

Decision maker and date of meeting or (in the case of individual Cabinet Member decisions) the earliest date the decision will be taken	Leadership Team – 13 January 2021 Forward Plan ref: (KD05811/21/K/A)	 THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA
Report title (decision subject)	UPDATE TO MEDIUM TERM FINANCIAL PLANNING – 2021/22 BUDGET AND SERVICE PROSPECTS	
Reporting officer	Executive Director of Resources	
Key decision	YES	
Access to information classification	Public	

1. EXECUTIVE SUMMARY

- 1.1 This report builds on the Medium-Term Financial Strategy reports presented to Leadership Team on 11 November and 9 December 2020. It includes an update on Government Funding following the publication of the draft Local Government Finance Settlement, the provisional calculated Council Tax base and Business Rates for 2021/22, an update on London wide levies, new budget pressures and the new budget reductions.
- 1.2 The draft Local Government Finance Settlement has now been issued and is in line with the technical consultation and Spending Review that was issued earlier in the year.
- 1.3 The provisional Council Tax base (number of households) for 2021/22 has now been calculated as 97,001 under delegated authority by the Executive Director of Resources as Section 151 Officer and is included in this report for Leadership Team to note.
- 1.4 The Business Rates base for 2021/22 has now been calculated as £52.7m under delegated authority by the Section 151 Officer and is included in this report for Leadership Team to note.
- 1.5 Since the last update to Leadership Team on 9 December 2020, new budget pressures of £1.2m have emerged. Of this £1m relates to the historic shortfall in commercial rent income and £150,000 for enhancing security of the Council's information. Full details are set out from Section 6.9.
- 1.6 Further budget reductions have been identified to close the budget gap for next year. These are set out in Section 6.16.

- 1.7 The consultation period on the savings proposals remains open until 21 January 2021. As new information emerges over the next few weeks it will be analysed to assess the impact on the budget. The draft budget will be presented to Leadership Team in February and will take account of responses from the consultation. The budget will not formally be approved until 3 March 2021 at Full Council.
- 1.8 A number of London Wide levies for 2021/22 have now been confirmed. There are, however, a number which remain outstanding but are likely to be known over the next 4 to 6 weeks. The Council's Concessionary Fares levy has been confirmed by London Councils and has reduced by £1.2m compared to previous financial assumptions. Full details are set out in section 6.16.
- 1.9 The Council's contribution to London Borough Grants Scheme for 2021/22 has been confirmed as £116,168 and is subject to Leadership Team approval before the deadline of 15 January 2021.
- 1.10 The Greater London Authority published their draft budget for consultation on 16 December 2020. The proposed GLA Council Tax precept is £338.71 – a £6.64 or 1.99% increase compared to this year. This will be subject to approval by the London Assembly on 25 February 2021.
- 1.11 This report provides details of the Council's budget planning and an update on progress towards identifying savings at the level required to close the budget gap for 2021/22. The report concerns the Council's General Fund budget and Capital Programme. The Housing Revenue Account (HRA) is "ring-fenced" from the general fund and the proposed revenue budget and 30-year Business Plan is subject to a separate review process before coming to Leadership Team on 10 February 2021.
- 1.12 Although the Council is in position to achieve a balanced budget for 2021/22, subject to any changes over the next two months, there is a significant financial challenge for the next three years where the budget gap remains at around £25m before any increases in Council Tax are taken into account. A full update on the three year position will be included in the budget report to Leadership Team in February 2021.
- 1.13 Part of addressing the longer term financial position will be through the Transitions Programme which has emerged following the COVID-19 pandemic. Its focus is on doing things differently and improving outcomes for residents, businesses and staff by learning from the pandemic but at the same time reducing costs. Some details were provided in the report to Leadership Team on 11 November 2020 but the programme is still being developed. In addition, a more outcomes based approach will be taken across all services to ensure outcomes are being met and spending plans are in line with the priorities in the Council Plan and aligned with the Recovery Framework which was agreed by Leadership Team in December. Further details will be included in the budget report in February 2021.

