


Decision Maker	Leadership Team	 THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA
Date of Report	8 November 2023	
Forward Plan ref:	KD06576/23/K/A	
Report title	MEDIUM TERM FINANCIAL PLANNING – UPDATE ON FINANCIAL POSITION 2024/25 AND BUDGET PROPOSALS	
Reporting officer	Mike Curtis – Executive Director of Resources	
Key decision	Yes	
Access to information classification	Public	
Wards	All	

1. EXECUTIVE SUMMARY

- 1.1 In July 2023, Leadership Team received the Council’s latest Medium Term Financial Strategy which provided an update on the medium-term financial forecast for the next four years. This showed a budget shortfall of between £3.7m and £4.4m depending on certain assumptions in 2024/25 and then an overall shortfall of between £32m and £42m for the period 2024/25 to 2027/28.
- 1.2 This report provides an update on the medium-term forecast but is also the first report to Leadership Team on the preparations for the 2024/25 Revenue Budget and Capital Programme that will be recommended to Council in February 2024. A report detailing the draft fees and charges for 2024/25 and updates on any new information available will be presented to Leadership in December 2023.
- 1.3 The revised forecast budget gap for 2024/25 before any new budget reductions in the worst case scenario in the MTFFS is £4.4m. If the budget reductions identified in this report are agreed, the Council will be able to set a balanced budget for 2024/25. This position is very much dependent on the outcome of the Local Government Finance Settlement and further consideration of inflationary pressures over the next few months and therefore an enormous amount of uncertainty remains. Some indications may be given on the 22 November 2023 when the Chancellor will set out the government’s Autumn Statement to parliament but as in previous years this is expected to be high level and the specifics for Local

Government will not be known until the settlement is published – usually in late December.

- 1.4 This latest position now reflects the anticipated pay offer of around 5.5% in 2023/24 and 4% in 2024/25 and contract inflation of 4% and 2% for 2024/25 and 2025/26 respectively. Interest rate assumptions have been updated and now reflect 4.5% for average rate of return on investments and 5.3% for any new borrowing in 2024/25 and 2025/26.
- 1.5 Contract inflation remains a key area of concern and although an average of 4% has been assumed for 2024/25 which equates to a provision of almost £6m, some increases will be much higher, particularly in terms of construction, energy, and social care sectors. In the current year, the Council has an additional contingency provision of £5.5m set aside for higher inflation costs. Given the volatility in economic conditions, an additional contingency may be needed also for next year and this will be considered before the budget is finally approved in February 2024.
- 1.6 All the assumptions driving the financial forecast are volatile and will remain under review in the run up to formally setting next year's budget in February 2024.
- 1.7 The budget for 2024/25 is being 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.
- 1.8 The Council has a statutory requirement to set a balanced budget and over the summer the focus has been of preparing for next year's budget. This has included reviewing the assumptions that underpin these forecasts, reviewing the evidence behind budget pressures/ growth and considering budget reductions/ savings to enable a balanced budget to be set for 2024/25. New budget reductions of £12.2m have been identified and full details are set out in Appendix B. Leadership Team is asked to agree for these to be launched for consultation from 9 November to 21 December 2023.
- 1.9 If a balanced budget is set for 2024/25, the longer-term position is much more challenging. There remains an estimated budget gap of £37m for the period 2025/26 to 2027/28. 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 10.
- 1.10 The current capital programme commits large amounts of investment to a wide range of projects and programmes across the borough. As a result of these large commitments and as part of good financial governance the capital programme is in the process of being reviewed to ensure that the schemes included remain a priority and are deliverable within the next three years. Section 9 provides an update on this exercise.

- 1.11 Requests for new capital investment of £997,000 (of which £747,000 is for 2024/25) have been put forward for inclusion in the programme and £29.5m (of which £13.7m is for 2024/25) to be included in the capital pipeline. Full details are set out in Appendix D and Leadership Team is asked to agree for these to be launched for consultation from 9 November to 21 December 2023.

2. RECOMMENDATIONS

Leadership Team is asked to:

- 2.1. **Agree** that the £12.2m of budget reductions set out in Appendix B be launched for consultation in line with the approach set out in Section 13 of the report.
- 2.2. **Agree** that the £6.5m of budget pressures/growth set out in Appendix A be launched for consultation in line with the approach set out in Section 13 of the report.
- 2.3. **Agree** the capital proposals of set out in Appendix D be launched for consultation in line with the approach set out in Section 13 of the report. This includes £997,000 of new investment proposed to be added to the capital programme 2024/25-2026/27 summarised in Table 5.

3 REASONS FOR DECISION

- 3.1 The Council is legally required to set a balanced budget each year. This report provides an update on the different elements of the budget, including budget pressures and budget reductions. The proposed budget reductions for 2024/25 set out in this report are being launched for consultation for which feedback is sought over the period 9 November to 21 December 2023. Leadership Team will consider the feedback on the proposals before recommending the 2024/25 budget to Council in February 2024.

4 BACKGROUND

- 4.1 In March 2023, Council agreed the budget for 2023/24 and an update on the Council's Medium Term Financial forecast. A further update on the four-year forecast was presented to Leadership Team in July 2023 which took into account the impact of rising pay costs and inflation. At this time it was estimated that the budget gap was between £32m and £42m over the next four years, of which between £3.7m and £4.4m was for 2024/25.
- 4.2 Over the summer, the assumptions underpinning the Medium-Term Financial forecast have again been reviewed and there is now a budget gap of £35m over the next four years. There is currently an estimated surplus of £2.4m for 2024/25. This figure is based on the maximum increase in Council Tax. It does not include the costs of a potential cost of living rebate to households, along the lines of the £100 rebate granted to households in Council Tax bands A-D in 2023/24. A

decision on whether to do this and how to fund it will be made by Full Council in February 2024. More detail on this is in paragraphs 5.6 and 14.13.

- 4.3 If when the budget is finally approved in February 2024 there remains a surplus this would be expected to be used to replenish the Special Projects Reserve which is forecast to be completely used up in the next two years. The forecast balance of this reserve shown in table 10 below.
- 4.4 The main adverse movements since July 2023 relates to interest rates which have continued to rise and increase expected borrowing costs, further updates on inflation and other budget pressures particularly relating to temporary accommodation. These have been offset by savings put forward by services included in Appendix B and an increase in the assumed rise in Council Tax. However, a decision on Council Tax will not be confirmed until Full Council in February 2024.
- 4.5 This main purpose of this report is to specifically update on the budget preparations for 2024/25. It sets out the latest information on all the assumptions that underpin the budget. Proposed budget reductions have been developed and are being launched for consultation. The feedback from the consultation will be considered in developing the draft budget that will be presented to Leadership Team in February 2024.
- 4.6 This report relates to the financial position on the Council's General Fund revenue budget and Capital Programme. A similar more detailed update on the Housing Revenue Account will follow later in the year.

5 NATIONAL CONTEXT

- 5.1 The Council's financial position must take into account the national context and issues affecting all local authorities.

Inflation

- 5.2 Twelve-month CPI inflation peaked at 11.1% in October 2022 and has been gradually coming down since then. It dropped to 6.7% in August and remained at this level in September 2023. However even with this decline it is still significantly higher than the Government target of 2%. The costs of delivering the capital programme is where the impact of the high inflation is mostly being seen but the cost of social care contracts have increased in year by between 5% and 9%.
- 5.3 The Bank of England base rate has now reached 5.25% and the borrowing rate from the Public Works Loan Board (PWLB) has reached its highest period in the last decade and has recently fluctuated between 5% and 6%. Latest forecasts expect interest rates rises to have peaked at these levels but they are not expected to start to fall until 2025.

