-budget-and-spending-review-2021-documents> and the main announcements that will impact of the Council includes:

- New grant funding of £4.8bn has been announced for local government over the next three years (£1.6bn per annum);
- The referendum threshold for increase in council tax is expected to remain at 2% per year;
- Local authorities with social care responsibilities will be able to increase the adult social care precept up to 1% per year;
- The Business Rate multiplier is frozen at 51.2p;
- There will be a new temporary business rate relief of 50% for eligible retail, hospitality and leisure properties in 2022/23.
- On 1st April 2022, the National Living Wage will rise by 6.6% to £9.50 an hour.

Local Government Finance Settlement

8.6 As in previous years, the details of the Spending Review and the Autumn Budget are high level and the specific financial implications for Local

Authorities, including the level of Government funding will be set out in the draft Local Government Finance Settlement 2022/23 published in December 2021.

Government legislation

- 8.7 Much of the Council's provision of services is governed by legislation – setting out services to be provided and to some extent how they are provided.
- 8.8 The pandemic has led to a number of temporary new responsibilities being passed to local authorities in order to help manage the outbreak, such as supporting the borough's most vulnerable, administration of grants to support businesses and provision of food and essential supplies. Whilst these are now likely to come to end this uncertainty for business and residents may lead to longer term costs and spending pressures.

Social care reforms

- 8.9 On 7 September 2021, Government published a new plan for health and social care 'Build Back Better: Our Plan for Health and Social Care'. This represents a plan to tackle two challenges – the backlog in the NHS resulting from the Covid-19 pandemic and the long standing systemic and funding challenges for delivering adult social care. The plan outlines proposals from the government for reforming adult social care, with a focus upon what both those who receive services will need to pay and the support they may receive, and, albeit briefly, the additional funding that will be provided to local government to support the reformed system
- 8.10 The Council will incur additional costs from the proposed reforms in two ways but these are expected to be funded by the £5.4bn announced by Government:
- Changes in the “cap” and the capital limits. Local authorities will have to fund a greater share of the care costs that are currently paid for by self-funders. There will be a £86,000 “cap” on the maximum that individuals will pay towards their care. The capital limits will increase to £100,000 and is a significant increase in the current £23,250 threshold.
 - From the “market equalisation” of care costs. Self-funders will be able “to ask their local authority to arrange their care for them so that they can find better value care”. Self-funders typically pay higher rates than their local authority and so any equalisation is likely to result in increased rates for local authorities.
 - £3.6bn of the £5.4bn over the next three years will be to implement the changes above. Further details will be set out by Government in due course
- 8.11 The Government announced that these reforms will be funded from increased national insurance contributions. As an employer, the Council will be liable for employer levy contributions. This is expected to be around £1.4m. Government are expected to fully fund these costs but this has not yet been confirmed.

- 8.12 The changes that Government are introducing will require payroll and social care system developments which will incur costs. Further updates will be provided to Leadership Team as they published.

9 FORECAST FUNDING FOR SERVICES – 2022/23

Local services provided by the Council must be fully funded for a balanced budget to be set. Funding is received through a number of different sources as described in the following section.

Government funding

- 9.1 Local Authorities receive some funding towards the cost of services from Government Departments' and this can be in the form of general non-specific grants or those which are ringfenced for the delivery of specific services.

Settlement Funding Assessment (SFA)

- 9.1 The general funding which Local Government need to support local needs is determined by HM Treasury through the Department for Levelling Up, Housing & Communities (DLUHC) who then allocate across Local Authorities. This is received through the SFA and is currently made up of Revenue Support Grant (RSG) and a share of business rates retention.
- 9.2 The specific funding allocations for Kensington and Chelsea will be published as part of the draft Local Government Finance Settlement, expected in December 2021 for consultation and the final settlement in February 2022. Financial Plans currently assume that funding levels for 2022/23 are similar to that in the current year.
- 9.3 The Government has been undertaking a review of how Local Government funding is distributed and had previously intended to have a new fair funding formula in place from April 2020. However, this has again been delayed and the budget and spending review did not provide an update on the timeline. The future level of resources for the Local Government sector looks set to increase by the additional funding announced as part of the Spending Review but through fair funding and the Levelling Up agenda, resources are expected to be re-directed across the country according to levels of need. Kensington and Chelsea, along with other inner London Boroughs may see a reduction in funding levels which in itself creates considerable uncertainty for financial planning.

Core Spending Power

- 9.4 Core spending power (CSP) measures the core revenue funding available for local authority services. CSP is set to increase by £8.5bn (3% per annum in real terms) by 2024-25. It includes the Settlement Funding Assessment described above but also takes account of the Council's ability to raise income through Council Tax. The £8.5bn increase is a combination of the £4.8bn increase in core funding and £3.7bn through assumed increase in Council tax. Similar to the trend in SFA, this varies between authority types and across London. Kensington and Chelsea's CSP is at the lower end of the 32 London

boroughs. This is mainly a result of low Council Tax levels compared to London as a whole.

Public Health Grant

- 9.5 Public Health responsibilities were passed to Local Authorities from April 2013 and the Council's ring-fenced Public Health Grant for 2021/22 is £21.6m. The grant for next year will not be known until March 2022 but the grant is expected to rise by inflation (by £0.5bn nationally and £100m in London over 3 years). Financial Plans currently assume a 1% increase until the allocation is known in March 2022 but this the Spending Review implied inflationary increases and therefore increase may be higher.

Better Care Fund and Adult Social Care Grant

- 9.6 The Better Care Funding (BCF) regime was introduced from 2015/16 as a programme spanning both the NHS and local government. It seeks to join-up health and care services so that people can manage their own health and wellbeing and live independently in their communities for as long as possible. The BCF plan for 2021/22 includes services of £22.445m and financial plans assume it will remain at a similar level and fund similar services in 2022/23.
- 9.7 The iBCF is a funding stream that was first announced in the 2015 Spending Review. It is paid as a direct grant to local government, with a condition that it is pooled into the local BCF plan. The iBCF is currently £7.4m and financial plans assume it will remain at a similar levels in 2022/23.
- 9.8 The long term funding of social care remains uncertain The Spending Review did announce that Councils with social care responsibilities will also have an additional 1% per annum flexibility for the Social Care Precept for Council Tax and further information on any other funding may be provided as part of the draft Local Government Funding Settlement published in December.
- 9.9 The Council also receives a grant of £6.2m for Adults and Children's social care. Financial plans currently assume it continues into 2022/23 but this is a risk until the Local Government Finance Settlement is published in December 2021.