2. RECOMMENDATIONS

The Leadership Team is recommended to:

- 2.1 Note the draft budget for 2021/22 as summarised in Appendix 2 which takes account of the outcome of the draft Local Government Finance Settlement which is summarised in Section 5 and in detail in Appendix 5.
- 2.2 Note the latest position of the collection fund as at 31 March 2021 which is currently estimated as a deficit on of £3.9m after reserve transfers. The final position will be agreed under delegated authority to the Executive Director of Resources as Section 151 Officer before 31 January 2021.
- 2.3 Note the calculation of the Council's provisional tax base (number of households) for 2021/22 at 97,001 as calculated under delegated authority by Executive Director of Resources as the Section 151 Officer. This takes into account the Local Council Tax Reduction Scheme approved by Leadership Team at the 8 October 2020 Leadership Team meeting.
- 2.4 Approve the overall level of expenditure for the London Boroughs Grants Scheme of £6.668m in 2021/22 and agree the Council's contribution to the London Boroughs Grants Scheme for 2021/22 of £116,168.

3. REASONS FOR DECISION

- 3.1 The Council is legally required to set a balanced budget and council tax levels each financial year. This report sets out the context for these decisions. The Council is also required by law to agree the council tax base and National Non-Domestic Rates forecast by 31 January 2021 and for Kensington and Chelsea, this is delegated to the Executive Director of Resources in their role as Section 151 Officer. Details have been included in this report for Leadership Team to note.

4. INTRODUCTION

- 4.1 The 9 December 2020 report to Leadership Team provided information which indicated a forecast gap of between £339,000 and £4.8m for 2021/22, depending on decisions around Council Tax and the Adult Social Care precept. For further details refer to the Leadership Team agenda papers which are available on the Council's website at: [MTFS report to Leadership Team December 2020](#)
- 4.2 This report is the latest update for Members on each of the key components that determine the budget for 2021/22 and provides an update on the preparations and plans over the next few weeks before final approval by Council on 3 March 2021.

5. GOVERNMENT FUNDING

- 5.1 The Government has been undertaking a review of how Local Government is funded and had previously intended to have a new fair funding formula in place from April 2020. However, this has again been delayed due to the COVID-19 pandemic and is not now expected until at least 2022 but possibly later. Therefore, future level of resources for the Local Government sector as a whole remains unknown but there is an expectation that over time, resources will be re-distributed and Kensington and Chelsea, along with other inner London Boroughs may see a reduction in funding levels which in itself creates considerable uncertainty for financial planning.
- 5.2 The draft Local Government Finance Settlement was published on 17 December 2020 and is broadly in line with the plans set out in the technical consultation and spending review. Full details are set out in Appendix 5 but summarised under the relevant sections of this report as appropriate.

Settlement Funding Assessment

- 5.3 The Settlement Funding Assessment is the level of financial support that the Council receives from Government through non-specific grants and income retained through the Business Rates retention scheme. In 2021/22, Revenue Support Grant will be £10.2m and Business Rates retained will be £52.7m.

Business Rates

- 5.4 Although this is considered a local tax, its method of calculation and also the amount the Council retains is determined by Government and the borough's level of need. In 2020/21, the Council was expected to collect £364m of business rates. However this level of collection is expected to drop by at least 20% following the drop in economic activity as a result of the pandemic. In accordance with the draft Local Government Finance Settlement the Council will retain £52.7m of these business rates collected in 2021/22.
- 5.5 Since 2018/19 the Council has been part of a Pan London pool for business rates which has meant that a proportion of the growth in business rates across London has been retained in the capital. This has created a financial benefit for Kensington and Chelsea. Discussions are underway in terms of the pooling arrangements for 2021/22 and an update will be included in the budget report in February.
- 5.6 Over the last three years, Government have been consulting with local Authorities and all stakeholders in terms of a new scheme for business rates. Its implementation has been delayed until at least April 2023 and updates to Leadership Team will be provided as more information becomes available.

Social Care Funding

- 5.7 The Social Care Grant will continue into 2021/22 and new funding of £300m was announced by the Chancellor in the spending review. The Council's total allocation for 2021/22 will be £6.2m, an increase of £1.1m from 2020/21. The 2021/22 improved Better Care Fund allocation (including Winter Pressures funding) is unchanged at £7.5m. These are one-year grant allocations and the Government's long-term plans for funding and the Green Paper for adult social care remains unknown.

New Homes Bonus

- 5.8 The New Homes Bonus is a grant paid by Government to encourage housing growth. Over recent years, the formula for the grant and also the period of time the bonus is paid has changed, which has reduced the Council's allocation year on year. The Council's allocation for 2021/22 is £651,000. Government are proposing a consultation in 2021 on the scheme and the methodology going forward.

6. PROPOSALS AND ISSUES

Savings Proposals

- 6.1 As part of the 2020/21 budget setting process, some savings and income proposals were agreed which have an incremental impact in 2021/22. Some of these have been revised as a result of the pandemic and now total £3.1m. These savings are summarised in Table 1 and can be found in full in the 2020/21 budget report.

