

## Executive Decision Report

<b>Decision maker and date of Leadership Team meeting or (in the case of individual Lead Member decisions) the earliest date the decision will be taken</b>	Leadership Team 13 November 2018 Forward Plan reference: 05341/18/K/A Portfolio: Cllr Mary Weale, Lead Member for Finance and Modernisation	 THE ROYAL BOROUGH OF <b>KENSINGTON          AND CHELSEA</b>
<b>Report title</b>	<b>MEDIUM TERM FINANCIAL STRATEGY 2019/20 TO 2022/23</b>	
<b>Reporting officer</b>	Executive Director (Resources and Assets)	
<b>Key decision</b>	YES	
<b>Access to information classification</b>	Public	

## 1. Executive Summary

The Council's financial position over the next four years is challenging. The events of 14th June 2017 have had a significant impact on the Council, both in terms of how it does things, its engagement with the community and its financial position. However, the Council's financial position is not just an impact of Grenfell. There is change across the Local Authority sector in terms of funding with less reliance on Government support and a greater reliance on income generated locally. This is all at the same time as new budget pressures are emerging but the statutory requirement to set a balanced and robust budget remains.

This Medium Term Financial Strategy sets out these challenges over the next four years and starts to outline our approach for dealing with them. Although the Council is in a good position for 2019/20 if the savings and income generation proposals set out in this report are agreed following consultation, it is estimated that there is a budget gap of £19m for 2020/21 and £14m for 2021/22 and there still remains a lot of uncertainty.

The small scale changes that are being proposed for the 2019/20 budget will not be sufficient for the longer term. The borough wide conversation that will take place over the next few months will define the Council's priorities and an update to this strategy will be published in July 2019 setting out the financial framework which will deliver these priorities.

## 2. Recommendations

### Leadership Team is asked:

- 2.1. To consider the Council's financial position as set out in this Medium Term Financial Strategy.
- 2.2. To note that a number of risks and uncertainties remain for both 2019/20 and future years and a further update will be presented to Leadership Team in January 2019.

- 2.3. To agree that the savings and income proposals set out in Appendix 2 are published for consultation. This will include consideration at Scrutiny Committees in November / December, businesses, partners and the community.
- 2.4. To receive the feedback from the consultation exercise and consider as part of developing the draft budget for 2019/20 that will be presented to Leadership Team in February 2019.
- 2.5. To agree that authority be delegated to the Executive Director of Resources and Assets, in consultation with the Lead Member for Finance and Modernisation to use capital receipts from the sale of non-housing assets to fund revenue set up costs of service reform and transformation projects that are designed to make revenue savings.

**Leadership Team is asked to recommend to Council:**

- 2.6 This Medium Term Financial Strategy for approval.

### **3. Reasons for Decision**

The Council is legally required to set a balanced budget each year and this Medium Term Financial Strategy sets out the Council's approach for both 2019/20 and its approach for 2020 onwards when setting a balanced budget is expected to be a real challenge.

### **4. Background**

The last Medium Term Financial Strategy was published in March 2018 as part of the 2018/19 Council Tax report. At this time, the financial position of the Council was challenging and a budget gap of £10m was forecast for 2019/20. Since this date, new information has emerged which has an impact on this position and this strategy provides an update for the next four years.

### **5. Proposals and Issues**

#### **5.1 Introduction**

The Royal Borough of Kensington and Chelsea is situated in the heart of central London. It is a wealthy borough, with the highest median salaries in the country with most employed residents being highly skilled and work in high paying professions.

The Council provides a range of services to over 160,000 residents of which 69.3% are of working age (16 to 64). The borough has an employment rate of 65.4% (compared to London average of 74.2%) and the third lowest in London. It is estimated that there were 149,000 jobs in the local economy in 2016 but this has fluctuated over time and almost 87,000 commute into the borough each day for work. Delivering services for people who work and visit the borough is as important as for the people who live in the borough.

Despite significant wealth there are areas of significant deprivation, particularly in the north of the borough, and some parts of the south and west and balancing this inequality is a priority.

The events of 14th June 2017 cast a long shadow over the Borough. The Grenfell Tower fire has impacted the residents of the borough in many and diverse ways. The financial impact of the fire has been significant and the tragedy will have a long term and lasting impact on the way that the Council operates, how it interacts with its residents and how it manages its financial position over the next four years.

However, the financial challenge is not just the result of Grenfell. There is change across the Local Authority sector in terms of funding. In the past, the Council's main source of income will have been Government grants but over the last five years, these have reduced both in value and number and by 2020 will be almost nil with just a few small ring fenced grants

remaining. Therefore, balancing the books now requires the Council to fund services through local income sources, such as Council tax, business rates, rental income, fees and charges and investment income. The Council is supportive of this move towards greater control and flexibility at a local level but this also means that spending decisions will be increasingly determined by the amount of income we can generate locally. It is therefore critical that the Council's financial resources are spent on those services that are of greatest importance to the people who live, work and visit the borough.

## **5.2 What Do We Want to Achieve?**

The overarching aim of the Medium Term Financial Strategy is to provide a framework which enables the Council to effectively allocate its available resources to achieve its priorities while at the same time balancing the books. The Council's core values and behaviours were re-launched in Autumn 2018 and underpin what we do and how we do it. They reflect a set of shared attitudes and beliefs.

### Putting Communities First

- We put local people at the heart of decision making in everything we do.
- We seek to include and involve: all voices matter
- We provide quality services that are responsive, effective and efficient.

### Respect

- We listen to others and value the personal experiences of people in our communities and each other.
- We adopt a fair and involving approach regardless of any way in which an individual is different to us.

### Integrity

- We act with openness, honesty, compassion, responsibility and humility.
- We let people know how we are doing and communicate why and how decisions are made.

### Working Together

- We work together and in partnership with everyone that has an impact on the lives of our residents.
- We want to understand, learn from each other and continually adapt.

Since June 2017, the Council's main focus has been to manage the impact of the fire at Grenfell Tower. This will continue to be a priority for many years to come but the Council has now reached a point where it must look at its wider role of providing good quality and efficient public services to all people who live, work, do business, go to school and college and visit the borough.

Following a motion at Council in July 2017, the Centre for Public Scrutiny was commissioned to undertake a piece of work to look at the future governance of the Council. Their report, entitled 'Change at the Council' was published on 7 March 2018. The Council welcomes the report, and is embedding the principles of good governance in its wider organisational change programme and Grenfell recovery strategy and is implementing all the recommendations in the report.

One of the key recommendations is focussed around engagement with the local community. Over the next few months, the Council will be engaging with the community through a 'Borough

Wide Conversation'. The feedback will be used to decide the Council's priorities and will be published as part of the Council's Corporate Plan in February 2019.

This Medium Term Financial Strategy therefore sets the scene for the next four years and the proposals to set a balanced budget for 2019/20. The next update will be published in July 2019 and will be the financial framework that underpins the Corporate Plan, setting out the Council's approach to aligning its resources to the longer term vision and priorities.