- 5.4 The Bank of England expects inflation to fall to around 5% by the end of 2023 and then to keep falling and reach the 2% target in the first half of 2025. The outlook for the UK's economic growth is sluggish with growth of under 1% expected in both 2023 and 2024.
- 5.5 The volatility in inflation and interest rates does impact on the cost of Council services and this is covered through the relevant section of this report.
- 5.6 The ongoing high (albeit declining) inflation environment and the underwhelming performance of the UK economy is likely to mean the cost of living crisis will be with us for the foreseeable future. The Council has continued to use intelligence and insight to understand the impact of cost of living on communities and businesses to ensure that there is care and support for those most vulnerable and in need. The Council is also looking at options for a rebate to households struggling with growing financial pressures. The cost of repeating the 2023/24 £100 cost of living rebate to households in Council Tax bands A-D in 2024/25 would be approximately £1.6m. This could be funded from the Council's cost of living reserve.

Chancellor's Autumn Statement 2023

- 5.7 The Government's Autumn Statement is expected to be on 22 November 2023 and is expected to also include the latest forecasts from the Office for Budget Responsibility.

Adult Social Care

- 5.8 As in previous years, discharges from hospital continue to increase as the social care sector supports our residents to return home while also working alongside the NHS to reduce hospital discharge delays. This together with the cost of living crisis has created significant cost pressures within ASC, which are currently being funded by Central Government and Local Health ICB grants. Without these the Council would be facing a significant shortfall.

Adult Social Care - Discharge Support Fund

- 5.9 The national fund totalling £500m for 2023/24 will be used to support discharge from hospital into the community, strengthen the social care workforce, and free up hospital beds. 60% will be allocated to health and only 40% to Councils.
- 5.10 In total RBKC has been allocated £2.2m split between £1.074m Central Government and £1.1m NWLICB. However, there is significant concerns about this split of allocation of the fund among London boroughs.
- 5.11 For 2024/25 funding is expected to be the same as 2023/24.

Adult Social Care – Social Care Reforms

- 5.12 In the November 2022 Autumn Statement, Central Government announced delays to the planned adult social care charging reforms until October 2025.

- 5.13 As a result of the delays, there have been some changes made to the fund for 2023/24 onwards.
- 5.14 From April 2023, the fund has been renamed as the Market Sustainability & Improvement Fund (MSIF). In total the fund amounts to £400m of new funding for adult social care in 2023/24. There is a further £683m expected in 2024/25. In 2023/24, the new funding will be combined with £162m of continued Fair Cost of Care funding. For RBKC this amounts to £2.03m in 2023/24 and the expectation is that in 2024/25 the MSIF will increase to £2.43m.
- 5.15 Local authorities will have flexibility to use the MSIF to drive improvements across a range of priority areas, to best address local sustainability and improvement needs.
- 5.16 Central Government announced a further grant Market Sustainability and Improvement Fund - Workforce Fund. In total the fund amounts to £365m of new funding for adult social care in 2023/24 and £205m for 2024/25. For RBKC this amounts to £1.3m for 2023/24 and expected to reduce in 2024/25 to approx. £750k. The conditions are similar to the MSIF.
- 5.17 Adult Social Care is facing significant pressures from annual inflation requests from ASC providers, with the average agreed being around 9%. But the agreed inflation increases range from 5% to 13%. The cost is being allocated against the Market Sustainability Grant.

Government legislation

- 5.18 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. The pandemic led to a number of temporary new responsibilities being passed to local authorities in order to help manage the outbreak, but these are now ceased. It remains unclear if the new Government will introduce new legislation and requirements for Local authorities and at the time of writing this report, none are known.

6 LOCAL PRIORITIES

- 6.1 The new Council Plan was approved in March 2023 to cover the period 2023-27. It set out the Council's vision to become the best Council for a borough that is greener, safer, and fairer. This Medium Term Financial Strategy ensures that the financial resources are available for the delivery of these priorities. This strategy should be read together with the Council Plan.

6.2 For each of the themes – greener, safer, fairer, the Council has set out what we want to see and what we will do. These are outlined below:

- A GREENER KENSINGTON AND CHELSEA
 - o Clean air, clean streets, and greening
 - o Parks and open spaces

- A SAFER KENSINGTON AND CHELSEA
 - o Safe homes
 - o Crime and community safety
 - o Support and safeguard adults and children

- A FAIRER KENSINGTON AND CHELSEA
 - o Housing
 - o Advice and support
 - o Celebrate, promote, and improve Kensington and Chelsea
 - o Education, economy, and employment

6.3 Full details of the priorities, what we want to see and what we will do are set out in the Council Plan.

7 BUDGET 2024/25 PREPARATION

7.1 The remainder of this report focuses on preparing the budget for 2024/25 and provides an update on any known changes or new risks emerging.

Current Financial Forecast

7.2 The starting point of any preparations for the next year's budget is the current year financial position. In March 2023, the Council set a balanced budget for 2023/24. The first monitoring of spend and forecast against this budget was reported to Leadership Team in September 2023 and it showed overall a forecast overspend of £5.1m. This has largely been driven by pressures within temporary accommodation- due to the ongoing need to use commercial hotels to meet demand; and on the interest budgets as the Councils cash balances have declined whilst the higher interest rate environment increases the costs of additional borrowing required during 2023/24. Current 2024/25 budget proposals include an increase in interest budgets to account for higher rates, plus £1.5m budget growth relating to temporary accommodation. The report on the quarter 2 position will be presented to Leadership Team in December 2023.

7.3 The second step is to review the assumptions underpinning the financial position for 2024/25 and this work took place over the summer. The latest information set out in the sections that follow show that before any budget reductions there is a budget shortfall of £9.7m as detailed in Table 1. Table 2 then shows the movements from the budget gap of £4.4m for 2024/25 reported in July 2023 to the now £2.5m budget surplus.

Table 1 – Analysis of Movements – Budget 2023/24 (set in March 2023) to Budget Gap/(Surplus) 2024/25 (as at November 2023)

	£'000
Balanced Budget 2023/24 (set in March 2023)	0
4% inflationary increase in fees and charges (para 7.22)	(3,239)
Budget Pressures/Growth (see Appendix A)	6,482
Changes in levy charges (including concessionary Fares)	1,861
Contract Inflation (2024/25) (para 7.31)	5,517
Changes in funding of the Council's Grenfell recovery work*	(2,500)
Financing of the Capital Programme	8,877
Council Tax	(5,429)
Increase in Social Care Grant	(2,830)
Movement in collection fund balance	(919)
Pay Inflation (2023/24 and 2024/25)	6,461
Previously approved savings (see Appendix C)	(80)
Reduction in transfer to reserves	(4,460)
Budget Gap (November 2023) – Before Budget Reductions	9,741
New Savings Proposed (as per Appendix B)	(12,222)
Budget Gap/(Surplus)	(2,481)

* The Grenfell Recovery Programme (2019-24) was funded from a ringfenced budget of £50m committed in 2019. The programme will begin to come to an end in 2024. From 2024/25, the Council and other parties have committed additional funding for support to bereaved, survivors and the immediate local community from 2024-28. This will be funded separately. See paragraphs 14.21 and 14.22 for more details.