Table 1 – Previously Approved Savings for 2021/22

Savings Items – by Council Plan priority	2021/22 £'000
Supporting and Safeguarding Vulnerable Residents	1,509
A Great Place to Live, Work, and Learn	325
A Place of Culture to Visit and Explore	30
Healthy, Clean & Safe	25
Finance and Customer Delivery	535
Council Wide – Cross Cutting	710
Grand Total	3,134

- 6.2 In terms of new proposals put forward as part of this year's process, Leadership Team received a report in November 2020 setting out savings proposals totalling £10.1m impacting on the 2021/22 budget (£278,000 being achieved from 2020/21 and £9.8m from 2021/22). These were also submitted to Overview and Scrutiny Committee on 12 November 2020. Since November these have been revised slightly and a further £28,000 has been proposed relating to efficiencies in the Governance and Mayoralty Service. The revised full list of savings totalling £10.6m over 2020/21-2023/24 is set out in Appendix 1.
- 6.3 These proposals are available to view and open for consultation until 21 January 2021 via the council website [here](#).

- 6.4 Overview and Scrutiny Committee play a key role in the consultation process on both revenue budget proposals and new capital investment and this is being managed through a Budget Working Group. At their meeting on 12 November 2020, Overview and Scrutiny Committee published their approach to the consultation exercise and will be presenting their feedback at the meeting on 26 January 2021. The feedback will be considered by Lead Members in preparing the draft budget.

Spending and Income Pressures (Growth)

- 6.5 The Council's budget each year must consider future spending and income pressures. In some cases, these can be estimated and will be reflected in next year's budget. In some other cases, it is difficult to estimate the impact so these are highlighted as a risk and monitored through the year as more information becomes available.
- 6.6 On 11 November 2020, Leadership Team recommended the inclusion of £5.1m of additional funding in the draft budget for 2021/22 and full details were set out in the report. In the update to Leadership Team 9 December 2020 a further £129,000 within Family and Children's Services was also recommended.
- 6.7 Since then, work has continued on the detailed budgets for next year and as a result some new pressures have been identified. These are set out in Table 2.

Table 2 - New Pressures since Leadership Team on 9 December 2020

Portfolio	Item	2021/22 £'000
Grenfell, Housing and Social Investment	Additional budget required to fund long-term shortfall on commercial properties (Reference GPLe)	1,000
Finance and Customer Delivery	Security Enhancements for IT Information Security (Reference CCe)	148
Finance and Customer Delivery	Additional budget required for the valuation of the Council's fixed assets in order to comply with statutory financial reporting requirements (Reference CCd)	90
Total		1,238

- 6.8 As agreed by Leadership Team in November, an additional £8m has now been included in the budget for COVID-19 Recovery in the borough. This is shown in Appendix 2. It is to be fully funded from balances and reserves and therefore does not impact the budget gap. An update on the Recovery Framework is expected in the Spring.

Fees and Charges

- 6.9 A key component of the Council's budget is the income generated from fees and charges for discretionary services. In 2020/21, an estimated £126m was expected to be collected, however the pandemic has reduced many of these income streams. The latest update for collection during this financial year will be the Quarter 3 update to February's Leadership Team. The Government has confirmed it will reimburse around 70% of some of these losses. Financial plans currently assume income for 2021/22 will be back at normal levels. However, it is likely that some income streams will not fully recover in 2021/22 and any shortfall will be funded through the income compensation scheme ending June 2021, Government grant or in year savings.
- 6.10 The proposed fee increases for 2021/22 were presented to Leadership Team on 9 December 2020. A full schedule is available on the website at [Fees and charges schedule](#). An update is included with this report in relation to parking charges and highways with further detail now included on how the charges have been calculated. The details are published separately on the website at <https://www.rbkc.gov.uk/committees/Meetings/tabid/73/ctl/ViewMeetingPublic/mid/669/Meeting/8367/Committee/1593/SelectedTab/Documents/Default.aspx>
- 6.11 The Council's general increase is in line with the target inflation of 2% and in most cases, this is reflected in the proposed increase. However, there are some exceptions and details were set out in the previous report. Overall, the budget for 2021/22 is assuming additional income of £969,000.
- 6.12 Overview and Scrutiny Committee are asked to provide any comments and feedback through the Scrutiny Budget Working Group who will report to the Lead Member for Finance and Modernisation at their meeting on 26 January 2021 as part of the overall budget process.