### 5.3 What Are Our Planned Income Levels?

With a statutory requirement to set a balanced budget the Council's ability to spend on services and facilities in the borough is determined by its income levels. Income sources are focussed around two areas – Government support and income generated locally. In the past, a significant proportion came from Government grant but this is changing and the Council is increasingly reliant on local income sources.

#### 5.3.1 Government Support

With diminishing Government Grant, Government are increasingly looking at Local Authority's Core Spending Power as a measure of overall revenue funding available for local services. This change takes account of a Council's ability to raise income locally, predominantly through Council Tax. The next section explains the main elements that determine the Council's Core Spending Power.

#### Settlement Funding Assessment (SFA)

SFA is typically made up of a series of grants from Government. Up until 2018/19, this included Revenue Support Grant which is determined by a national funding formula based on levels of need. However, for 2018/19, this disappeared and instead was rolled up into the Business Rates retention scheme. This is discussed in further detail in Section 5.3.4.

In February 2016, Government offered Local Authorities a four-year settlement in exchange for agreeing and publishing a four-year efficiency plan. The Council accepted this offer and 2019/20 will be the final year of the agreement. Allocations are set out in the tables below. Although the Council's core funding from Government is reducing year on year, the four-year settlement has offered the Council some certainty for financial planning purposes.

Table 1 – Settlement Funding Assessment 2016/17 to 2019/20

	2016/17 £'m	2017/18 £'m	2018/19 £'m	2019/20 £'m
Revenue Support Grant	31.548	22.311	-	9.946
Business Rates Retention	48.257	49.242	66.998	51.847
<b>Total</b>	<b>79.805</b>	<b>71.553</b>	<b>66.998</b>	<b>61.793</b>

#### Better Care Fund and Adult Social Care Grant

The NHS 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 has been created to improve the lives of some of the most vulnerable people in our society. It places them at the centre of their care and support.

Table 2 shows the Council's allocations. Spending plans are agreed locally with the Clinical Commissioning Group and the Health and Well-Being Board.

Table 2 – Better Care Fund Allocations

	2017/18 £'m	2018/19 £'m	2019/20 £'m
BCF (announced 2016 Autumn Statement)	3.750	2.464	1.224
Additional BCF (announced 2017/18 LGFS)	0.198	2.865	5.346
<b>Total BCF Contribution</b>	<b>3.948</b>	<b>5.329</b>	<b>6.570</b>

In the 2018 Autumn Budget the Chancellor announced additional funding to manage pressure within Adult Social Care. The Council's allocation is expected to be around £0.9m. In addition, £410m of funding was announced for adults and children social care, of which the Council's allocation is expected to be around £1.4m, although it should be noted that the conditions underpinning these grants and individual authority allocations are still not known. Further information may be available after the settlement in December so that firmer figures can be included in the final draft budget in the new year.

The Queen's Speech on 21 June 2017 confirmed that the Government will be bringing forward proposals for consultation that will set out options to improve the social care system and to put it on a more secure financial footing. An update was provided as part of the 2018 Autumn Budget and the Green Paper is now planned for publication in the near future. Further updates will be provided to Members when this consultation is published. Financial Plans currently assume that the Better Care Fund money (or an equivalent) will continue beyond 2019/20 but this remains a risk.

#### New Homes Bonus

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. In March 2017 changes to the scheme were introduced and a new threshold meaning that any growth below 0.4% will no longer attract a New Homes Bonus. This is aimed to ensure money is used to reward additional housing - rather than normal growth. The number of years for which payments are made has also reduced from 6 years to 4 years from 2018/19. The result is a reducing allocation for the Council. Although there are plans for new housing provision in the borough, Financial Plans have adopted a cautious approach and a diminishing level of grant is assumed over the next three years. It remains uncertain if Government will introduce further changes to the scheme. The latest figures that are assumed within Financial Plans are shown in Table 3. It is important to note that the estimates the Council is assuming are more cautious than that assumed by Government in Core Spending Power Figures as set out in Table 4.

Table 3 – New Homes Bonus Allocations

	2018/19 £'m	2019/20 £'m	2020/21 £'m	2021/22 £'m
New Homes Bonus	2.527	1.205	0.297	0.222

#### Public Health Grant

Public Health responsibilities were passed to Local Authorities from April 2013 and the Council's Public Health Grant for 2018/19 is £21.4m. Indicative allocations for 2019/20 have been published and is expected to be £20.9m. Allocations for beyond 2019/20 remain unknown but the current working assumption is that there will be a steady reduction.

### Other Grants

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.

### Autumn Budget 2018

On 29 October 2018, the Chancellor of the Exchequer delivered his 2018 Autumn Budget. Similar to previous years, updates on the economic conditions were released by the Office for Budget Responsibility and the Chancellor announced a number of policy announcements and new funding streams. In some cases, the Council has been able to make an estimate on the financial implications for the Council but for others, further details are still awaited. An 'on the day' briefing was produced and circulated to all Members and a copy is attached at Appendix 1.

### Local Government Finance Settlement 2019/20

The draft Local Government Finance Settlement will be published in early December 2018 for consultation. The final settlement will be published in February 2019. As highlighted above, 2019/20 will be the final year of a four-year settlement and therefore much of the information published as part of the draft settlement is known but it remains uncertain if Government will introduce any new funding or new responsibilities. An update will be provided in the next report to Leadership Team in January 2019.

### Comprehensive Spending Review 2019

Spending Reviews are the most important opportunity for the UK to reset its policies on public spending and public services. At each Review, the Treasury not only sets the spending limits for public services but also secures agreement for new ideas in public service delivery. The Chancellor has announced that a Review will take place in 2019 after the UK has exited from the EU on 29 March 2019. The Council will continue to work with London Government to lobby Government to recognise the pressures of Local Government and more local London issues to ensure sufficient funding is made available.

## **5.3.2 Council Tax**

The continuing reduction in Government financial support has meant that income from Council Tax has become increasingly important in funding the cost of the Council's services. There are two main drivers for Council Tax income – the level of tax and the number of properties paying the tax.

- Council Tax Level

Council Tax at £845.18 for a Band D is the fifth lowest both nationally and in London and in line with the Council's aspirations to be in the lowest quartile. The ability for councils to increase the amount charged to residents is subject to a limit beyond which a referendum must be held. For 2018/19, Government increased the threshold from 2% to 3% and for 2019/20 this threshold will be set out in the draft Local Government Finance Settlement that will be published in early December 2018. The current assumption in Financial Plans is that the threshold will remain at 3%.

From 2016/17, in light of national spending pressures in adult social care services, the Government gave an additional flexibility to authorities responsible for this care to put an additional levy on Council Tax, recognised nationally as the adult social care precept. Over

the three-year period from 2017/18 to 2019/20, the maximum increase for the precept was set at 6%.

The Council did not introduce the precept for 2017/18. In 2018/19, a 3% precept was introduced to manage the growing pressures in this area. Financial Plans currently assume an Adult Social Care precept of 2% for 2019/20. Every 1% increase in Council Tax increases income by just over £0.8m. The additional income generated will be used to fund the ongoing impact of support the survivors of Grenfell and the wider community, as well as increasing adult social care costs from increasing inflation, demographic increase and managing the increasing complexity of need. It need to be noted that the additional income raised will only partly fund the growing pressures in these areas.