Table 2 – Analysis of Movements – Budget Gap 2024/25 (as at July 2023) to Budget Gap/(Surplus) 2024/25 (as at November 2023)

	£'000
Budget Gap (as reported in July 2023)	4,359
Additional Budget Pressures since July	308
Expected increase in legal fees relating to Grenfell no longer required	(500)
Changes in levy charges (including concessionary Fares)	(573)
Financing of the Capital Programme	2,335
Council Tax	(1,980)
New Savings	(8,503)
Pay Inflation (2023/24 and 2024/25)	2,257
Lancaster West Team funded from reserves 2024/25	(290)
Reduction in previously approved savings	106
Budget Gap/(Surplus)	(2,481)

Funding

Local Government Finance Settlement

- 7.4 The specific financial implications for Local Authorities, including the level of Government funding will be set out in the draft Local Government Finance Settlement 2024/25. Financial Plans for 2024/25 assume the same level of funding as in the current year - £11.9m of RSG and £54.7m of retained business rates and all service specific grants remain the same. The high levels of inflation may indicate an inflationary increase could be expected for the 2024/25 Local Government Finance Settlement but Government has at the same time given an indication of efficiencies needed across departments. Therefore, the prudent assumption at this stage is that Government funding will remain the same in cash terms. This does however remain a financial risk and any government funding below these levels would increase the budget gap.
- 7.5 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 repeatedly been delayed and it is now not likely before the next General Election. It is expected that any change in the funding formula and use of Census 2021 data will result in a loss of funding for Kensington and Chelsea and London. Although it is difficult to predict the quantum of the loss, knowing that it will now be no earlier than 2025/26 provides the Council with an opportunity for longer term planning for this funding loss.

Public Health Grant

- 7.6 Public Health responsibilities were passed to Local Authorities from April 2013 and the Council's ring-fenced Public Health Grant for 2023/24 is £22.9m. The grant for next year will not be known until March 2024 but the grant is expected to rise by

inflation as per previous years. Financial Plans currently assume a 2% increase until the allocation is known in March 2024.

- 7.7 The Council maintains a Public Health Reserve for any unspent grant. This reserve is entirely ringfenced for eligible spend on Public Health. £6.6m is expected to be available at the beginning of 2024/25.

Better Care Fund and Adult Social Care Grant

- 7.8 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 2023/24 includes services of £28.197m. (£20.051m RBKC and £8.146m North West London Integrated Care Board [NWLICB]). Each year the BCF increases, based on the NHS contribution to adult social care uplift to NHS minimum contribution.
- 7.9 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 level in 2024/25.
- 7.10 In September 2021 the Government published a new plan to tackle the systemic funding challenges for delivering social care. From October 2023 an £86,000 cap was to be introduced for anyone in England as a maximum they will have to spend on their personal care over their lifetime. However, in the Chancellor's Autumn Statement in November 2022 it was announced these reforms would be delayed for two years until October 2025. Financial models currently assume the financial impact of these changes will be fully funded from government grant from 2025/26. Any costs over and above grant allocations or reduction in grant allocations would need to be funded by Council resources and would increase the budget gap.
- 7.11 The Council also receives a grant for Adults and Children's social care. This was increased in 2023/24 to £13.9m and is expected to be £16.7m in 2024/25. The increases in these two years were a reallocation of money that had been set aside to implement the delayed social care reforms detailed in the previous paragraph. Confirmation of the actual grant for 2024/25 will be confirmed when the provisional Local Government Finance Settlement is published later in the year.
- 7.12 Government spending plans are then forecast to fall and financial plans assume these social care grants will drop to the earlier level of £8.5m from 2025/26, resulting in a significant reduction in funding as can be seen in the forecast budget. This assumption may be overly prudent, but at this stage until we have further information prudence is the best approach to adopt.

Other Grants

- 7.13 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.
- 7.14 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 particularly in terms of any new funding formula that is introduced.

Business Rates

- 7.15 The Council collects business rates on behalf of the Government and the level of taxes paid by business is determined by the rateable value (RV) of their business property and the pence paid per pound of RV. For 2023/24, this has been set at 51.2p for large businesses and 49.9p for smaller businesses. It is assumed these current tax levels will continue for 2024/25 but this will be confirmed by Government later in the year. The Council has no control over either the RV of business premises or the pence paid per pound of RV. The revaluation of properties for business rates took place with effect from 1 April 2023 based on the rental market as at 1 April 2021. Transitional arrangements have been brought in to ease the impact of revaluation on businesses.

Council Tax

- 7.16 The continuing reduction in Government financial support has meant that income from Council Tax has become increasingly important when funding Council services. The 2023/24 local government finance settlement confirmed that the referendum threshold limit for council tax increase in 2023/24 and 2024/25 will remain at 3% per annum and up to an additional 2% can be included for the adult social care precept for authorities with social care responsibilities.
- 7.17 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 £990,000.

Council Tax Level

- 7.18 Council Tax at £988.26 for a Band D is the fourth lowest (excluding City of London) 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 £1,647.10 and £1,976.52 respectively. Therefore, although Band D is the average used nationally, the high level of more expensive properties means that Council Tax becomes an even greater source of income.
- 7.19 Financial Plans assume the Adult Social Care precept of 2% will be recommended to Council as well as a 3% increase in general Council Tax. However the decision

on general Council tax increases for 2024/25 will not be agreed until February 2024 by full Council, following a recommendation from Leadership Team in February 2024.

Council Tax Base

- 7.20 The second determinant of council tax income is the tax base. For 2024/25, financial plans assume an increase of around 475 properties per year (0.49%) but this remains under review over the next few months and the speed at which housing developments within the borough are completed. The Council Tax base for 2024/25 will be agreed in January 2024 by the Section 151 Officer under delegated responsibility and will be used in setting next year's budget.

Council Tax Collection

- 7.21 Council tax collection has historically been high in Kensington and Chelsea and in 2023/24 is forecast to be 97.5%. The pandemic 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. However, collection rates have improved and are forecast to be back to 97.5%.

Fees, Charges and Rental Income

- 7.22 Income from fees, charges, sales and rental income in 2023/24 is expected to be £140m. The majority is collected through statutory and discretionary fees and charges for services but £13.9m relates to rental income on commercial properties.
- 7.23 An update on the fees and charges proposed for 2024/25 will be presented to Leadership Team in the next update on the budget preparations in December 2023. Financial Plans currently assume that on average discretionary fees and charges will increase by 4% from April 2024 which equates to an additional £3.2m in income. This is in line with the assumed increase in costs.

Investment Income and Borrowing

- 7.24 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 have increased over the last 18 months and the average rate of return in the current year is 4.8%. Financial Plans currently assume an average rate of return of 4.5% in 2024/25. However cash balances have dropped significantly and therefore investment income will be relatively low despite the higher interest rate environment.
- 7.25 The Council needs to borrow to part fund its capital programme. On external borrowing the Council's strategy has been to support a policy of limiting the need for borrowing by the utilisation of internal funds as far as possible. However the Council's cash balances have declined to the extent that external borrowing was

required midway through 2023/24 with a tranche of £20m taken in October 2023 (£11m for the General Fund and £9m for the HRA at rates of 5.06% and 4.70% respectively).

- 7.26 Although interest rates have continued to increase and the average PWLB rate in September was between 5% and 6%, the interest rate on existing borrowing is fixed and therefore unaffected by these current spikes in interest rates. However due to the size of the capital programme, financial plans currently allow for £110m of new General Fund borrowing to be incurred in 2024/25. Interest rates on borrowing has also increased and the average rate on new borrowing for 2024/25 is assumed at 5.3%. As the cost of new borrowing increases, it is even more important that the Council's capital programme reflects the Council's priorities and investment that will have the most impact. The final borrowing requirement for 2024/25 will be presented to Leadership Team in February 2024 as part of the final budget report.
- 7.27 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 2024 for recommendation to full Council.