London Wide Levies

London Boroughs Grants Scheme

- 6.13 London Councils manage the London Boroughs Grants Scheme, which funds voluntary organisations that provide services across London Boroughs. The value of the scheme will be £6.668m in 2021/22 (the same figure as in 2020/21) to fund a range of organisations in line with the four priorities of the programme. The contribution from each of the London Boroughs is based on the latest official population estimates and the Council's contribution will reduce for 2021/22 by £756 to £116,168.
- 6.14 Approval of the budget for the scheme is subject to at least 22 boroughs (two thirds) agreeing through their respective decision-making arrangements. Once 22 councils have given their approval, the overall level of expenditure and contributions to it are binding on all constituent councils.
- 6.15 The Council's contribution has been factored into the draft revenue budgets for 2021/22 and is recommended for approval. Leadership Team are asked to approve the total value of the scheme and the Council's contribution in advance of 15 January 2021 deadline.

Concessionary Fares

- 6.16 The levy for concessionary fares (the Freedom Pass) for 2021/22 has been confirmed by London Councils at £7.5m, a reduction of £1.2m (14%) compared to 2020/21. The charge is based on usage data from Oyster clicks on the various transport modes and the significant drop from 2020/21 is a result of around a 28% reduction in passenger numbers between March and June 2020 due to the pandemic. All boroughs across London will be subject to reductions of between 11 and 16%.

Other London wide levies

- 6.17 Notifications of other London wide levies such as from the London Pension Fund Authority, the Environment Agency and the Waste Authority are still awaited and will not be received until late January/early February 2021. These are separate to the GLA precept, being levied by individual bodies and are allocated typically upon the council tax base and can be subject to variation.

National Non-Domestic Rate (Business rates) forecast

- 6.18 The Council is required by 31 January 2021 to approve the National Non-Domestic Rates (NNDR) forecast for 2021/22. The detailed calculation for this is being undertaken and will form the basis of the statutory NNDR1 form but in line with the draft settlement the amount retained is expected to be £52.7m. However, as in previous years, the timescale for statutory reporting and the requirement to report to the Leadership Team means that the form as reported is only an estimate; and, as in previous years, the Section 151 officer has the power to vary the final version of this forecast that is submitted to Government.

Council Tax Base and Council Tax Reduction Scheme

- 6.19 The Council is required, under the Local Government Finance Act 1992, to establish its council tax base for the forthcoming financial year by no later than 31 January. This has to be by resolution of the full Council; unless the Council has chosen to delegate this matter. For Kensington and Chelsea, Council delegated this to the Section 151 officer on 25 January 2018. The Council's provisional taxbase has been calculated for 2021/22 under delegated authority as 97,001 (a reduction of 505 on the 2020/21 figure of 97,507). Details are set out in Appendix 3 and the main reason for the reduction is the increase in Council Tax Reduction claimants during the pandemic. The Council's Council Tax Reduction Scheme was approved by Leadership Team on 8 October 2020.

Council Tax Level

- 6.20 Council Tax is a key source of income. In 2020/21, £89.9m was due to be collected and the average Band D level is £904.76 per annum.
- 6.21 The annual increase in Council Tax is a local decision. The draft Local Government Finance Settlement proposes that the threshold remains at 2%. This means that an increase above 1.99% would trigger a referendum vote.

- 6.22 In recognition of the growing pressures in Adult Social Care, Government has previously allowed further increases in Council Tax, known as the Social Care Precept. In 2020/21, Kensington and Chelsea applied a 2% precept. The draft Local Government Finance Settlement suggests that Local Authorities will again have the option to introduce the precept and the maximum amount will be increased from 2 to 3%. Any decision to apply the precept is a local decision.
- 6.23 The Empty Homes legislation was introduced in April 2019 and implemented in three stages. From April 2021, the Council can impose a 300% premium on properties that have been empty for over 10 years. This is being considered and a final recommendation will be put forward in the budget report to Leadership Team in February.

Garden Squares

- 6.24 The Council has over 100 garden squares. Of these, 46 raise an annual levy which is collected as part of the council tax due from residents whose properties form part of the garden. The charge added to their council tax bill is called a 'Garden Charge'. The Council Tax bases for 2021/22 are set out in Appendix 4 and the charges for 2021/22 will be included in the Budget report to Leadership Team in February 2021.