It remains unclear if the option for an Adult Social Care Precept will remain beyond 2019/20 but the publication of the Green Paper on Adult Social Care funding is expected to provide further detail on the Government's long term plans.

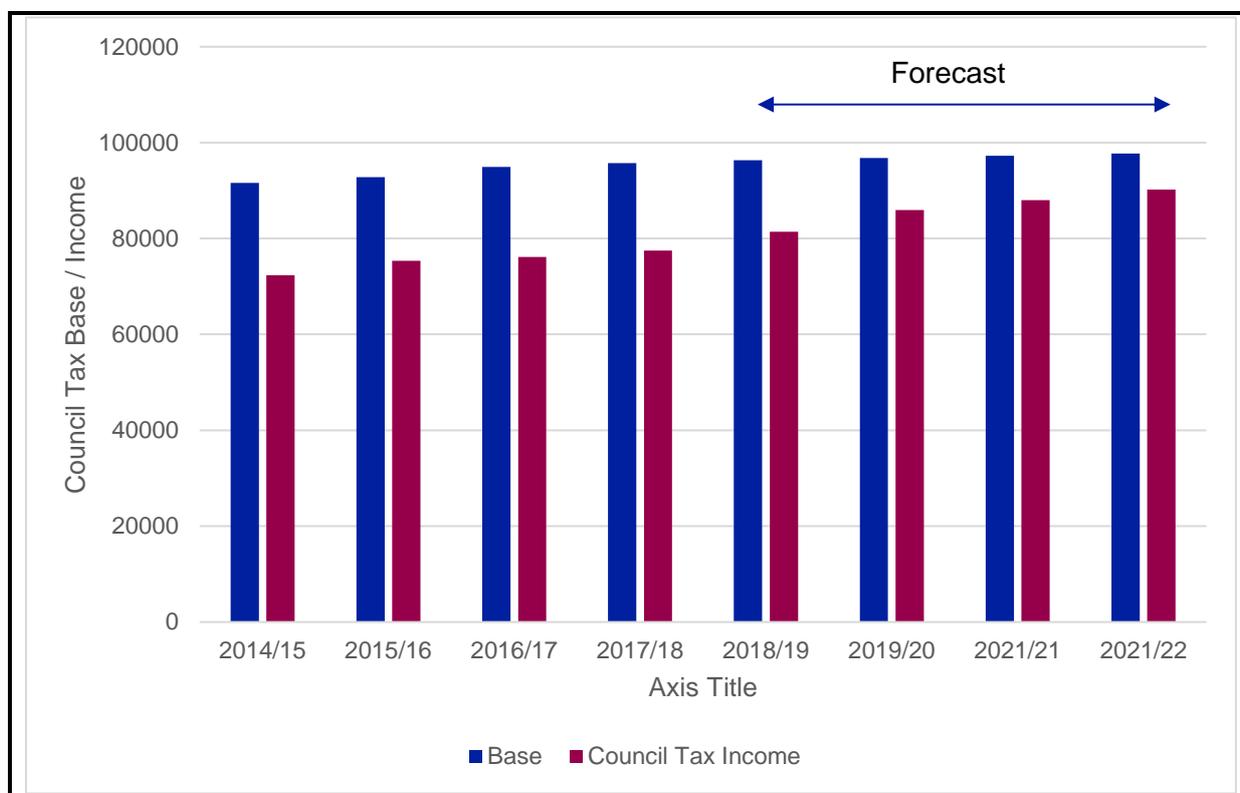
- Council Tax Base

The Council has a buoyant council tax base which increases year on year. The Council's Financial plans assume an increase of 480 chargeable properties per year. The shortage in supply of housing across the borough means that over the next few years there will be a drive to provide more new housing which in turn is likely to mean that the increase in the number of properties is likely to exceed this number. Detailed modelling is currently underway to estimate this level of growth and any updates will be included in the January report to Leadership Team.

The Council is required to set its council tax base by the 31st January each year and report to Government. This responsibility is delegated to the Section 151 Officer and a further update will be included in the next report to Leadership Team in January 2019.

The Council currently continues to fully fund the local Council Tax reduction (local Council Tax benefit) scheme, fully protecting vulnerable residents on low incomes who might otherwise pay more. Any changes to the design of the local Council Tax reduction scheme must be finalised and approved by Full Council by 31 January ahead of the relevant year to which it relates. Financial Plans for 2019/20 assumes that there are no changes to the current scheme.

Chart 1 – Council Tax Base and Council Tax Income 2014/15 to 2021/22



### 5.3.3 Core Spending Power

Table 4 brings together all the information above. It shows the Council's Core Spending Power over the four-year Local Government Finance Settlement period and a 4.7% reduction over the period, despite a steady assumed increase in Council Tax income.

These figures are published by Government who make assumptions around Council Tax increases. However, this remains a local decision by the Council and therefore these figures should be interpreted with caution.

Table 4 – Core Spending Power 2016/17 to 2019/20

	2016-17	2017-18	2018-19	2019-20
	£' m	£' m	£' m	£' m
Settlement Funding Assessment <sup>2</sup>	79.8	71.6	67.1	62.6
Council Tax of which;	74.3	78.4	82.7	87.3
Improved Better Care Fund	0.0	3.9	5.3	6.6
New Homes Bonus	3.6	2.9	2.1	2.0
The 2017-18 Adult Social Care Support Grant	0.0	0.9	0.0	0.0
<b>Core Spending Power</b>	<b>157.7</b>	<b>157.6</b>	<b>157.3</b>	<b>158.5</b>
Change over the Spending Review period (£ millions)				-7.8

Change over the Spending Review period (% change)				-4.7%
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### **5.3.4 Business Rates**

In 2018/19, it is expected that £331m will be collected in business rates income. However, the income collected from all authorities is re-distributed across the country to reflect need based on a national funding formula. Of this £331m, only £69m will be retained by the Council in 2018/19.

From April 2018, the Council has been participating in a Pan London pilot which means retaining more of the business rates collected in London rather than passing back to Government. The latest estimate is that this is an additional £350m. This is shared across London based on an agreed methodology and the Council is expected to receive an additional £3.2m for 2018/19 compared to if we were not participating in the pool. Negotiations are ongoing in terms of whether the pilot continues into 2019/20 and from 2020/21 business rates will be part of the Fair Funding Formula.

### **5.3.5 Investment Income**

Income from investment of available cash balances can make a significant contribution to the Council's financial position. In 2018/19, this is expected to be £1.5m despite the low interest rates. The Treasury Management Strategy provides the framework that the Council operates within to maximise these returns and is reviewed annually as part of the budget setting process. Investment income is a key source of income to fund the cost of local services and the Council's current approach to invest in areas of low risk and low returns is under review. The updated Treasury Management Strategy will be presented to Leadership Team in February 2019 for recommendation to full Council for approval.