Forecast Revenue Spending 2023/24

Budget Pressures/Growth

- 7.28 Each year, the budget will include extra provision for pressures that are known and can be quantified. These are largely focussed around increase in service demands and are separate to inflation and pay provision which is held centrally. Details of the specific service pressures for 2024/25 are summarised in Table 3 and set out in full in Appendix A.

Table 3 – Service Budget Pressures/Growth 2024/25

Department	£'000
Adult Social Care and Public Health	2,000
Chief Executive	270
Children's Services	708
Environment and Communities	774
Future Grenfell Support	340
Housing and Social Investment	1,930
Resources and Customer Delivery	460
Total	6,482

Pay

- 7.29 The Council's staffing costs are around £123m each year. Financial Plans for 2024/25 currently assume 5.5% (£6.0m) for pay increases for 2023/24 which matches the current pay offer. At the time of writing this has not been accepted by the unions and any increase on this would worsen the budget position. Pay increases for 2024/25 are assumed at 4% but this will remain subject to negotiations.

Demographic changes

- 7.30 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 £500,000 for such pressures within Children's Services in 2024/25 and details are included in Table 3 and Appendix A.
- 7.31 The Adult Social Care budget is volatile due to acuity of needs and high demand for services, particularly in our hospital discharge pathway due to the pressure to free up hospital beds, which continues to drive increases in community home care packages and high residential and nursing home costs. Within our community activities, we expect to see continuous increase in presenting need within Learning Disabilities, Mental Health, and people with complex needs. However, despite these ongoing pressures, the service has robust monitoring mechanisms in place, together with the successful lobbying to NWLICT to provide one-off additional funding to meet these cost pressures, which up to now has enabled the budgets to come in under budget every year. Furthermore, the service receives central grants annually to fund demand pressures of £2m, but there is a risk to the service budget in 2024/25 if the grants are not maintained.

Inflation

- 7.32 The economy is facing much uncertainty over the short and medium term which impacts on costs and income that are driven by these conditions. The Council's spend with third party organisations is £228m, either through 22s, grants, or other commissioning arrangements. Many of these will be subject to inflation increases and linked to different indices, including CPI, RPI and industry specific indices. High levels of inflation will push up the costs and there is already an increase of between 5% and 9% within social care contracts and 20% to 25% increase in tenders being returned to deliver the capital programme. It is assumed that of the £228m, approximately £140m will be impacted by the high inflation. For 2024/25 and the provision in financial plans is 4% before returning to 2% in 2025/26. Officers are currently undertaking a detailed line by line review of contracts to more accurately estimate the inflation pressures for 2024/25 and consider whether there needs to be an inflationary contingency for next year's budget for increases above the £5.5m that has already been set aside for contract inflation.

London Wide Levies

- 7.33 The Council contributes to a number of London wide levies each year. The contributions for 2024/25 will mostly become known over the next few months up until January 2024 but indicative contributions for concessionary fares, which is the largest element of this budget have been given at £7.6m which is still below the pre-pandemic levels of £8m.
- 7.34 Other levies are assumed to increase by 2% and include the Council's contribution to the London Boroughs Grants Scheme, Environment Agency, and London Pensions Fund Authority.

8 THE OVERALL FINANCIAL POSTION

- 8.1 In 2024/25, the Council will continue to deliver the priorities set out in the new council plan that was agreed by Council in March 2023.
- 8.2 Taking into account the information in the sections above, the Council is expected to spend £179m to deliver its services and respond to these budget pressures. This means before any new savings proposals there is a budget gap of £9.7m and budget reductions to this value are required.

Balancing the 2024/25 Budget

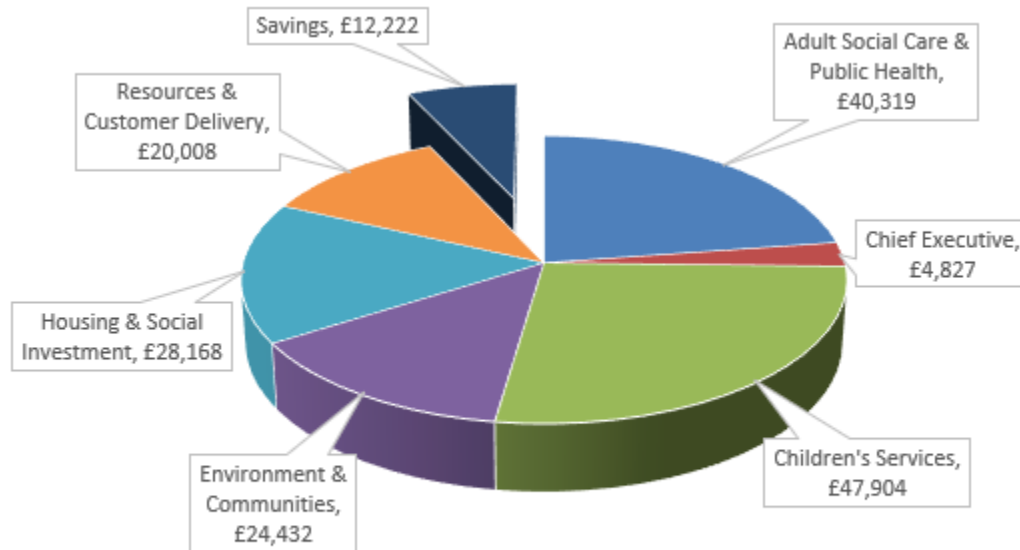
- 8.3 Balancing the budget requires the Council to either reduce its costs or increase its level of income. Similar to previous years, this work to identify opportunities has taken place over the summer and proposals have been developed. Budget reductions are planned across all services. They are largely efficiency and value for money based.
- 8.4 The proposals are a mix of reduction in staffing costs, service specific non staffing reductions, and reductions in corporate budgets. Full details of the proposals are set out in Appendix B by directorate and summarised in Table 4.

Table 4 – Proposed Budget Reductions 2024/25

Directorate	Budget Reductions £'000
Adult Social Care and Public Health	1,125
Chief Executive	108
Children's Services	1,020
Environment and Communities	1,804
Grenfell Corporate	176
Housing and Social Investment	1,345
Resources and Customer Delivery	1,975
Total Service Savings	7,653
Corporate Savings	4,669
Total Savings	12,222

8.5 Chart 1 below shows the proportion of total savings proposed compared to the Council's net service budgets as a whole.

Chart 1 – Proposed 24/25 Savings as a proportion of net service budgets (£000s)



8.6 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 13. If these are agreed following consultation, the Council will be in a position to set a balanced budget for 2024/25. If any proposals are rejected following consultation, alternative savings will need to be identified on a £ for £ basis.