New Homes Bonus

- 9.10 The New Homes Bonus (NHB) is a grant paid to Local Authorities to incentivise housing growth in the local area. It is based on the extra Council Tax revenue that can be generated for new homes, conversions and long-term empty properties bought back into use. The scheme has changed over the last four years and has been reducing in value. In January 2021 MHCLG opened consultation into the future of this grant. No further announcements have been made at this stage and financial plans assume a grant of £650,000 for 2022/23 with no further grant in the years that follow.

Other Grants

- 9.11 The number of other grants that the Council receives is now relatively small in terms of both number and value. The majority are assumed within individual service budgets and any reduction in grants will need to be matched by reductions in expenditure.
- 9.12 The Council will continue to work with other boroughs to lobby Government to recognise the pressures of Local Government and more local London issues in determining funding allocations.

Business rates

- 9.13 Business rates are set by the Government who determine the rateable value of properties and also the multiplier which is the amount of tax paid per £1 of rateable value. In 2021/22, the standard multiplier is 51.2p and therefore, a business property with a value of £100,000 would be liable to pay £51,200 in business rates. The Autumn Budget announced that the multiplier for 2022/23 will remain at 51.2p.
- 9.14 In normal years, the borough's businesses generate over £370m in business rates. However, only £54m is retained by the Council and the remaining is returned to Government and re-distributed across the country. Financial Plans assume this same level of retained business rates for 2022/23.
- 9.15 The pandemic has hit the economic and business sectors hard. The business rates relief offered to the retail, leisure, and hospitality sector in 2020/21 is continued into 2021/22 with a relief being offered at 100% for the first quarter and 66% for the remainder of the year. The Council will be compensated for this loss in income through a Government grant but there are clear signs that it will take longer for this sector to recover and in some cases some businesses will not survive. This will reduce the tax base and poses a financial risk to the Council. The Autumn Budget announced the introduction in 2022/23 of a new temporary business rate relief of 50% for eligible retail, hospitality and leisure properties to aid recovery in this sector. This is expected to have a positive impact on local businesses who are still recovering from the pandemic. The details are awaited on how this relief will be applied.
- 9.16 The Government has announced it will legislate to prevent businesses from applying for Material Change of Circumstances claims because of the pandemic. This is partly to prevent exposing local authorities to such significant uncertainty about their future funding. However instead a further £1.5 billion of reliefs has been confirmed to specifically target businesses directly affected by the pandemic. The legislation is currently in the 2nd reading at the House of Lords and unlikely to be enacted before December 2021. The £1.5 billion grant will not become available until then. It is expected that the Council will play a key role in shaping how this is allocated to businesses.
- 9.17 A deficit on business rates collection is expected to continue over the next two years. This deficit is shared amongst the Council, GLA and Government. The

impact on the Council will be up to £3.8m in both years and has been factored into financial plans.

9.18 Alongside the Budget and Spending Review the government also published the outcome of its review into business rates. There is no change to the nature of business rates or the basis of valuation, but government will be consulting on introducing a new online tax. None of the changes announced impact on the budget for 2022/23 but from 2022/23 could include:

- The introduction of three-yearly revaluations for premises from 2023 with further consultation on this change is expected later in the year
- Business improvement relief aimed at helping businesses make improvements to their businesses without paying an increase for one year
- Supporting green investments by providing exemptions on green plant and machinery as well as 100% relief on low carbon heat networks
- Starting the consultation on the online sales tax

Business rates pool

9.19 Between 2018/19 and 2020/21, the Council was part of a pan-London pool for business rates which meant that an increased proportion of the growth in business rates across London was retained in the capital. In January 2021, Councils across London took the decision not to operate the pan London pool for 2021/22 because of the impact the pandemic has had on business rates across the capital. It would mean some authorities were worse off which was not aligned with the original principles of the pool. The Council has recently confirmed it will not be part of a London pool for 2022/23 because the conditions predicted in 2021/22 are likely to continue.

Council tax

9.20 The continuing reduction in Government financial support has meant that income from Council Tax has become increasingly important when funding Council services. Based on the announcement of the Autumn Budget, the referendum threshold limit for council tax increase is expected to remain at 2% per annum and up to an additional 1% can be included for the adult social care precept for authorities with social care responsibilities. There are two main drivers for Council Tax income – the level of tax and the number of properties paying the tax. Currently every 1% increase in Council Tax increases income by £943,000.

Council Tax Level

9.21 Council Tax at £949.94 for a Band D is the fourth lowest both nationally and in London and is well within the Council's aspirations to be in the lowest quartile. The borough has over 35,000 properties which are either Band G or Band H with council tax at £1,583.23 and £1,899.88 respectively. Therefore, although Band D is the average used nationally, the high level of more expensive properties means that Council Tax becomes an even more key source of income.

- 9.22 Currently, the ability of the Council to increase the council tax rate is subject to a limit and above which a local referendum is required. This threshold is currently 2% and while the Autumn Budget announced that this referendum threshold is expected to continue for 2022/23, this will not be confirmed until December 2021 as part of the Local Government Finance Settlement. With the Prime Minister's recent announcement in September 2021 to introduce an 1.25% National Insurance levy from 1st April 2022 to fund adult social care and National Health funding shortfall, it is unclear if the adult social care precept will continue or be replaced with a government grant funded from the new levy. Financial Plans assume the adult social care precept will not continue into 2022/23.
- 9.23 A decision on Council tax increases for 2022/23 will not be agreed until March 2022 by full Council, following a recommendation from Leadership Team on 9 February 2022.

Council Tax Base

- 9.24 The second determinant of council tax income is the tax base. Before the pandemic the Council had a buoyant council tax base which had increased year on year. However, in 2021/22 it fell by 0.52% mainly as a result of an increase in local council tax support claimed as more people required financial support. These higher numbers of residents seeking local council tax reduction is expected to continue.
- 9.25 For 2022/23, financial plans assume an increase of around 475 properties per year (0.5%) but this remains under review over the next few months because delays in construction caused by the pandemic are still being experienced and may reduce the scale and pace of new developments. The Council Tax base for 2022/23 will be agreed in January 2022 by the Section 151 Officer under delegated responsibility and will be used in setting next year's budget.