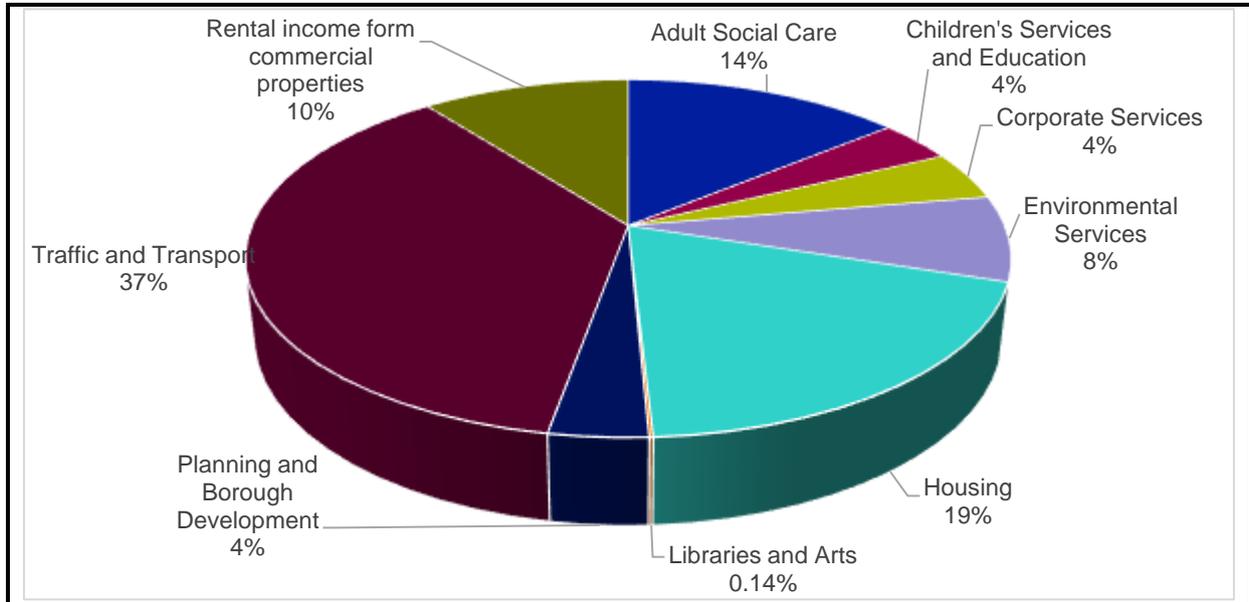
In terms of borrowing, historically the high levels of balances have meant that the need for borrowing has been minimal. However, this is changing. The financial challenges ahead mean there could be a need to borrow externally in the future. Interest rates are currently low and therefore borrowing is attractive but the economy is volatile and interest rates are predicted to increase. This increases the cost of borrowing but in turn increases return on investment from the Council's high balances.

### **5.3.6 Fees, Charges and Rental Income**

Local authorities have power to charge for various types of services they provide, from Adult Social Care functions to collection of garden waste, and many others. Some charges are statutory, such as residential care for adults and planning fees whilst for other services the Council has more discretion in the charges set. For example the Council has a power to charge for discretionary services under section 93 of the Local Government Act 2003 but this power is subject to a duty to secure that the income does not exceed the costs of the provision of the service.

Income from fees, charges, sales and rental income in 2018/19 is expected to be £145m and is one of the Council's main source of income. The majority is collected through fees and charges for services but £15m is from rental income on commercial properties in the borough. This local income source will become increasingly important as levels of Government grant continue to reduce. This income is spread over a number of different service areas as shown in Chart 1. Financial assumptions assume an increase in line with inflation and for 2019/20 this increase is assumed to be 2% for those which the Council has discretion over and where it is appropriate to increase charges.

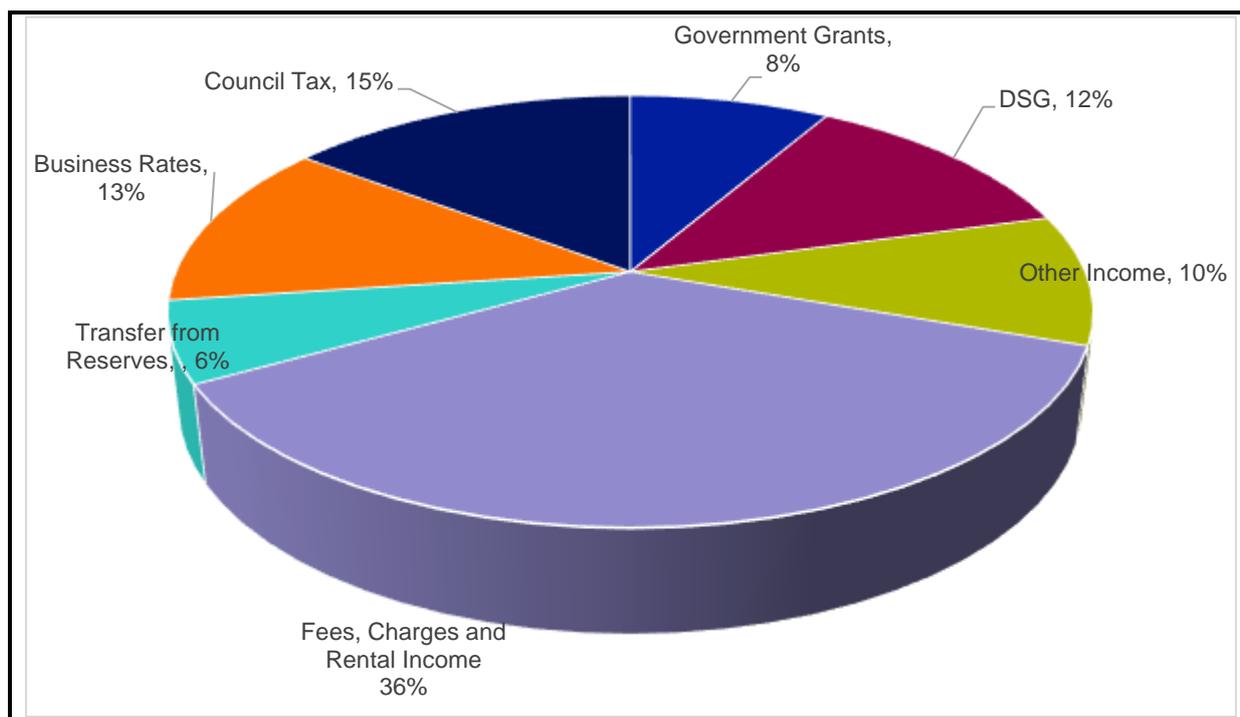
**Chart 1 – Fees and Charges 2018/19**



**5.3.7 Total Projected Funding**

The information above has shown that the Council benefits from a number of different income sources, ranging from Government support through to local fees and charges but the mix of these sources is changing. By 2018/19, just 8% is from Government specific grants (excluding Dedicated Schools Grant – DSG) and by 2021 this could be almost nil.