9 CAPITAL PROGRAMME UPDATE

Governance changes around the Programme and Pipeline

- 9.1 The Council has been reviewing its capital programme processes to improve its ability to prioritise the programme moving forward, to improve the accuracy of its forecasting through critically considering its capacity in terms of deliverability, and to therefore ensure the programme is deliverable and reflects the priorities in the Council Plan.
- 9.2 As part of this review a Project Management Office (PMO) has been set up to ensure a tight grip on projects and to control and schedule entry into the programme at the right time. To support this the PMO and Financial Management have worked together to move towards an annualised bidding process and to change the remit of both the programme and pipeline going forward. The bids that are recommended to be launched for consultation and taken forward in this round are included in tables 5 and 6 below and in full in Appendix D.
- 9.3 Currently the Capital Programme is the list of projects approved and profiled by year. The Capital Pipeline was set up in 2019/20 and is a list of projects that have not yet been fully developed in time for addition to the programme but have been allocated funding and can be moved into the programme once they are ready to begin. This movement is subject to approval by Leadership Team. Schemes in the programme that are funded from borrowing are budgeted at 100% in the Council's revenue budget whilst schemes in the pipeline are budgeted at 50% of the expected revenue cost of the borrowing.
- 9.4 It is proposed to revise these processes going forward. The programme will become a list of live currently delivered projects that may span over several years. The Capital Pipeline will become a schedule of approved future projects that are confirmed to have sufficient justification to proceed with project development. There would be no assumption on any borrowing costs until these schemes are moved into the programme.
- 9.5 Projects should be in the Pipeline before being moved into the Programme to ensure they can be reviewed in the context of the whole programme.

Capital Programme and Pipeline Updates 2023/24-2026/27

- 9.6 Table 5 below shows the forecast capital programme for the period 2023/24 to 2026/27. The current forecasts will be subject to further update in respect to agreements at the Joint Leadership Team Awayday on 28th September 2023 that there was further review of the existing Capital Programme to prioritise refreshing the Capital Programme and Pipeline to reschedule and if necessary, review or remove projects, ensuring that there was a deliverable, affordable and high-quality programme in place.
- 9.7 The further review of the existing capital programme is ongoing, being undertaken by the Capital Programme Project Management Office in liaison with Lead

Members, and will continue over the next two months to ensure that the Capital Programme recommended for approval in February 2024 is aligned to the Council's priorities, is deliverable and is affordable. To date this review has identified several schemes either to be removed from the programme or moved to the Capital Pipeline for consideration in future years.

- 9.8 Each year, there will always be a requirement for some new capital investment into the borough's assets. The currently identified £747,000 of new investment in 2024/25 that is being proposed in this report will ensure the effective running of Council services and investment into the things that matter to residents.
- 9.9 On the basis of the information currently available, the capital programme that would be recommended to Council in February 2024 would be as set out in Table 5 and 6. 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.

Table 5 – General Fund Capital Programme Proposed Movement Tracker

Description	2023/24 Forecast £'000	2024/25 Forecast £'000	2025/26 Forecast £'000	2026/27 Forecast £'000	Total 2023/24 to 2026/27 Forecast £'000
Original Budget	115,987	67,557	18,530	0	202,074
Slippage	22,858	0	0	0	22,858
Closing Report Movements	5,110	0	0	0	5,110
Q1 Monitoring Movements	(25,760)	5,376	28,166	0	7,782
Amended Q1 Capital Programme Position	118,195	72,933	46,696	0	237,824
Capital Review and Bidding Proposals:					
Schemes Proposed from Pipeline	0	170	10	0	180
Proposed New Bids to Capital Programme (as per Appendix D)	0	577	120	120	817
Proposed Amended General Fund Capital Programme	118,195	73,680	46,826	120	238,821

- 9.10 The table below shows the Capital Programme by Directorate should all of the proposals outlined above be approved by Council in February 2024:

Table 6 – Proposed Capital Programme by Directorate

Project Description	2023/24	2024/25	2025/26	2026/27	Total
	Forecast	Forecast	Forecast	Forecast	2023/24 to 2026/27 Forecast
	£'000	£'000	£'000	£'000	£'000
Adult Social Care and Public Health	877	5,914	2,778	0	9,569
Children's Services	17,276	13,704	0	0	30,980
Environment and Communities	21,795	10,553	9,018	0	41,366
Housing and Social Investment	72,512	35,744	33,948	0	142,204
Resources and Customer Delivery	3,363	7,018	952	0	11,333
New Capital Review and Bid Proposals:					
Adult Social Care and Public Health	0	0	0	0	0
Children's Services and Education	0	0	0	0	0
Environment and Communities	0	120	120	120	360
Housing and Social Investment	0	457	0	0	457
Resources and Customer Delivery	0	170	10	0	180
Capital Programme Contingency	2,372	0	0	0	2,372
General Fund Capital Programme	118,195	73,680	46,826	120	238,821

9.11 The detailed funding of the Capital Programme is delegated to the Section 151 Officer as part of the budget setting process and will be subject to further agreement as part of the 2024/25 budget report in February 2024 by Council. Table 7 below provides a summary of the high level funding assumptions at this time, which is based on the 2023/24 Quarter 1 Capital Monitoring assumptions. As a result of the proposed changes outlined in Table 5 of this report there is an increase in borrowing of £13.6m from 2023/24 to 2026/27, against the requirement approved in the Budget Report to Full Council in March 2023.

Table 7 - Assumed Capital Funding Position

Funding Source	2023/24 Forecast £'000	2024/25 Forecast £'000	2025/26 Forecast £'000	2026/27 Forecast £'000	Total 2023/24 to 2026/27 Forecast £'000
Capital Grants & Contributions	(21,073)	(3,738)	(860)	0	(25,671)
S106/CIL Contributions	(17,476)	0	0	0	(17,476)
Earmarked Reserves	(4,500)	0	0	0	(4,500)
Capital Receipts Reserve	(194)	0	0	0	(194)
Revenue Contributions	(4,197)	(120)	(120)	(120)	(4,557)
Borrowing	(70,755)	(69,822)	(45,846)	0	(186,423)
Total Funding Sources	(118,195)	(73,680)	(46,826)	(120)	(238,821)

9.12 Table 8 below provides a view of the Capital Pipeline if the proposals set out in this report were agreed following consultation.

Table 8 - Proposed Capital Pipeline Budget

	2023/24 Budget £'000	2024/25 Budget £'000	2025/26 Budget £'000	2026/27 Budget £'000	Future Years Budget £'000	Total Budget £'000
Existing Capital Pipeline as at Q1 Monitor	62,546	21,791	17,703	0	95,180	197,220
Proposed additions to Capital Pipeline	100	13,714	6,650	8,350	650	29,464
Proposed Reductions from Capital Pipeline	0	(170)	(10)	0	0	(180)
Total Capital Pipeline	62,646	35,335	24,343	8,350	95,830	226,504

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

10 APPROACH TO LONGER TERM SAVINGS – 2025/26 ONWARDS

10.1 Despite the level of uncertainty in economic conditions and Government funding, both of which are not yet confirmed, officers are confident that a balanced budget

can be achieved for 2024/25. However, for 2025/26 onwards, there remains an estimated budget gap of £37m over the three years. As detailed earlier this gap is partly driven by the assumption that £9m of social care funding falls out from 2025/26. However even if this grant does continue the grant would still be at least £28m over the next three years and with a number of financial risks (as set out in Section 13) that could mean this gap is significantly higher.

- 10.2 In the longer term, the Council wants to move away from one year budget setting to planning the finances over the longer term and a balanced four year Medium Term Financial Strategy that sets out the resourcing framework for delivering the Council Plan.
- 10.3 Balancing the budget in the longer term will require a more strategic approach to align spending with the Council’s priorities. From 2025/26 not everything may be affordable and as part of developing the new Council Plan, the Council will need to consider where to prioritise its limited resources.
- 10.4 In order to meet this extremely challenging budget gap in 2025/26 the Council will take a different approach to 2024/25, taking advantage of the opportunities to transform, re-design and deliver services differently that will continue to deliver good outcomes, in line with priorities and for lower cost. This work has already started involving groups of senior officers and Lead Members working together to identify transformation opportunities, spend against Council Plan priorities, and use benchmarking information to ensure the Council is delivering the best services it can at the lowest cost.
- 10.5 All of these opportunities will be explored by services working together to determine how to deliver priorities in the most cost effective way.