Council Tax Collection

- 9.26 Council tax collection has historically been high in Kensington and Chelsea and consistently above 98.5%.
- 9.27 The pandemic has had a negative impact on the council tax income collected because of the increase in number of claimants seeking reliefs from local council tax reduction scheme (LCTRS) and the higher than usual bad debt provision as a result of higher uncollected council tax – only 92.6% collected compared to the usual 98.5%. The first six months of 2021/22 showed a consistent improvement in collection over that of corresponding periods in 2020/21 and the collection rate at the end of 2021/22 is likely to be close to 96%. It is anticipated that both the number of claimants seeking reliefs from LCTRS and the uncollected council tax will reduce in 2022/23 and be restored to pre-pandemic level.

Fees, Charges and Rental Income

- 9.28 Income from fees, charges, sales and rental income in 2021/22 is expected to be £148m. The majority is collected through statutory and discretionary fees and charges for services but £12m relates to rental income on commercial properties. Over the last 19 months, this income has reduced significantly across some services and although the Government has funded almost 75% of this loss until June 2021, it is already clear that some income streams are expected to take longer to return to pre-Covid 19 levels. The 2022/23 budgets will be set at pre-Covid 19 levels and officers will monitor collection rates carefully during the remainder of 2021/22 to see if the lower levels of income have been a one-off hit due to the pandemic or the start of a longer term reduction in these income streams for the Council. One off shortfalls will be funded in year but long term shortfalls pose a risk to the Council's overall financial position in future years depending on the economic recovery and pending any extended continuation of the pandemic.
- 9.29 An update on fees and charges will be presented to Leadership Team in the next update on the budget preparations in December 2021. Financial Plans currently assume that on average discretionary fees and charges will increase by 2% from April 2022, in line with target inflation.

Investment income and Borrowing

- 9.30 Income from investment of available cash balances can usually contribute to the Council's financial position but is directly affected by macro-economic conditions. Interest rates are currently low and are likely to stay at this lower level into 2022/23. Financial Plans currently assume investment income of £915,000 for 2022/23.
- 9.31 The Council needs to borrow to part fund its capital programme. On external borrowing the Council's strategy continues to support a policy of limiting the need for borrowing by the utilisation of internal funds as far as possible. The MTFs model currently allows for £5m of new General Fund borrowing to be incurred in 2022/23 and the impact of proposals within the report would be in line with that provision. However, this remains indicative because the review of the current capital programme is continuing, and the Section 151 Officer is delegated to make decisions on how the capital programme is funded to ensure it is in the most cost-effective way and balancing the use of Council resources and borrowing. The final borrowing requirement for 2022/23 will be presented to Leadership Team in February 2022 as part of the final budget report
- 9.32 The Council's Treasury Management Strategy provides the framework that the Council operates within to maximise these returns prudently and is reviewed annually as part of the budget setting process. The next iteration will be presented to Leadership Team in February 2022 for recommendation to full Council.

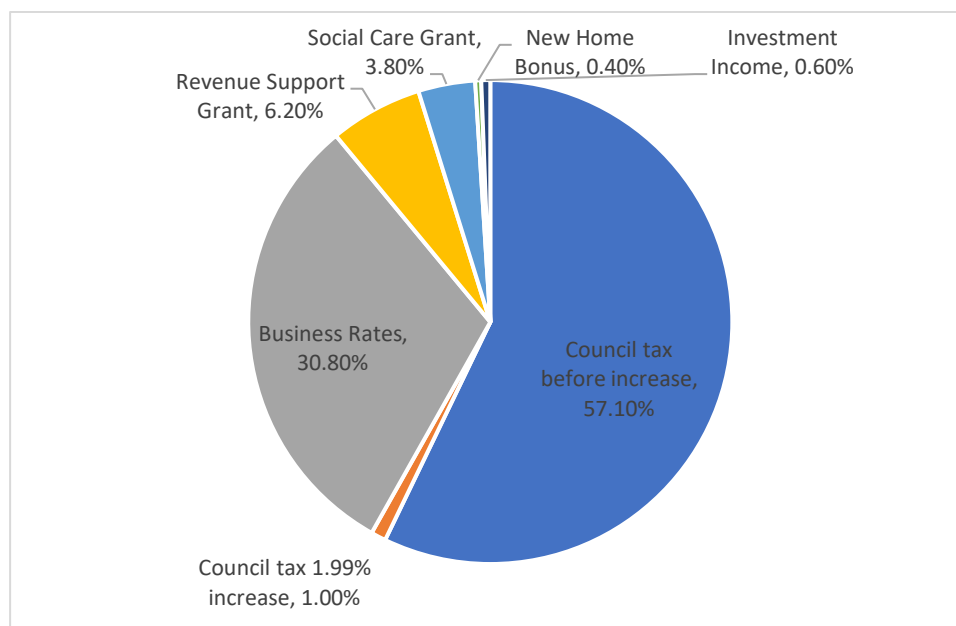
Summary - Total Forecast Funding 2022/23

9.33 In summary, and excluding fees and charges, the anticipated breakdown of funding for the Council is shown in Table 1 and Chart 1.

Table 1 – Projected Funding Sources 2022/23

Projected funding	£'000
Council tax income – if a 0% increase	94,290
Additional Council Tax income - if a 1.99% increase	1,887
Business Rates income	50,846
Revenue Support Grant	10,164
Social Care Grant	6,225
New Home Bonus Grant	649
Investment Income	915
Total	164,976

Chart 1 - Projected Funding Sources 2022/23



10 FORECAST REVENUE SPENDING - 2022/23

10.1 In 2021/22, the Council has budgeted for £606.1m gross operating expenditure (based on quarter 1 monitoring figures) for day-to-day services. The financial position in the current year is reported quarterly to Leadership Team. The next update will be for Quarter 2 and reported in December 2021 will be used to update the next version of the budget report.