**Chart 2 – Sources of Funding 2018/19**



#### **5.4 What Are Our Planned Spending Levels?**

The previous section of the Strategy looked at the Council's various income sources and factors affecting income levels. With a statutory requirement to set a balanced budget, the income we receive determines how much we have available to spend on services.

Spending patterns do not remain static. They are volatile and year on year there are new pressures. The Council's medium term planning process aims to review both existing pressures as well as understanding new pressures and good financial planning helps ensure that 'surprises' are minimised.

The pressures facing the Council over the next four years are broadly in line with those across London. The issues for 2019/20 are becoming clearer and those which can be quantified are set out in Table 5. However, it becomes increasingly difficult to predict for future years. The approach taken is that if a pressure can be quantified, it is reflected within the base budget but for others which remain a risk or there is not sufficient evidence to quantify, these remain under review.

The main pressures for 2019/20 include:

- Increasing number of homeless households and addressing the shortage of suitable housing in the borough and across London;
- Increased costs for children looked after by the authority;
- Increased number of children with special education needs and an increasing complexity of need;
- Increased number of adults requiring support and with an increasing complexity of need;

- Volatility in economic conditions – low interest rates makes borrowing attractive but returns on investment income low. Increasing inflation increases the cost of services, both in terms of staffing and contract costs.

The budget for 2019/20 will include almost £11m additional funding, including £1.5m to fund the London Living Wage for contracts due for renewal in year.

Table 5 Services Spending Pressures 2019/20 and 2020/21

<b>Description</b>	<b>2019/20 £'000</b>
<b>General Fund Housing</b>	
Temporary Accommodation – cost pressures arising from higher rents demanded by landlords and an increase in the numbers of households	2,200
Private Rented Access Scheme – Funding for the provision of Deposits and Rent Advances. This enables households to seek their own rented accommodation and Housing Services to discharge their duty	200
Private Rented Access Scheme – Additional costs to oversee the continuation of the scheme	200
Housing and Employment Team – additional costs for the provision of support and advocacy that will help to exempt the tenant from the benefit cap and to reduce the use of Discretionary Housing Payments.	175
<b>Environment and Communities</b>	
Impact of economic conditions – loss of planning income and the reduction in major developments	300
Ongoing funding for the Royal Borough Environment Project	200
Waste collection - continuation of the Food Waste Scheme, recycling bags and Denyer Street depot	190
Costs to support cultural placemaking and increase capacity at Stafford Terrace for increased opening times	80
Events Management - specialist Environmental Health Officer to discharge Council functions in respect of Events	60
Other	60
<b>Children's and Education</b>	
Additional staffing costs following the move from Tri-Borough to Bi-Borough Services	784
Demographic Growth	1,380
Ongoing costs of Troubled Families initiative	600
Continuation of Focus on Practice initiative	340

Description	2019/20 £'000
Continuation of Partners in Practice	381
SEN - increased costs for transport provision as a result of increased demand and complexity of need	326
Establish a budget for the costs for providing the Multi Agency Safeguarding Hub	180
<b>Adult Social Care and Public Health</b>	
Demographic growth and increased complexity of need	1,360
Corporate Pressures	420
London Living Wage	1,500
<b>Total</b>	<b>10,936</b>

In terms of future year pressures, the impact is not as clearly defined. Based on the latest forecast for inflation, this could create an additional pressure of around £5.5m each year. The phasing of contract re-tender dates means that the costs for implementing the London Living Wage are expected to be around £1m in 2020/21 but increasing by a further £4m the year after. These, together with demographic pressures and new responsibilities means that the best estimate at this stage is that there will be a further budget gap of £18.6m for 2020/21 and £19.7m for 2021/22. Work will take place over the next six months to validate these estimates and updates will be presented in the next strategy in July 2019.

### **5.5 Current Financial Position**

The future financial position must also take into account the current financial position. The 2018/19 budget was agreed in March 2018. Internal monitoring is undertaken monthly and reported to Members quarterly. The latest information is that for Quarter 2 and shows that overall there is an overspend of £1.8 on services, excluding Grenfell.

In terms of Grenfell, there is a further overspend on £11m and discussions continue with Government in terms of the ongoing funding of costs. Full details on the in-year financial position is shown in a full report elsewhere on the agenda.

### **5.6 Overall Position and Our Approach to The Financial Challenge**

The Council's Medium Term Financial Strategy position is complex and subject to many factors and therefore the forecasts are by necessity subject to continuous review and refinement to reflect latest information as it emerges.

Taking into account the information presented in this strategy – the Council's level of income, current expenditure and known spending pressures, there is a budget gap of £20m for 2019/20 and a further £19m for 2020 and almost £20m for 2021. Therefore, there remains a significant challenge.

**Table 6 – Overall Financial Position**

	2019/20 £'m	2020/21 £'m	2021/22 £'m

<b>Budget Gap at June 2018</b>	<b>8,250</b>	<b>-</b>	<b>-</b>
New Service Spending Pressures (see Table 5)	10,936	18,600	19,700
Other Pressures	800		
<b>NEW BUDGET GAP</b>	<b>19,986</b>	<b>18,600</b>	<b>19,700</b>

Over the summer, service areas have been undertaking a review of services, with a particular focus on 2019/20 and this has resulted in a number of proposals that will both reduce costs and increase income levels. This has included undertaking a value for money exercise that has identified a number of areas where there are underspends against exiting budgets as a result of good financial management. Full details of all the savings are set out in full in Appendix 2.

Leadership Team are being asked to recommend that these proposals are launched for consultation. This will include consultation with Scrutiny Committees during their November / December cycle of meetings. This will then be followed by formal consultation with the wider community, businesses, voluntary sector and partners through to mid-January.

The feedback will be considered as part of developing the draft budget for 2019/20 and will be presented to Leadership Team in February 2019 as part of the Council Tax report.

In addition to the savings proposals put forward by service areas, there are a number of other contributions to closing the budget gap which have been identified:

- The Council received Section 31 Grant from Government for 2018/19 to compensate for loss in business income as a result of business rates relief announced by the Autumn and Budget Statements. For the Council, this has been confirmed as £3.6m for 2018/19. This had not been budgeted for and therefore offers a one off contribution towards closing the gap for next year.
- The Council is part of the Pan London 100% Business Rates pilot. As a result, the additional benefit to the Council for 2018/19 is expected to be £3.2m. Similar to above, this had not been budgeted for and therefore offers a one off contribution for 2019/20. This figure will not be confirmed until all 33 London boroughs and the GLA have closed their accounts in summer 2019 but financial plans are assuming that it will not change significantly.
- Other one off contributions of £2m, such as use of a surplus on the collection fund and one historic balances that can be written back into revenue.