Table 9 – Budget Gap 2024/25 to 2027/28 (updated November 2023)

	2024/25	2025/26	2026/27	2027/28	Total
	£'000	£'000	£'000	£'000	£'000
Budget Gap: In Year	(2,482)	23,110	7,547	6,430	34,605
Budget Gap: Cumulative	(2,482)	20,627	28,174	34,605	34,605

11 SCHOOLS FUNDING

- 11.1 Since the MTFs report published in July the Department for Education (DfE) advised that they had uncovered an error made during the initial calculations of the Schools Block of the DSG for 2024/25 which meant that about £400m more had been allocated nationally than the total schools funding available. The DfE issued revised provisional DSG allocations to correct that error. The Schools Block allocation for Kensington and Chelsea, which is used for funding schools has reduced by £488,000 (0.6%) to £85.229m.

11.2 At the time of writing the Council is awaiting further information from the DfE.

12 HOUSING REVENUE ACCOUNT

12.1 The financial challenges faced by the Housing Revenue Account (HRA) from the economic operating environment (inflation, rising cost of borrowing, cost of materials etc) continues to be a significant risk to the affordability of the Council's 30-year business plan and forecast assumed when setting the HRA budget.

12.2 In addition, there are risks associated with regulatory and compliance requirements such as changes expected in relation to the Regulator for Social Housing's decent home standard where the cost impact is currently unknown, as well as a new Bill passed through parliament July 2023 which will require several changes to home safety, tenant satisfaction measures, complaints handling and a new inspection regime for social landlords which will increase resource requirements.

12.3 The review of the 30-year Business Plan and the development of the 2024/25 budget for the HRA follows a different process to the General Fund Budgets. The work is underway and the Business Plan will be presented to Housing Scrutiny Committee at the end of November, Leadership Team in December, and the Tenant's Consultative Committee in January 2024.

12.4 All feedback will be considered before the draft budget and Business Plan is finally presented to Leadership Team for recommendation to Full Council in February 2024.

13 BUDGET CONSULTATION

Borough Wide

13.1 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. Details will be published on the Council's website and the specific channels of engagement will include:

- Promotion via the Council's website
- Promotion and updates in the resident e-newsletter, business e-newsletter and VCS e-newsletter;
- Promotion and updates via Twitter, Facebook, Nextdoor and Instagram;
- Articles in North Ken News;
- Promotion through electronic noticeboards across the borough
- Promotion via the Consultation e-newsletter;
- 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.

13.2 Overall, the anticipated impact of the pressures/growth and savings proposals taken together is likely to be neutral, with some positive and negative impacts. Results of the Equalities Impact Assessment (EqIA) screening can be found in Appendix E.

13.3 The consultation period will run for 6 weeks from 9 November 2023 to 21 December 2023.

Budget Scrutiny

13.4 As part of the development of the Annual Scrutiny Work Programme 2023/24, the Overview and Scrutiny Committee has revised the approach to budget scrutiny. The Budget Proposals will now be scrutinised by each of the Select Committees giving a greater number of scrutiny councillors an opportunity to be involved and improving transparency and accountability by holding the sessions in public at the formal meetings.

13.5 The Budget Working Group will continue but with a revised remit. It will co-ordinate a report containing the findings and recommendations from each of the meetings for review and amendment by the Overview and Scrutiny Committee as the lead committee for budget scrutiny, and this report will be referred to the Leadership Team for a formal response to the recommendations.

14 RISKS AND UNCERTAINTIES

14.1 As highlighted above, all assumptions have been reviewed and updated where further evidence is available but there remains much uncertainty. The majority of these risks and uncertainties have existed for some time but the national context and economic conditions have increased the potential impact of these in some areas.

Government Funding

14.2 Financial Plans assume that Revenue Support Grant and the Council's share of business rates will remain the same in cash terms for 2024/25. However the S31 Business Rates grant (£1.9m) is expected to fall out whilst social care grants are expected to increase by £2.8m. However this will not be confirmed until the Local Government Finance Settlement 2024/25 is published later in the financial year. There are indications by Government of savings required across Government departments, including DHLUC and therefore there remains a risk that funding for 2024/25 will reduce.

- 14.3 As detailed in section 7 above this additional social care funding was only announced for 2023/24 and 2024/25 and there is a risk of a cliff-edge in funding if this falls out from 2025/26. Financial plans currently assume this will be the case.
- 14.4 Planning for a new formula to determine the level of government support to each authority (the Fair Funding) started in 2016 but there has been continued delay. The true impact on Kensington and Chelsea and London of any changes in how funding is distributed is not yet known but it is expected to re-distribute funds away from London and particularly inner London. This will mean greater reliance on locally generated income sources to fund local services, including fees and charges and Council Tax.
- 14.5 One of the drivers of level of Government support to each local authority is determined by resident population numbers. The 2021 census showed a 10% reduction in the borough's population. However this was taken during one of the COVID lockdowns and indications are that it has increased since then. The mid-year estimate for 2023 is expected to be published in November and although a further rise is expected there is still a concern that the impact of a reduced population could have on the level of general and specific grants allocations for the Council.
- 14.6 Any reductions in Government grant increases the budget gap if not coupled with reductions in spend. The Council is assuming that any reductions will not take effect until at least 2025/26 and transitional arrangements will be put in place to ensure any reductions are phased over a period of time. Therefore the current budget gap does not include any reduction of funding relating to the borough's population but this will be kept under review.

Business Rates Reforms

- 14.7 Reforms to the business rates system have also been on the Government agenda since 2016. In November 2021, the Autumn Budget included four main areas for change - measures to enable more frequent revaluations, reliefs for businesses making improvements to their premises, support for investment in green plant and machinery and other administrative changes. However, the Council remains unclear when any changes will take effect, but financial plans assume that any reduction in business rates income from these national changes will be compensation through Section 31 grant from Government.

Economic Conditions

- 14.8 The risks and uncertainties created from the current economic climate of high (although now falling) inflation, increasing interest rates, periods of negative growth and general volatility are set out throughout this report. In 2023/24, the Council has a central contingency budget of £3.7m to deal with in-year budget risks and unforeseen pressures as well as separate provisions of £6.3m to manage potential inflationary and other pressures within social care, and £5.8m to manage the high levels of inflation hitting other services and pressures related to the economic uncertainty more generally. 2024/25 financial plans assume the contingency

budget will be replaced by using the Contingency Reserve to cover unforeseen spending pressures in that financial year alone. This reserve was created at the end of 2022/23 from the underspend that financial year.

- 14.9 The high levels of inflation are expected to continue to fall as we move into 2024/25 and an average of 4% has been assumed for all contracts compared to 8% in the current financial year. Services will review their estimated inflation costs between now and February and an update on this will be included in the final budget report.
- 14.10 The high interest rate environment is expected to continue into 2024/25 with rates on any external borrowing expected to be 5.3% in the next two financial years before falling back towards 3% from 2026/27.