- 10.2 The impact of the pandemic continues to drive a forecast overspend of almost £5m in the current year. There could be additional pressures not yet reported due to the significant levels of uncertainty and risks highlighted in this report. The Council expects this overspend to come down over the coming months because there are signs of income recovering to pre-pandemic levels. This will be closely monitored and an update provided in the next update to this budget report. Work will continue to closely monitor high risk budgets and the winter period which brings challenges in social care coupled with pressures on our income.
- 10.3 The current year position is the starting position for developing a draft revenue spending budget for 2022/23 and a robust budget must take account of known spending and income pressures which is a combination of the local and national changes and risks Full details of the specific service pressures are set out in Appendix A and those which are more Council wide are as follows:

Pay

- 10.4 Financial Plans currently assume 1.5% (£1.6m) for pay increases for 2022/23. Previous savings of £1.7m from the Pay and Grading review in 2020/21 have been achieved and staffing budgets for 2022/23 have been set in accordance with new grades. However, as a result of this exercise, a number of historic budget deficits have emerged. These are currently being quantified and an update will be provided in the next budget report in December 2021.

Demographic changes

- 10.5 Demographic changes need to be considered in its broadest sense. It could include increase in numbers, such as within housing needs but can also include increased complexity of need which the Council is seeing in both adult and children's social care. Financial Plans currently assume £1.5m for such pressures in 2022/23 and details are included in Appendix A.

Volatility in economic conditions

- 10.6 The economy is facing uncertainty over the short and medium term which creates uncertainty for costs and income that are driven by these conditions. Financial Plans currently include £4.4m for inflationary increases in contract costs, as well as some service specific pressures including, £345,000 for increased waste disposal costs and £400,000 loss of planning income. Full details are set out in Appendix A.
- 10.7 Beyond the Council's own staff, employment pressure on wages may also become an issue where there is a shortage of labour. For example, the emerging nationwide shortage of HGV drivers has already called for increases and better working conditions for lorry drivers. The Council is already aware of an increase in wages for waste vehicle drivers which equates to £167,000. This could also impact other labour markets with further potential cost consequences for the council.

London Wide Levies

- 10.8 The Council contributes to a number of London wide levies each year. The contributions for 2022/23 will mostly become known over the next few months up until January 2022 but indicative contributions for concessionary fares, which is the largest element of this budget has been given. Financial Plans had assumed the contribution in 2022/23 would return to the pre-Covid-19 level but journeys across the capital continue to be low and therefore the budget required for 2022/23 is only £5.7m compared to £8m as originally anticipated.

Bi-Borough IT Disaggregation

- 10.9 In September 2021, Leadership Team agreed for the current Bi Borough IT service with Westminster City Council to be disaggregated and for Kensington and Chelsea to have its own sovereign service. Preparation for the disaggregation and defining the new operating model for the Council is underway. The new service is expected to go live during 2022/23. There will be cost implications to disaggregate and initial costs of embedding the new sovereign service. These are being quantified and a more detailed update will be provided in the budget report in February 2022. Any one-off costs will be funded through the Special Projects Reserve. .
- 10.10 Full details of the expected budget pressures for 2022/23 are set out in the Appendix A and summarised in Table 2. Budget pressures shown in column (b) are those where there is evidence that these increased costs will emerge in 2022/23 and need to be funded for a robust budget to be set. Of the £894,000 increased budgets to increase and expand current service provision (column c), £702,000 is one off in 2022/23 to be funded from the Special Projects Reserve. Leadership Team could choose not to fund these.

Table 2 – Budget Pressures 2022/23

	(b)	(c)
Lead Member Portfolio	Budget Pressures £'000	Budget to increase service provision £'000
Adult Social Care and Public Health	500	-
Children and Family Services	881	-
Economy, Employment and Innovation	-	-
Housing and Social Investment	-	127
Planning Place and Environment	1,159	-
Culture, Leisure and Community Safety	157	214
Communities	30	-
Finance and Customer Delivery	65	488
Corporate and London Wide Levies	-	65
Total Budget Pressures Requirement	2,792	894
Total already assumed within budget gap as at June 2021	2,302	
Additional Budget pressures	490	

11 THE OVERALL FINANCIAL POSITION 2022/23

- 11.1 The last forecast of the financial position was on 21 June 2021 in the Medium-Term Financial Strategy (MTFS) for 2022/23 to 2024/25. The budget gap reported was £28m over the next four years, of which £7.6m is for 2022/23. Since then, the Council has continued to update its financial plans based on local and national changes set out in the sections above and undertaken a review of the assumptions and insight of known budget pressures, anticipated funding and income levels.
- 11.2 In 2022/23, the Council will deliver the priorities set out in the council plan and react to growth in demand for existing services. Taking into account the information in the sections above, the latest information shows that the Council is expected to spend no more than £596.4m to meet these needs. After assumed levels of funding and income, there has been a **small increase in the budget gap to £7.8m** since last reported in June.

12 BALANCING THE BUDGET 2022/23

- 12.1 Balancing the budget requires the Council to either reduce its costs or increase its level of income. Similar to previous years, this work to identify opportunities has taken place over the summer and proposals have been developed. Budget reductions are planned across all services but are largely efficiency and value for money based. The proposals are a mix of reduction in staffing costs of £324,000, service specific non staffing reductions of £3.6m and £4.1m of reductions in corporate budgets and London wide levies. Full details of the proposals are set out in Appendix A by Lead Member portfolio and summarised in the Table 3.

Table 3 – Summary of Proposed Budget Reductions 2022/23

Lead Member Portfolio	Budget Reductions / Increased Income £'000
Adult Social Care and Public Health	1,215
Children and Family Services	391
Economy, Employment and Innovation	-
Housing and Social Investment	650
Planning Place and Environment	1,345
Culture, Leisure and Community Safety	127
Communities	-
Finance and Customer Delivery	145
Corporate and London Wide Levies	4,100
Total	7,973

- 12.2 Leadership Team is asked to agree for the proposed budget reductions to be launched for consultation in line with the approach set out in Section 17.

Table 4 – Budget gap movement between June 2021 and November 2021

	£'000
Budget Gap as at June 2021	7,632
Increase in the provision needed for budget pressures and inflation	490
Proposals for cost reductions and increased income (subject to consultation)	(7,973)
Budget gap as at November 2021 (if council tax increases of 1.99%)	149
Budget gap as at November 2021 (if there is 0% council tax increase)	2,036

12.3 At this stage, a 2% increase in Council tax would balance the budget. However, it is also still early in the budget process and there remains three months before the final draft budget is recommended to Council. Therefore, the position remains subject to review and change. Monthly updates will be provided to Leadership Team and Overview and Scrutiny Committee in December and January 2022.