	<b>2019/20 £'m</b>	<b>2020/21 £'m</b>	<b>2021/22 £'m</b>
<b>NEW BUDGET GAP</b>	<b>19,986</b>	<b>18,600</b>	<b>19,700</b>
New Savings / income proposals	(6,721)	(2,410)	(300)
Inflationary increase in Fees and Charges	(1,570)	(1,600)	(1,600)
Assumed Increase in Council Tax Income	-	(1,720)	(1,720)
Other Corporate Savings	(1,500)	-	-
Other one off contributions	(8,341)	7,300	-
<b>Budget Gap at November 2018</b>	<b>1,854</b>	<b>19,380</b>	<b>14,380</b>

Although it remains early in the year and a budget gap of £1.8m remains, officers are confident the Council will be in a position to set a balanced budget for 2019/20. This assumes that all

savings proposals set out in Appendix 2 are agreed. Any savings rejected will need to be replaced on a £ by £ basis. However, the reliance on one off contributions is not sustainable and although some savings have been identified for future years, there remains a budget gap of £19m for 2020 and a further £14m for 2021. Addressing the challenge for 2020 will require long term and sustainable budget reductions.

### **5.7 Capital Receipts Flexibilities**

The 2015 Spending Review announced flexibilities for local authorities to use capital receipts from the sale of non-housing assets to fund revenue set up costs of service reform and transformation projects. Eligible projects are those which are designed to generate ongoing revenue savings in the delivery of public services or transform service delivery to reduce costs or demand for services in future years. This flexibility remained in place for 2018/19 and the Council is working on the assumption it will continue into 2019/20.

The guidance suggests a wide range of projects that could generate qualifying expenditure and specific projects for the Council that are likely to generate qualifying expenditure during 2018/19 and subsequent years include the service re-design and proposals for change that will be required to meet the financial challenge from 2020.

### **5.8 Risk Management**

This strategy has demonstrated that the Council's financial position is volatile. The uncertainty in the overall Local Government finance position continues over the short to medium term. There are many factors for which we can quantify the impact as demonstrated in the strategy but there remains a number of risks. They include the following and which will continue to be kept under careful review.

#### **Grenfell**

The impact of the fire at Grenfell Tower in June 2017 has been significant. The Council is now moving to a position of recovery and the five-year strategy for the survivors, the bereaved and the wider community has been developed. Discussion continue with Government in terms of the funding of this five-year strategy. Any costs not funded form Government will impact on the Council's financial position.

#### **Demographic Growth**

There are significant cost pressures arising from changing demographics and a growing population but also more vulnerable adults and children with increasing complexity of need. The number of homeless households continue to increase and both the shortage in supply of housing and increased costs of temporary accommodation is a real risk. Financial plans include some provision for demographic growth where it can be quantified but there are other areas of uncertainty.

#### **Government Funding**

The current financial year 2018/19 is the third year of the Government's four-year funding agreement, however, the Council continues to face a level of uncertainty regarding the medium term. While the government has provided a degree of certainty on the reductions in funding until 2020, the end of the spending review period creates uncertainty around the future decisions of the government and the impact on Local Government.

#### **Government Legislation**

Changes in legislation or new responsibilities imposed upon the Council without adequate 'new burdens' funding allocated to the Council also present a risk. Where new responsibilities are passed over to Local Government, there is a risk that these responsibilities will not be fully

funded and calculated in a transparent manner. An example in the past has included the cost of supporting families who have 'No Recourse to Public Funds'. In addition, a change in Government can create uncertainty for Local Authorities in terms of new policies.

### Fair Funding Review

There is a risk in relation to the Government's Fair Funding Review that a failure to provide adequate resources to fund local authorities could lead to a requirement for further service reductions. Early indications are that the new formula could disadvantage the Council in two ways:

- Resources could be re-distributed from London to other parts of the country; and
- The new formula could take account of the Council's ability to raise Council Tax funds and therefore there could be an expectation by Government to increase the borough's Council Tax level rather than relying on Government support.

The Council will continue to lobby for London wide and more local issues to be recognised. The proposal is for the new formula to be in place for 2021 but the details are not likely to be none until late 2020 which makes financial planning really difficult.

### Brexit

A key uncertainty is how the UK's exit from the European Union (Brexit) may ultimately affect the Council's expenditure and income levels as negotiations around the terms of exit are still ongoing. This may impact on staffing levels in particular service sectors, such as Adult Social Care, highways and amenities and facilities management services. The impact on the economy is unclear - possible rising inflation and reduced access to previous European funding streams. In contrast, the exit may have a positive impact and this demonstrates that at this stage it is difficult to quantify the impact.

### Achievement of Savings

The ability to set and deliver a sustainable budget in 2019/20 onwards is highly dependent on delivering all identified savings to avoid putting further pressure on the medium term budget position. Non achievement of in-year savings would require compensating reductions in planned spending on £ for £ basis. Close monitoring will be in place during 2019/20 via the monthly monitoring reports and will be reported quarterly to Leadership Team.

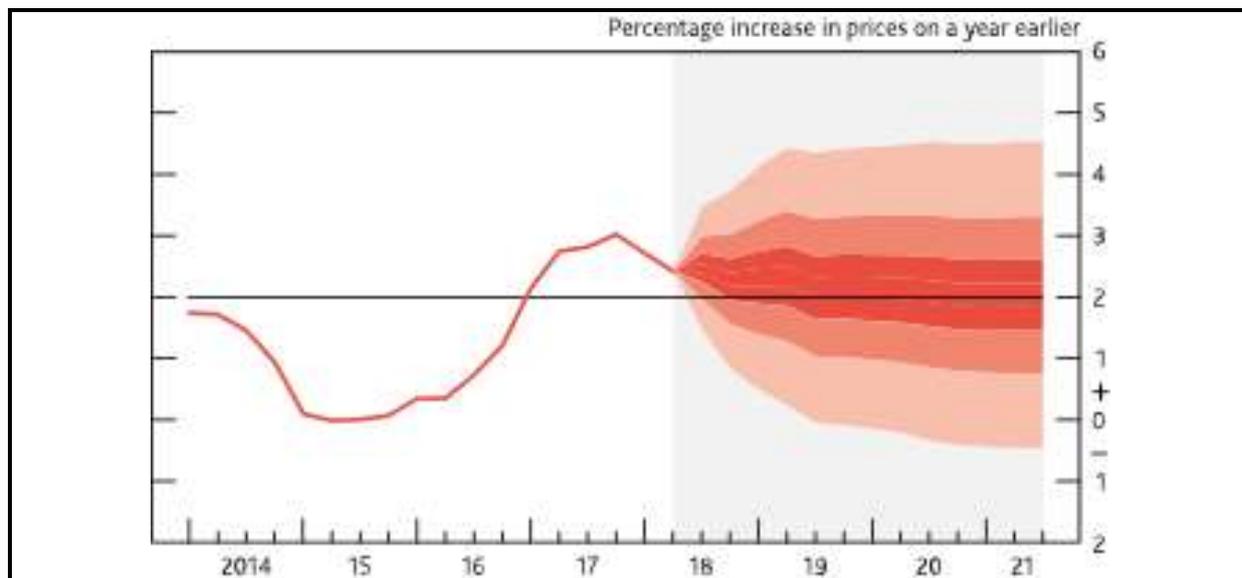
### Economic Conditions

A key element in the medium term financial strategy process is building in an appropriate central allowance for inflation, at the same time noting that it is difficult to forecast exactly how actual inflation will turn out against estimates made. Inflation is expected to increase over the next three years and any changes to underlying budget assumptions on the impact of pay and price increases present a significant risk. The total value of the Council's contracts with third parties and the voluntary sector is almost £230m. Not all of these contracts will be subject to inflationary increases but many of the major contract are. Every 1% increase in inflation will result in an increase in costs in excess of £1m. Financial Plans currently assume inflation of 2%.