Cost of Living Crisis

- 14.11 The rising cost of living has impacted all households, with the impact felt greatest on some residents and communities, particularly those on low incomes. This has exacerbated the inequalities and challenges facing residents, particularly those as a result of the pandemic. Less disposable income also has the potential to impact local business and the local economy following changes in consumer behaviour.
- 14.12 The Council has an existing extensive offer to residents who are financially vulnerable and in need of support through many of its services including: employment services, adult, family and children's services as well as housing and its council tax support scheme, support payments and discretionary housing payments. The Council has also worked closely with Voluntary and Community Sector partners to provide support and develop a joined-up approach to supporting residents.
- 14.13 In 2021/22, the Council set aside £8m (funded from reserves) to support the recovery from the pandemic. The remit of this funding was then widened to provide cost of living support as well. Of this, £3.6m remains available for allocation. The Council is currently looking at options for a rebate in 2024/25 for those residents who are most likely to have been impacted by the Cost of Living pressures. The Council continues to work with our partners to establish ways of supporting residents with cost of living and wider pressures, including identifying new and creative ways to provide this support.

Climate Change and Achieving Net Carbon Zero

- 14.14 Achieving Carbon Net Zero by 2030 for the Council's estate is a priority but is extremely ambitious both operationally and financially. The Climate Emergency Action Plan was presented to Leadership Team in April 2022.
- 14.15 Initial estimates are that the cost of achieving net carbon zero for the Council's estate will be an estimated £144m. £96.6m of this £144m relates to making the Council's housing stock carbon neutral £47m relates to non-domestic buildings and transport.

- 14.16 However, this is before the high levels of inflation which will increase these costs. The HRA Business Plan includes £100m of spend on the Council's housing stock but funding has not yet been fully identified and there is £14m towards schools and operational buildings. Additional capital proposals are currently being developed but have not yet been added to the Capital Programme.
- 14.17 The Council's Carbon Neutral Pathways Report has estimated the investment required by the Council to be a net zero organisation by 2030 to be around £144m. This is only an estimate and is highly likely to increase once detailed survey work is done on the work required and agreement is reached on how required offsetting is dealt.
- 14.18 However, this is before the high levels of inflation which will increase these costs. The HRA Business Plan includes £100m of spend on the Council's housing stock but funding has not yet been fully identified and there is £14m secured through capital funding towards schools and operational buildings. Additional capital proposals are currently being developed but have not yet been added to the Capital Programme. The Council has secured additional external funding to contribute towards delivering the climate emergency commitments but is a long way short of the overall amount that will be required. 57% of the Council's emissions are from Council owned social housing estates.
- 14.19 The Council's MTFs was published in July and set out the Council's intention to maximise all possible external funding opportunities in order to minimise required borrowing and subsequent interest costs. Where borrowing is required it will look to use favourable loan sources where possible and work in partnership with other local authorities, the Greater London Authority (GLA) and the private sector when appropriate. External borrowing at market rates either from the PWLB or financial institutions will only be done once other more favourable sources have been fully utilised.

Grenfell

- 14.20 2023/24 was the fifth year of the Grenfell Recovery programme. The budget for the fifth year of the programme was aligned with the commitments set out in the Grenfell Recovery Resourcing Framework agreed by the Leadership Team in December 2020. Different services and initiatives funded from within the £50m programme have different timescales attached and some projects will continue beyond 2023/24 from within the existing funding envelope. This includes the potential extensions to existing arrangements agreed by the Leadership Team in July 2023.
- 14.21 As part of the settlement of the majority of civil claims, the Council and other parties have committed to funding a new programme to provide support to bereaved, survivors and the immediate local community from 2024 to 2028. The Council, alongside other defendants, has also agreed to make a separate contribution to the administration and delivery costs of the programme. At this stage, this is

expected to be £1.4m in total from 2024/25 to 2027/28 (approximately £340,000 per year) and will be funded from reserves.

- 14.22 Additional funding will be needed to support the Council's wider work on Grenfell in the next phase. This is expected to be a total of £1.4m (approximately £340,000 per year) from 2024/25 to 2027/28 and will be included in the permanent budget from 2024/25 but is expected to drop out after 2027/28.
- 14.23 Public Inquiry hearings have now come to an end and the Council awaits the final report, expected later in 2024. In the meantime, work continues across the Council to address the range of issues raised by the Inquiry. Alongside this, the Council is working with bereaved, survivors, local residents and partners to develop a cross-cutting plan for building a longer-term legacy from the Grenfell tragedy, based on what we have heard is most important to our communities. This will help to ensure that lessons from the tragedy are embedded across the organisation.
- 14.24 Following approval by Leadership Team in January 2023 the Executive Director of Resources requested approval for a capitalisation direction from the Secretary of State for Levelling Up, Housing and Communities (DLUHC) to help cover the cost of resolving all claims that have been lodged since the tragedy. The approval of this request is ongoing at the time of writing this strategy and the MTFs assumes this request is approved. As reported to February Leadership Team the interest and Minimum Revenue Payments (MRP) costs to the borrowing related to this will be met from the Civil Claims Settlement Reserve.

Special Educational Needs

- 14.25 The Council has an agreed deficit management plan which was presented as a draft to Schools Forum on 6 June 2022. With all the planned mitigations, this showed there was still an estimated cumulative deficit of £20.177m by the end of 2026/27. As at 31 March 2023, the DSG had a cumulative deficit of £6.271m. This included an in-year underspend of £1.335m which is an improvement of £3.247m compared to the June 2022 deficit management plan. The High Needs block reference group (HNBRG) continues to provide regular review of high needs forecast, pressures and proposals for consideration by Schools' Forum. The trend in increasing pupils with high needs and costs is likely to continue. Growth in RBKC is slower than national and London and the investment of £1m grant funding is targeting demand. The net increase of 1.7% in 2022 was below national (10%) and London (8.6%), although new assessments grew by 10% and EHCPs in our schools is 0.2% above national. We have prudently forecast continued growth at 3% until 2026. A updated version of the deficit management plan is currently being prepared for review by the HNBRG and Schools Forum.
- 14.26 It should be noted that Dedicated Schools Grant (DSG) deficits are currently ringfenced from Local Authorities wider finances, but this ringfence will end in March 2026. The end of this override will result in a requirement for local authorities to make a provision from their general reserves to fund DSG deficits.

14.27 At the end of March 2023, the Secretary of State for Education awarded the Council funding of £1million to be used towards the cost of the Delivering Better Value (DBV) Implementation plan over two years. The Department for Education (DfE) grant is to deliver transformation activity to mitigate future cost pressures through two workstreams:

- Providing earlier support for primary aged children with speech and language needs to remove the need for an Education Health and Care Plan
- Increasing inclusion in local mainstream schools, avoiding the use of higher cost placements in maintained special and independent or non-maintained schools.

14.28 The grant cannot be used to reduce the cumulative DSG deficit.

14.29 Schools Forum in June 2023 noted the scope of the DBV programme, commented on the proposed implementation for both workstreams, and agreed an ongoing governance role, overseeing costs and value for money. Details of both workstreams were presented to the HNBRG for discussion with headteacher representatives to maximise the benefits of the grant.

14.30 Key areas of grant expenditure are speech and language therapy, specialist teacher expertise and specialist inclusion practitioners to deliver training in schools, leadership capacity for training development, and programme management within the local authority. Actual spend incurred in Q1 is £4,000 as most roles will commence in Quarter 2. The forecast at this stage will not result in over/underspend of the £181,000 that is planned to be spent in 2023/24. The remainder of the grant is planned to be spent in 2024/25.

Homelessness and Housing

14.31 There remains over 2,000 households in temporary accommodation. Over the last two years, good progress has been made with the planned interventions – increasing prevention, greater use of private rented sector, keeping costs of placements down and increasing the supply of homes.