13 APPROACH TO LONGER TERM SAVINGS – 2023/24 ONWARDS

13.1 Officers are confident that a balanced budget can be achieved for 2022/23. However, for 2023/24 onwards, there remains a budget gap of around £22m over the three years and with a number of financial risks that could mean this gap is significantly higher. Full details of such risks were set out in the Medium Term Financial Strategy published in June 2021 and updates are in Section 19 of this report.

Table 5 – Four year budget position

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
BUDGET (Surplus)/Gap- In Year	149	12,631	2,477	6,445
BUDGET (Surplus)/Gap- Cumulative	149	12,780	15,257	21,702

13.2 The Council has a statutory responsibility to set a balanced budget which means further savings are needed beyond the specific proposal for 2022/23. The Council will look at where it can take different approaches and make interventions that maximise impact and deliver longer term outcomes for communities. Beyond the short-term savings, balancing the books will focus on four main areas.

Transitions Programme

- 13.3 The Transitions Programme is a cross-cutting efficiency programme that will support Kensington and Chelsea to deliver the same or better outcomes for residents, businesses and staff, for less.
- 13.4 This is not a standalone programme. It is part of the Council's wider Corporate Planning and Performance Management Framework and includes a range of activities to ensure the Council challenges itself to be more cost effective by being ambitious and innovative – whilst maintaining or improving outcomes for our residents, businesses, and staff. This programme will be delivered through eight workstreams.



Procurement and Commissioning

- 13.5 The Council spends £230m with external organisations. The Council's Procurement Strategy was published in Autumn 2020 and this work will bring tighter controls over commissioning and procurement of services to ensure delivery of outcomes and contracts that offer value for money. Savings are expected as a result.

Additional Income, Ways to Pay and Debt Management

- 13.6 Additional income means additional spending power. This may include additional income from fees and charges in line with the Council's charging policy but also additional investment income through Treasury Management and external funding opportunities. The workstream will look to expand existing channels for residents and businesses to pay their bills and develop a holistic approach to how the Council manages existing debt; providing support for residents to become more financially resilient.

Improved Access to Council Services

- 13.7 This workstream continues the delivery of the Customer Access Strategy, which will be delivered through four thematic activities:
- Culture and Learning
 - Customer Experience and Engagement
 - Access Channels
 - Digital Capabilities
- 13.8 The aim of this Strategy is to make sure that everyone's day to day experience of contacting the Council is a positive one and making people's lives easier:
- We want customers to find it easy to get whatever service they need from the Council by ensuring residents get the support they need, when they need it, making interactions with us a positive experience.
 - We want people to put down the phone or leave the building after speaking to us and feel reassured and confident that their needs have been understood that action will be taken promptly and that their time has been well spent.
 - We want them to click 'submit' on an online form or application and think, 'that was easy'.

Clearer Co-ordination with the Voluntary and Community Sector (VCS)

- 13.9 The VCS is often a vital partner for the Council as well as being a cornerstone of our community. This workstream will enable the Council will to identify opportunities to work more effectively with the sector and to better connect with communities. In addition, the Council will review its spending with the sector across all services to ensure that financial resources are aligned with our priorities and support the delivery of outcomes sought by residents.

New Ways of Working and Operational Property

- 13.10 The Council will undertake a comprehensive review of its future working and property requirements across departments. The pandemic has shown the Council can work more flexibly. The review will cover all service areas and ensure new ways of working and property requirements are aligned to resident and local business needs. Once the review has concluded a target operating model will be implemented that provides the flexibility for different working models and property requirements and which is expected to deliver savings.

Digital Inclusion

- 13.11 Digital Inclusion is committed to improving access to digital services and the internet for excluded residents. The overall workstream objectives are to:
- Enable all our residents to use the internet in a sustainable and confident way by removing the practical, economic and psychological barriers.

- Enable residents to achieve improved life outcomes including increased social connection, access to health care and support, employment and economic wellbeing; by empowering them digitally.
- Understand needs in a sophisticated way, develop tailored interventions, and track the success of these interventions, sharing lessons learned across the Partnership.
- As a Partnership, to mobilise and co-ordinate the collective effort of all partners and resident digital inclusion champions in the borough so that our efforts are more than the sum of its parts.

This workstream is not expected to deliver direct savings but over time will enable savings across other services.

Effective, Efficient Enabling Services

13.12 The Council will undertake a comprehensive review of the activities carried out within enabling functions across the departments, such as finance, HR, IT and Customer Delivery to ensure new ways of working align with business needs. This should reduce duplication and standardise processes and activities where appropriate. Once the reviews have concluded the Council will implement new target operating models that provide flexibility to continually learn, adapt and improve based on business needs and puts residents, businesses and visitors needs at the centre.

Staff Decision Making and Autonomy (DMA)

13.13 This workstream is aimed at ensuring the council has adequately skilled staff to support service delivery and that there is no unrequired or duplicated roles and resources. This will require a review of staff in the organisation against the service processes, expected workload and outcomes expected. This will support residence confidence that the councils' resources have been reviewed and that they are achieving value for money.

Agency Staff Review

13.14 The Council is also undertaking review of how and where we use agency staff to reduce our reliance on agency and temps. This should deliver savings and improve the resilience of the workforce.

Delivering for less

13.15 The Transitions Programme is expected to mainly deliver savings from 2023/24 and an indicative level of savings will be included in the next budget report in December 2021. However, this programme alone will not deliver all the cost reductions that are needed to set a balanced budget from 2023/24 onwards and all departments will need to look at all the services provided and consider opportunities to reduce costs or increase income.

13.16 In the longer term not everything may be affordable and there will be strategic decisions to determine on how the Council spends its limited resources to have the greatest impact and in line with the priorities in the Council Plan. This may mean spending more in some areas of priority, but this will be coupled with reductions in other areas.