Interest rates are typically low. This makes the cost of borrowing attractive but returns on investment low. This impacts on the Council's Treasury Management Strategy and the approach to funding service provision and capital investment.

The Bank of England's August 2018 inflation forecast is shown in the following fan chart and indicates that CPI inflation is projected to continue to rise in 2018. This forecast is based on the Central Government's Monetary Policy Committee's (MPC) best collective judgment of the outlook for CPI inflation and shows the probability of inflation movements with the darker central part of the fan being the more probable. The target rate for CPI inflation remains at 2% and at September 2018 it stood above this level at 2.2%.

Table 7: Bank of England's inflation forecast



However, economic conditions go beyond the impact of inflation and interest rates and can have a direct impact on many services. An economic downturn can mean an increase in people requiring financial support from the Council but at the same time a reduction in key income streams, such as business rates, council tax and fees and charges. Increased demand, coupled with reducing income will mean setting a balanced budget becomes much more of a challenge.

#### Non Controllable Spend

There are many risks of increases in costs for which the Council has no direct control. Examples include the contribution to the London-wide schemes such as concessionary fares and the levy paid to the Western Riverside Waste Authority. A review of these costs is currently underway.

The likelihood of all the budget risks highlighted above occurring in any one year is low. However, the budget for next year includes a central contingency budget to help mitigate in-year budget risks. There are however significant areas of uncertainty particularly around the Fair Funding review, the capacity to deliver all savings to plan, pressures on Adults, Children's Social Services and housing and the degree of change occurring across the Council post Grenfell as a whole that need to be mitigated. Work is currently underway to determine if the contingency level assumed is prudent. An update will be included in the next report to Leadership Team in January 2019.

### **5.9 Reserves Strategy**

The aim of the MTFS is to set out a sustainable and affordable financial plan that delivers the council's priorities over the next four years. A key part of the financial strategy is to hold a prudent level of reserves for contingencies. The Council therefore holds a number of reserves, to mitigate risks, the General Fund balance and various Earmarked Reserves.

The General Fund balance is forecast to stand at £10m at 31 March 2019, assuming a balanced outturn in 2018/19 is achieved. The General Fund balance is the sum held centrally for unavoidable cost increases above expected inflation levels, other unforeseen items and

spending pressures and acts as the Council's financial safety net. The Council's currently agreed strategy is for a minimum sum of £10m to be held as the general fund working balance.

The Council also holds a variety of earmarked reserves that have been set aside to meet specific liabilities or planned one-off expenditure arising in future years. These stood at £125.3m at 31 March 2018. All reserves that have been set aside are regularly reviewed as part of both the budget setting process and closure of accounts process in order to ensure that they are set at the appropriate level and are neither insufficient nor overstated.

Reserves can and have been used in previous years to support the overall revenue budget however ongoing use of them is unsustainable as it does not address structural base budget issues. Reliance cannot be placed on reserves as a funding strategy for 2019/20 onwards. Recurring revenue savings from service areas or new income streams must be found to meet forecast budget gaps. There is a significant risk of financial instability if significant levels of reserves are used to fund ongoing spending.

The adequacy of reserves is reviewed annually. The Section 151 Officer (the Executive Director of Resources and Assets) will report, as required by Local Government Finance Act 2003, to the Council in the budget setting report in February 2019 on the adequacy of the proposed reserves as part of the Council Tax report.

#### **5.10 Budget 2019/20**

This strategy focuses on the financial position for the next four years. However, over the next few months the focus will turn towards setting a balanced budget for 2019/20. As highlighted in the introduction, the last update in March 2018 predicted a budget gap of £10m that needed to be addressed. Over the summer, officers and Lead Members have reviewed existing budgets, considered the existing financial position, any future budget pressures and risks.

Both savings and additional income proposals have been put forward by Lead Members for their portfolio. The approach this year has been similar to that in the past whereby each Lead Member has been required to contribute and the Council has been working on the assumption that services will need to reduce their budgets by 7% over the next two years and at least 3.5% for 2019/20.

This exercise has identified savings and income proposals across service areas of almost £7m. Table 8 below shows a summary by Directorate. Full details are set out in Appendix 2 which includes a summary of the proposals, the budget reduction and any staffing, consultation or equality implications.

Table 8 – Savings and Income Proposals by Directorate 2019/20 to 2021/22

<b>Directorate</b>	<b>2019/20 £'000</b>	<b>2020/21 £'000</b>	<b>2021/22 £'000</b>
Chief Executive's	141	-	-
Resources and Assets	2,426	125	300
Children's Services and Education	684	385	0
Adult Social Care and Health	1,500	1050	-
Environment and Communities	1,845	770	-
Housing General Fund	125	80	-
<b>Total</b>	<b>6,721</b>	<b>2,410</b>	<b>300</b>

Leadership Team is asked to agree for the proposals set out in Appendix 2 to be published for consultation. This will include Scrutiny Committees in November and December, partners,

businesses, the voluntary sector and residents. This will include both targeted consultation for individual proposals with key impacted stakeholders as set out in Appendix 2 and also more generic communications using various channels and resident's groups where appropriate.

The feedback from this consultation will be considered and will be presented back to Leadership Team in February 2018 alongside the draft budget for approval and recommendation to Council in March 2019.

A report is planned for Leadership Team in January 2019 that will provide an update on the preparations of the budget and any new information that emerges over the next few months, including a summary of the draft Local Government Finance Settlement that will be published before Christmas and any new budget pressures or risks.

The timetable for setting the 2019/20 budget is similar to that of previous years and the key dates are set out in Appendix 3.

### **5.11 Budget 2020/21 Onwards**

Although there is further work required for setting the 2019/20 budget, the focus is now also turning to 2020. As highlighted in Section 5.6, based on the information we know the financial challenge is significant and at this stage we are expecting there to be a shortfall in income of about £19m for 2020 to meet the needs of the people who live, work, do business and visit the borough.

The approach taken this year to identify efficiencies and small scale changes will not be sufficient to meet a challenge of this magnitude. Over the next 6 months, officers will be working up proposals to both reduce costs and increase income levels in an attempt to close the budget gap. These proposals will be published in the next Medium Term Financial Strategy in July 2019 and will include the following areas:

- A focus on prevention to keep people independent for longer, reduce and delay the need for high cost statutory services and improve outcomes.
- Service re-design and transformation that changes the way we deliver services to improve outcomes whilst at the same time reduced costs.
- Expand existing income streams and identify new ways to increase income levels through local sources, such as fees and charges, rental income, increased trading activity or investment income. This will require the Council to adopt a more commercial outlook.
- Improved partnership working with other statutory partners, the voluntary sector, business and residents to shape and deliver services across the borough.
- Exploit the use of technology across services to increase access to services as well as the use of technology to deliver services more efficiently.
- Improvements in ways of working to ensure internal processes are efficient and offer value for money.