14.32 However, despite this progress cost pressures have continued to rise due to the need to use expensive commercial hotels to manage demand, coupled with the impact of historic budget savings that are unachievable. During 2022/23 the average number of commercial hotel bookings increased from around ten to 100, and the average cost per placements is now over £40,000. Due to these pressures £1.5m budget growth has been included in Appendix A.

New Responsibilities

14.33 There will always be a risk of Government introducing new responsibilities for Local Authorities and this is even more possible with a new Government. Financial Plans would assume that any new responsibilities would be fully funded from Government.

15 RESERVES STRATEGY

- 15.1 Reserves are an important part of the Council's approach to financial planning. They provide a mitigation for the many uncertainties and risks facing the Council and reserves are currently at a prudent level. They enable the Council to manage these changes without any undue impact on Council Tax levels and are a key indicator of strong financial standing and resilience.
- 15.2 Reserves are often used in year for one off unforeseen expenditure that was not included within the budget agreed in the previous March and for invest to save opportunities. A full description on each of the earmarked reserves is set out in the [2023/24 budget report \(Appendix 2\)](#) and the latest balance is presented in Table 10.
- 15.3 There are no plans to use reserves to balance the budget for 2024/25 or over the medium term but some use will continue for one off spend. Any use of reserves will be subject to decision making in line with the constitution and finance regulations and will reported through quarterly finance reports to Leadership Team.
- 15.4 The council is anticipated to hold a General Fund working balance of £10m for the next five years.
- 15.5 The brought forward balance from 2022/23 of the Council's earmarked reserves is £150.4m but many of these are already committed. A detailed exercise is currently underway to review all previous commitments that have not yet been drawn down and to update the forecast for the next five years. The results will be reported to Leadership Team in February 2024 when the Section 151 Officer will report on the robustness of the budget and the adequacy of reserves.
- 15.6 Table 10 shows the latest reserve forecast which was reported to Leadership Team in the 2023/24 Quarter 1 budget monitoring report in September. An update to this will be presented to Leadership Team in the Quarter 2 report in December 2023.
- 15.7 The Grenfell Reserve is ringfenced for the Grenfell Recovery programme.

Table 10 – Reserve Forecast 2023/24-2026/27

Classification	Reserve Heading	31/03/2023	Projected Movements	31/03/2024	31/03/2025	31/03/2026	31/03/2027
		£'000	£'000	£'000	£'000	£'000	£'000
Usable	Budget Stabilisation	(27,996)	127	(27,869)	(25,869)	(23,869)	(23,869)
Usable	Budget Carry Forward	(10,035)	3,987	(6,048)	(5,230)	(5,099)	(5,099)
Usable	COVID-19 Recovery/Cost of Living	(6,766)	2,435	(4,330)	(4,127)	(4,127)	(4,127)
Usable	Council Plan Implementation	0	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
Usable	Council Plan Implementation - Ward Improvements	0	(1,000)	(1,000)	(2,000)	(3,000)	(4,000)
Usable	Special Projects	(10,035)	5,748	(4,288)	(3,514)	(3,356)	(3,356)
Usable	Contingency	(5,359)	0	(5,359)	(4,359)	(4,359)	(4,359)
Total		(60,191)	10,297	(49,894)	(46,099)	(44,811)	(45,811)
Earmarked	Affordable Housing	(9,900)	0	(9,900)	(9,900)	(9,900)	(9,900)
Earmarked	Car Parking	(22,375)	3,562	(18,813)	(16,557)	(14,557)	(13,519)
Earmarked	Civil Claim Settlement	0	(5,650)	(5,650)	(9,300)	(5,700)	(5,700)
Earmarked	Grenfell	(13,611)	5,415	(8,197)	(7,661)	(7,661)	(7,661)
Earmarked	Insurance	(23)	0	(23)	(23)	(23)	(23)
Earmarked	Local Projects	(710)	(175)	(885)	(1,060)	(1,235)	(1,410)
Earmarked	Notting Hill Carnival	(375)	375	0	0	0	0
Earmarked	Proceeds of Crime	(142)	35	(107)	(92)	(92)	(92)
Earmarked	Public Health	(6,660)	50	(6,610)	(6,610)	(6,610)	(6,610)
Earmarked	Reorganisation	(132)	117	(15)	(15)	(15)	(15)
Earmarked	Street Trading	(184)	0	(184)	(184)	(184)	(184)
Earmarked	Troubled Families	(1,029)	0	(1,029)	(558)	(86)	(86)
Total		(55,141)	3,729	(51,412)	(51,958)	(46,062)	(45,199)
Unusable	Schools Reserves	(9,199)	1,732	(7,467)	(6,307)	(5,407)	(4,507)
Unusable	Collection Fund	(15,852)	1,145	(14,707)	(4,234)	(2,234)	(2,234)
Total		(25,051)	2,877	(22,174)	(10,541)	(7,641)	(6,741)
Other	General Fund Working Balance	(10,000)	0	(10,000)	(10,000)	(10,000)	(10,000)
Total General Fund Reserves		(150,383)	16,903	(133,481)	(118,599)	(108,514)	(107,751)

16 BUDGET TIMETABLE

16.1 This report is the first report in preparing for the 2024/25 budget that will be presented to Leadership Team in February 2024 for recommendation to Council on 28 February 2024. The report marks the formal start of the budget process and the launch of the budget proposals for consultation.

Table 11 – Budget Timetable

	Date
Leadership Team – Update on financial position for 2024/25 and full revenue and Capital Programme proposals – launch for consultation	8 November 2023
Budget Consultation on revenue and capital proposals commences	9 November 2023
Overview and Scrutiny Committee – Update on financial position for 2024/25 and full revenue and Capital Programme proposals	15 November 2023
Budget scrutiny by Public Select Committees	November and December 2023
Leadership Team – Update on financial position and draft fees and charges for 2024/25	6 December 2023
Budget Consultation on fees and charges proposals commences	7 December 2023
Budget Consultation on revenue and capital proposals ends	21 December 2023
Budget Consultation on fees and charges proposals ends	7 January 2024
<i>Leadership Team – Update on any budget assumptions, Local Government funding settlement and note tax bases (Council Tax and Business Rates) if significant changes to report since December*</i>	<i>17 January 2024</i>
Leadership Team – 2024/25 Revenue Budget, Capital Programme 2024/25 to 2025/26 and Council Tax level 2024/25, Housing Revenue Budget 2024/25, HRA Business Plan and Treasury Management Strategy 2024/25.	7 February 2024
Council – 2024/25 Revenue Budget, Capital Programme 2024/25 to 2025/26 and Council Tax level 2024/25, HRA Business Plan and Treasury Management Strategy 2024/25.	28 February 2024

** May not be required- will depend on detail from settlement*

17 CONSULTATION AND ENGAGEMENT

17.1 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. EqIA impacts are shown in Appendix E. 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.

18 LEGAL IMPLICATIONS

- 18.1 The legal implications are included in the report where relevant. In paragraphs 1.8 and 3.1 the report confirms the Council has a duty to set a balanced budget.
- 18.2 In paragraph 10.1 officers are confident that a balanced budget can be achieved for 2024/25.
- 18.3 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.
- 18.4 Paragraph 5.18 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.

19 FINANCIAL, PROPERTY, IT AND ANY OTHER RESOURCES IMPLICATIONS

- 19.1 These are included in the report where relevant.

20 HUMAN RESOURCES IMPLICATIONS

- 20.1 There are no direct HR implications arising from this report. Any HR implications arising from the budget proposals will be considered as part of the equality impact assessments as set out in Appendix E.

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Mandatory clearance requirements for all Key and Executive Decision reports

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