14 SCHOOLS FUNDING

- 14.1 The Dedicated Schools Grant (DSG) is a specific ring-fenced grant received by local authorities to fund schools and central expenditure supporting the schools' budget. The grant also covers wider support to fund pupils with special educational needs, through an element in the DSG known as the High Needs block, and for two, three, and four year olds in nursery and associated provision, through the Early Years element. Schools are funded through the DSG, not the General Fund and therefore not by Council Tax.
- 14.2 The financial position of school funding is challenging. The DSG had a deficit carry forward from 2018/19 of £4.263m. This has increased to £5.390m at the end of March 2021. This trend in increasing pupils with high needs is likely to continue. There are no longer any balances which can be used to address the pressures and therefore the high needs expenditure has been reviewed in conjunction with the Schools Forum and school high needs reference group.
- 14.3 In line with the latest DfE requirements, a deficit management plan was produced in partnership with schools and agreed with the Schools Forum. However due to the size of the cumulative deficit and ongoing high needs pressures, particularly in relation to post 16 pupils, the recovery plan is not expected to balance within the three years. Other Local Authorities are in a similar position and the Council will continue to lobby Government for additional funding for children with special educational needs. Ongoing work will also continue through Schools Forum.
- 14.4 The Department for Education (DfE) is consulting on a new National Funding Formula (NFF) for schools and central school services. The DfE propose to gradually move Local Authorities formulae closer to the NFF, in advance of moving to a fully hard NFF. This will avoid a cliff edge between school budgets and a hard NFF. This consultation is being published ahead of the publication of the government's SEND Review. The recommendations of the SEND Review will have important implications for how support for pupils with SEND is delivered and funded. There will be further consultation on how the move to a hard formula can best support and deliver the specific recommendations coming out of the SEND Review, once published.
- 14.5 The introduction of the NFF represents a significant change and is likely to lead to some schools benefiting from an increase in funding and others receiving minimal funding increases based on a funding floor.
- 14.6 The DfE will issue the final 2022/23 DSG in December 2021 and this will be reported to the Schools Forum in January 2022.
- 14.7 Part of the Virtual School Services for Looked After Children, previously charged to the Central Schools Block of the Dedicated Schools Grant (DSG) will now be funded from General Fund due to the reduction in the DSG funding at a cost of £71k.

- 14.8 In terms of the Spending Review and Autumn Budget the following announcements were made:
- An additional £4.7bn for schools including returning per pupil funding back to 2010 levels in real terms. This is equivalent to a cash increase of over £1,500 per pupil by 2024/25 compared to 2019/20.
 - £2.6 billion over the next three years for 30,000 new school places for children with special educational needs and disabilities (SEND) in England and an increase in capital funding levels to over £900 million by 2024/25.
 - An additional £1.8bn over the three years for education recovery. This includes a £1bn Recovery Premium for the next two academic years to help schools to deliver evidence-based approaches to support the most disadvantaged pupils. This equates to £145 per primary pupil. The figure for per secondary school pupil was not published. It also provides £324 million in 2024/25 for additional learning hours for 16-19 year-olds.
 - The Holiday Activities and Food Programme is being extended, with £200m per year to continue the programme which was introduced during the pandemic.

15 HOUSING REVENUE ACCOUNT

- 15.1 The financial outlook for the Housing Revenue Account (HRA) continues to be very challenging. The HRA closed its 2020/21 accounts with an in year surplus of £900,000. The latest forecast for the working balance at March 2022 is £11.8m. The officers view is that a minimum working balance of £5m should be maintained.
- 15.2 The development of the 2022/23 budget for the HRA and the review of the 30 year Business Plan follows a slightly different process to the General Fund Revenue Budget and Capital Programme in this report. The work is underway and will be presented to the Tenant's Consultative Committee in January 2022. Any feedback will be considered before the draft budget and Business Plan is presented to Overview and Scrutiny Committee for feedback and then Leadership Team in February 2022.

16 CAPITAL INVESTMENT - CAPITAL PROGRAMME 2021/22 TO 2024/25

- 16.1 Since the external review of the capital programme carried out by PriceWaterhouseCoopers in 2019/20, there has been ongoing improvements to the governance processes that manage the development of the Capital Programme. The latest version of the Capital Handbook underpins the Council's Capital Strategy and provides detailed guidance to users on the basics of capital expenditure, accounting treatments and decision making. This was agreed as part of the Medium Term Financial Strategy in June 2021. Work is continuing with all services to ensure the adoption and operation of the processes within the handbook are fully embedded.

16.2 However, it is recognised that slippage in the capital programme continues to be a significant issue in the delivery of capital schemes. The full adoption of the processes within the Capital Handbook will introduce measures to address this and greater focus is being put on the production of comprehensive business cases for all capital schemes before being added to the capital programme. In addition, there is an ongoing review of the existing capital programme which seeks to address profiling and viability of previously approved schemes. The following sections provide details on the work and proposals arising to date from this work.

16.3 The original budget figure for capital spend in 2021/22, revised to include budget carried forward from 2020/21, was £342.589m. The latest monitoring against this budget was reported to Leadership Team on 15th September and it is now forecast that only £191.352m of capital investment will be delivered in 2021/22. Slippage to 2022/23 and future years is forecast as £151.725m.

16.3 The review of the existing programme is ongoing and will continue over the next few months to ensure that the Capital Programme recommended for approval in February 2022 is aligned to the Council's priorities, is deliverable and is affordable. To date this review has identified a number of schemes either to be removed from the programme, re-phased to future years or moved to the Capital Pipeline for consideration in future years. These are set out in detail in the Appendix A and summarised in Table 6.

Table 6 – Schemes in the current capital programme to be deleted / re-phased and moved to the pipeline (subject to consultation)

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	Total £'000
Schemes proposed to be moved from the current programme to the Capital Pipeline	(4,291)	(16,554)	(1,708)	-	(22,553)
Schemes proposed to be deleted from current Programme	(1,100)	(3,712)	-	-	(4,812)
Total	(5,391)	(20,266)	(1,708)	-	(27,365)

16.4 Each year, there will always be a requirement for some new capital investment. This may include essential routine and maintenance, fire safety works but also other investment into the borough's assets. The £18.765m of new investment that is being proposed in this report will ensure the effective running of Council services and investment into the things that matter to residents. This includes climate action, supporting education and improving customer access to services in the borough. These proposals will help create jobs and opportunities

and build a better future for the borough. The proposals for new capital investment are set out in the Appendix A and summarised in Table 7.