Going forward, it is important that the Council prioritises its limited resources and targets expenditure to the services and facilities that are important to people in the borough. The Borough Wide conversation that will take place from November will determine the Council's priorities and will be published as part the Corporate Plan in Spring 2019. The Medium Term Financial Strategy published in July 2019 will set out the Financial Framework for delivering these priorities over the next four years.

### **5.12 Schools' Budget**

The Schools Budget is ring-fenced within the Council's overall funds. It funds individual schools' delegated budgets and certain defined activities for the direct benefit of pupils or schools, including special educational needs and the co-ordinated school's admission service.

The percentage of pupils enrolled in the independent sector in Kensington and Chelsea is the highest in the country. Approximately 60% of school-aged residents are privately educated compared to the national average which is estimated at approximately 7%.

Table 9 – Schools in Kensington and Chelsea

Phase	Community	Free School / Academy	Foundation VA School	Total
Nursery	4	0	0	4
Primary	11	2	14	27
Secondary	0	2	4	6
Alternative Provision	1	0	0	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.

The DSG had a deficit carry forward from 2017/18 of £2.364m which included an in year overspend of £2.368m mainly on high needs. This trend is likely to continue. There are no longer any balances which can be used to address the in year pressures and therefore the high needs expenditure is being reviewed in conjunction with the Schools Forum and school high needs reference group. At the current time, this deficit is managed and ring fenced to the DSG but it is likely that this cost will in the future fall to the General Fund – albeit this has not been confirmed. This poses a further risk to the Council's financial position.

The Department for Education (DfE) introduced the National Funding Formula (NFF) for schools, high needs and central school services from 2018/19 to distribute resources to Local Authorities (LAs). Full implementation of the NFF is expected in 2021/22, subject to primary legislation by Central Government.

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 having funding reductions. To provide stability for Local Authorities and schools through the transition before the NFF is introduced in full, in 2018/19 and 2019/20 each Local Authority continues to set a local schools formula, in consultation with local schools. These local formulae determine individual schools' budgets. The DfE have decided that in order to continue to support a smooth transition, Local Authorities will continue to set a local formula in 2020/21. The Council will consult with the schools' forum.

The minimum per pupil funding levels within the NFF will increase to £4,800 for secondary schools and £3,500 for primary schools. All Kensington and Chelsea schools receive per pupil funding above this level in the local formula.

Table 9 - Kensington & Chelsea NFF Provisional Funding Allocations 2019/20

Block	2018/19	2019/20	Change	% Change
Schools *	£67.868m	£67.941m	+£0.073m	+0.11%
High Needs **	£16.338m	£16.352m	+£0.014m	+0.09%

Central School Services	£0.976m	£0.963m	-£0.013m	-1.33%
<b>Total</b>	<b>£85.182m</b>	<b>£85.256m</b>	<b>+£0.074m</b>	<b>+0.09%</b>

*The early years funding block is allocated separately. The indicative allocation for 2018/19 is £12.309m and this changes on the basis of actual children attending early years' provision.*

The indicative figures show an overall increase of funding of 0.09% equivalent to £0.074m in 2019/20. No individual school will see a reduction in funding in 2019/20 providing there is no decrease in pupil numbers.

Table 9 shows that schools are likely to face funding pressures with a schools block funding increase of only 0.11% despite the requirement for schools to fund 1% of the teachers' pay award, non-teaching pay awards and other price increases.

### **5.13 Housing Revenue Account**

The financial position of the Housing Revenue Account is challenging and if no action is taken it could fall into an illegal deficit over the next five years. Work is underway to consider the long term financial position but much depends of the outcome of the recent stock condition survey in terms of the extent of repairs and maintenance required. A revised Business Plan and draft budget for 2019/20 will be presented to Leadership Team in the new year which will incorporate the Council's intentions to develop 300 new social and affordable homes in the borough.

### **5.14 Conclusion**

This strategy demonstrates the challenging financial position facing the Council over the next four to five year and beyond. The impact of Grenfell and the change in the Local Government landscape has changed the Council's approach to financial planning. Although the Council is in a position to set a balanced budget for 2019/20, there remains a budget gap for 2020 onwards that needs to be addressed. As set out in Section 5.11, this requires a more significant change in the services we deliver and the way they are delivered.

### **5.15 Next Steps**

Over the next six months, the focus on the financial position will be two fold. Work will start before Christmas to develop proposals to address the longer term challenge. In terms of 2019/20, there will be a series of key milestones to setting the budget and Council Tax in March 2019. These are set out in Appendix 3 and the next update will be to Leadership Team in January 2019.

## **6 Consultation**

This report sets out the savings proposals that have been put forward to contribute towards setting a balanced budget for 2019/20. Many of these relate to internal efficiencies achieved through good financial management but there are a number of others where consultation with key stakeholders is required. In most cases consultation is already underway or is planned. The key areas include are summarised below and full details can be found in Appendix 2.

- CHB 08 - Review of Early Help
- CHB11 – Youth Services Re-design
- ASC5 – Increased income from meals
- ASC8 – Review of transport provision
- ECS6 – Too Big for the Bins Review

- ECS17 – Replacement of pay and display machines

Consultation will include with Scrutiny Committees in November and December, partners, businesses, the voluntary sector and residents. As highlighted in the report, this will include both targeted consultation for individual proposals with key impacted stakeholders as set out in Appendix 2 and also more generic communications using various channels and resident’s groups where appropriate.

The feedback from this consultation will be considered and will be presented back to Lead Members and will be considered as part of preparing the 2019/20 budget.  
[Consultation Implications verified by Phillip Baker, Communication s Team]

## **7 Equality Implications**

Under the Equality Act 2010 the Council has a legal duty to pay “due regard” to the need to eliminate discrimination and promote equality with regard to the protected characteristics of age, disability, gender reassignment, marriage/ civil partnership, pregnancy/ maternity, race, religion or belief and sexual orientation. The equalities impact of the proposals at Appendix 2 have been considered but full equalities impact assessments will be carried out where necessary before any proposals are implemented.

## **8 Information, Communications and Technology Implications**

These are addressed throughout the report.

## **9 Legal Implications**

The legal implications are set out in the report [Legal Implications verified by LeVerne Parker, Chief Solicitor]

## **10 Financial and Resources Implications**

These are addressed throughout the report

## **11 Local Government Act 1972 (as amended) – Background papers used in the preparation of this report**

[Council Tax Report 2018/19](#)

[Local Government Finance Settlement 2018/19](#)

[Office for Budget Responsibility \(inflation\)](#)

2018/19 Monitoring Report – Quarter 2 (see Leadership Team agenda)

[Autumn Budget 2018](#)

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