Table 7 – New Capital Investment Proposals (subject to consultation)

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	Total £'000
Proposed new capital schemes	2,563	9,378	6,011	813	18,765

16.5 If all of the proposals to remove schemes from the programme, re-phase to future years, move the pipeline and for new investment are agreed following consultation, the capital programme for the period 2021/22 to 2023/24 that will be recommended to Council in March 2022 will be as set out in Table 8. This excludes the capital investment for the Housing Revenue Account which will be submitted separately later in the budget process as part of the HRA Business Plan but does include the New Homes Programme.

Table 8 – Proposed Capital Programme 2021/22 to 2023/24 (excluded HRA but includes New Homes Programme)

	Latest Monitoring Position £'000	New Capita l Bids £'000	Amounts moved to Capital Pipeline £'000	Removed from the existing programme £'000	Proposed Capital Programme £'000
Adult Social Care and Public Health	9,010	0	(2,704)		6,306
Children and Family Services	43,243	7,500	0		50,743
Economy, Employment and Innovation	2,950	0	0		2,950
Culture, Leisure and Community Safety	10,342	0	0		10,342
Planning, Place and Environment	22,774	2,660	(4,500)		20,934
Housing and Social Investment	547,505	2,500	(13,668)	(3,722)	532,614
Finance and Customer Delivery	16,922	6,105	(1,681)	(1,090)	20,256
Cross-cutting and Contingency	6,021	(2,500)	0	0	3,521
Total	658,766	16,265	(22,553)	(4,812)	647,666

16.7 Table 9 brings together proposed changes from the review of the capital programme and new proposals.

Table 9 - Capital Programme Position Update at November 2021 (if proposals agreed)

	2021/22	2022/23	2023/24	2024/25	Total
	£'000	£'000	£'000	£'000	£'000
Current Capital Programme as at June 2021	191,352	357,706	109,708	-	658,766
Schemes to be moved to the Capital Pipeline – subject to approval	(4,291)	(16,554)	(1,708)	-	(22,553)
Schemes removed from existing Capital Programme	(1,100)	(3,712)	-	-	(4,812)
Proposed new schemes – subject to approval	2,563	9,378	6,011	813	18,765
Use of Capital Contingency to fund 2021/22 schemes	(2,500)	-	-	-	(2,500)
Proposed Capital Programme as at November 2021	186,024	346,818	114,011	813	647,666

16.8 The detailed funding of the Capital Programme is delegated to the Section 151 Officer as part of the budget setting process and will be agreed as part of the 2022/23 budget report in March 2022 by Council. Table 10 provides a summary of the high level funding assumptions at this time. As a result of the proposed changes in this report, there is a reduction in borrowing in 2021/22 of £5m compared to that reported to Leadership Team in September 2021 and a total reduced borrowing requirement of £10m from 2021/22 to 2024/25, both as a result of the changes set out in Tables 6 and 7.

Table 10 - Assumed Capital Funding Position

Funding Source	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Capital Grants & Contributions	(33,003)	(40,954)	(12,236)	0
S106/CIL Contributions	(4,000)	(19,000)	0	0
Capital Receipts Reserve	(55,286)	(17,538)	(2,000)	0
Revenue Contributions	(27,990)	(19,016)	(6,951)	0
Borrowing	(65,745)	(250,310)	(92,824)	(813)
Total Funding Sources	(186,024)	(346,818)	(114,011)	(813)

Capital Pipeline

- 16.9 The Capital Scheme pipeline was created in 2019/20 and is reviewed each year. The role of the pipeline is to support longer term investment planning, developing the long term capital strategy to show at a summary level future forecast expenditure requirements (not yet fully developed) and ensure that the benefits intended to be delivered through the Capital Programme are financially viable.
- 16.10 There are then two streams to the pipeline. The first (Capital Pipeline 1) is for those schemes that are at an early draft/outline business case stage but for which further work is still required. They are approved in principle as part of the capital programme agreed by Council in March each year and will be budgeted at 50% funding based on the likelihood of delivery. The Capital Strategy and Asset Management Board have delegated authority for bringing schemes underpinned by a robust business case out of the pipeline and into the programme providing if this can be managed within the overall in-year budget envelope.
- 16.11 The Capital Pipeline 2 are for those schemes that are 'ideas' at this stage but are not expected to come forwards over the next three years and therefore are not included within the overall three-year capital programme budget envelope.
- 16.12 Table 10 provides a view of the Capital Pipeline if the proposals set out in the Appendix A in this report are agreed following consultation. The financial plans do need to take account of the funding of the schemes in the pipeline but do so in a proportionate manner based on the likelihood and timing of these schemes coming online. The current assumptions allow for 50% funding of the schemes

in Capital Pipeline 1 and zero provision for Capital Pipeline 2. The funding gap risk factor is the value of the schemes for which there is no funding provision.

Table 11 - Proposed Capital Pipeline Budget

	2021/22 £'000	2022/23 Budget £'000	2023/24 Budget £'000	2024/25 Budget £'000	2025/26 Budget £'000	Total Budget £'000
Existing Capital Pipeline 1	4,557	25,740	1,050	8,665	5,681	45,693
Transferred from Capital Programme	16,587	6,625	-	-	-	23,212
New investment proposals to Capital Pipeline 1	663	7,583	7,761	4,763	-	20,770
Total Capital Pipeline 1	21,807	39,948	8,811	13,428	5,681	89,675
Funding Assumption (Borrowing)	(10,904)	(19,974)	(4,405)	(6,714)	(2,840)	(44,837)
Funding Gap Risk Factor	10,903	19,974	4,406	6,714	2,841	44,838

16.13 Further schemes are under review and the pipeline may be updated in the next version of the budget report

17 Budget Consultation

Borough Wide Consultation

17.1 This year's approach to the budget consultation will ensure all residents, business and voluntary and community organisations have an opportunity to review and comment on the budget proposals. The Council will build on the close working and new contacts that have developed through the pandemic with community groups and business. Details will be published on the Council's website and the specific channels of engagement will include:

- Promotion and updates in the borough newsletter, business newsletter and VCS newsletter;
- Promotion and updates via twitter;
- Use of feedback and intelligence gathered through the Listening Tool over the last 6 months;

- Through direct engagement with all businesses known to the Council;
- Promotion and updates to the Portobello Business Centre and Chamber of Commerce;
- Direct engagement with voluntary and community organisations known to the Council; and
- Direct engagement with statutory partners.

17.2 There were no proposals where the initial EQIA Screening Questionnaires identified that the changes proposed will have a direct impact on a particular cohort. Results of the EQiA screening can be in Appendix B.

17.3 The consultation period will run from 12 November to 12 January 2022.

Overview and Scrutiny Committee

17.4 The proposals in this report will be scrutinised through Overview and Scrutiny Committee (OSC). Similar to previous years, the Committee have established a small working group (referred to as the Budget Working Group) to review and consider the proposals in more detail. The group will receive a summary of this report by the Director of Financial Management in mid November and the Budget Working Group will then have the opportunity to meet with Lead Members and officers to discuss the proposals in more detail.

17.5 The final report of the Budget Working Group will be presented back to Overview and Scrutiny Committee on 24 January 2022 for consideration by Lead Members before the draft budget is presented to Leadership Team on 9 February 2022.

18 Reserves Strategy

18.1 A key part of managing the Council's financial position is to hold a prudent level of reserves. The council is anticipated to hold a General Fund working balance of £10m for the next five years. In addition, there are a number of ring fenced reserves and then others which are for more general use. The brought forward balance from 2020/21 of the Council's earmarked reserves excluding the Collection Fund is £136m. A full review is underway to forecast use over the next three to five years and will be reported to Leadership Team in February 2022 when the Section 151 will report on the robustness of the budget and the adequacy of reserves.

18.2 There are no plans at this stage to use reserves to balance the budget in 2022/23 or future years.

Table 12 – Reserve Balances as at 31 March 2021

Reserves Title	Balance as at 31 March 2021
	£'000
Grenfell	23,145
Car Parking	19,412
Budget Stabilisation	39,283
Special Projects	17,637
Capital Expenditure	9,900
Reorganisation	7,526
Other	19,062
Total GF Earmarked Reserves (Excl Collection Fund)	135,965

19 Risk Management

19.1 A full update on the financial risks to the Council was published as part of the Medium Term Financial Strategy in June 2021 and also the Annual Governance Statement recently published on 30 September 2021 within the Annual Statement of Accounts. In summary, the main financial risks are:

- Ongoing and longer term impact of Covid-19 on service costs and loss of income;
- Local authority funding over future years, including the impact of falling population numbers and the new funding formula;
- The impact of social care reforms and the new National Funding Formula for schools;
- Volatile economic conditions, in particular in the construction sector;
- New responsibilities from Government;
- Service specific spending and income pressures that have not yet been identified;
- Delivery of existing savings and identifying new savings of £22m over the next three years;
- Funding from external organisations and partners which currently fund services, particularly in relation to social care;
- The investment that will be needed into digital and IT infrastructure following the disaggregation of the bi-borough IT service;
- Ongoing funding to support Grenfell Recovery beyond 2024/25 and implications of the recommendations in the Phase 2 report which is expected to be published in 2024.

19.2 The likelihood of all risks occurring in one year is low but the Council is in a period of uncertainty. Risks remain under regular review in terms of likelihood and impact and reserves and contingency are in place for managing any which do materialise. The 2022/23 budget is expected to hold a corporate contingency provision of £3.5m which is lower than the current year but in line with pre Covid-19 levels.

20 Budget Timetable

20.1 This report is the first report in preparing for the 2022/23 budget that will be presented to Leadership Team in February 2022 for recommendation to Council in March 2022. The report marks the formal start of the budget process and the launch of the budget proposals for consultation.

Table 13 – Budget Timetable

	Date
Leadership Team – Update on financial position for 2022/23 and full revenue and capital proposals – launch for consultation	10 November 2021
Leadership Team – Update on financial position and draft fees and charges for 2022/23	8 December 2021
Leadership Team – Update on any budget assumptions, Local Government funding settlement, additional capital investment and agree council tax bases (Council Tax and Business Rates)	19 January 2022
Overview and Scrutiny Committee – Final report on proposals for Lead Members to consider	24 January 2022
Leadership Team – 2022/23 Revenue Budget, Capital Programme 2021/22 to 2023/24 and Council Tax level 2022/23, Housing Revenue Budget 2022/23, HRA Business Plan and Treasury Management Strategy 2022/23.	9 February 2022
Council – 2022/23 Revenue Budget, Capital Programme 2021/22 to 2023/24 and Council Tax level 2022/23, HRA Business Plan and Treasury Management Strategy 2022/23.	March 2022

21 Consultation and community engagement

21.1 Under the Equality Act 2010, the Council has a duty to pay “due regard” to the need to eliminate discrimination and advance equality of opportunity with regard to the protected characteristics of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, sexual orientation, religion or belief and sex and to foster good relations between those who share a protected characteristic and those who do not. The budget Equality Impact Assessment is published alongside this strategy. The budget EQIA is attached at Appendix B. At this stage no proposals are proposed to have their own EQiA,

however, we recommend in the assessment that full EQiAs, and where relevant consultation, should be undertaken as appropriate as budget proposals are developed further and implemented and feedback from consultation is received.

22 Human resources and equality implications

22.1 There HR implications are included in the budget where relevant. An initial equalities impact assessment of the proposed savings and growth has been carried out and is attached at Appendix B to this report. No specific issues have been highlighted at this stage.

23 Legal Implications

23.1 The legal implications are included in the Report where relevant. In paragraphs 1.7, 3.1, 5.1, 5.2, 5.12 and 13.2 the Report confirms the Council has a duty to set a balanced budget and that, pursuant to section 151 of the Local Government Act 1972, the Council's s151 officer is responsible for the effective administration of the Council's statutory budgetary requirements. Paragraphs 5.25 and 8.7 of the Report also confirms that many of the services provided by the Council are governed by legislation and guidance which sets out what services are to be provided and, to a certain extent, how they are to be provided and budgeted for.

24 Financial, Property, IT and any other resource implications [still to be completed]

Taryn Eves
Director of Financial Management

Local Government Act 1972 (as amended) – Background papers used in the preparation of this report - None

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Mandatory clearance requirements for all Key and Executive Decision reports

Cleared by Finance (officer's initials)	[TE]
Cleared by Corporate Finance (officer's initials)	[TE]
Cleared by Director of Law (officer's initials)	[JG]
Cleared by Communications (officer's initials)	[NTP]