Greater London Authority Precept

- 6.25 The Mayor of London issued his draft budget for consultation on 16 December 2020. The proposals would see the GLA precept Band D equivalent rise from £332.07 to £338.71 – a £6.64 or 1.99% increase compared to this year. The Mayor's Draft Budget will be considered by the London Assembly on 27 January and final decisions will be made by the London Assembly on 25 February 2021.
- 6.26 The Mayor's consultation announcement suggested that the Band D precept could change prior to the Mayor's final budget. This is to reflect the impact of the Home Office settlement for policing including the council tax referendum thresholds for local policing bodies which as at 16 December 2020 had not been announced for 2021/22.
- 6.27 The Mayor's consultation budget document can be downloaded directly via this link:

https://www.london.gov.uk/sites/default/files/mayors_consultation_budget_2021-22_final.pdf

Collection Fund

- 6.28 The income collected through Council Tax and Business Rates is managed through a separate account – referred to as the Collection Fund. The budget each year is set based on expected income levels but more often than not, there is a variation at the year end.
- 6.29 As a result of the pandemic and subsequent reductions in economic activity during 2020/21, variations in both Council Tax and NNDR during the year are expected to result in a deficit balance on the Collection Fund. This deficit is shared with the GLA and the Government.

- 6.30 The draft budget for 2021/22 currently assumes that £3.9m of the Council's share of the deficit (after reserve movements) will be brought into the General Fund budgets. Calculation of the estimated deficit is a complex technical calculation, business rates income for example is subject to volatility and depends on a number of factors including rateable appeals which are difficult to forecast. The detailed calculations are being finalised and will be agreed under delegated authority by Executive Director of Resources as Section 151 Officer by 31 January 2021 as required. The deficit will be confirmed as part of the budget setting report to Leadership Team in February 2021.
- 6.31 It was reported to Leadership Team in December that local authorities were able to spread deficits on the 2020/21 Collection Fund over the three years 2021/22 to 2023/24. Financial Plans have been updated and the deficit has now been spread over the next three years equally. The impact over the three year period is the same but this is a more even spread and avoids the need to fully fund the deficit in 2021/22 which is usually the case.

7. OVERALL BUDGET POSITION 2021/22

- 7.1 The budget position has been updated to reflect the new information that has emerged since the last update on 9 December 2020. Table 3 shows the movement from the £4.8m budget gap reported in December 2020 to a budget gap of £4.7m. Further details of the proposed Council Wide draft budget for 2020/21 is set out in Appendix 2. Detailed budgets by service and Council Plan priority will be included in the budget report in February 2021.

Table 3 – Movement of budget gap – December 2020 to January 2021.

	2021/22 £'000
Budget Gap as per December MTFs	4,828
New Growth (see table 2)	1,238
New Budget reductions: Concessionary Fares	(1,187)
Revised Inflation costs following improved estimates	(640)
Change in External Funding following Local Government Settlement	(921)
Change in Collection Fund Assumptions - spreading deficit equally over 3 years	1,063
Savings Previously Approved as part of 20/21 Budget Setting Round now achievable	(315)
Change in previously assumed fees and charges income following new estimates	543
Other Corporate Budgets	112
Current Budget Gap	4,722

- 7.2 The budget gap of £4.7m for 2021/22 is before any increases in council tax. If a 1.99% increase is imposed, this will reduce the gap by £1.3m. If the Council also chooses to increase by the maximum Adult Social Care precept the gap is reduced by an additional £2.7m.

- 7.3 It should be noted that even with a 4.99% increase in Council Tax the borough's Band D level of tax will remain within the lower quartile of London boroughs. A 29% increase would be required to move the Council up to the next quartile.
- 7.4 Members must be aware that there remains a further 6 weeks until the final budget is put forward and there remains some unknowns, including:
- London wide levies for which the Council's contribution remains to be confirmed. These are unlikely to be confirmed until February 2021.
 - Although the final Local Government Finance Settlement is expected to be in line with the draft published for consultation, final details will not be confirmed until February 2021.
 - The level of Council Tax increase put forward for approval, which remains a local decision.
- 7.5 Financial Plans must take account of any previous savings that have not been achieved. The latest information shows that savings amounting to £73,000 are at risk and have been accounted for in financial plans.
- 7.6 Budgets for the forthcoming year must also take account of the financial position in the current year. The report to Leadership Team 9 December 2020 provided the position at the end of quarter 2 and is showing an overall forecast overspend of £2.6m after all expected additional funding from the government relating to the pandemic is taken into account.
- 7.7 For 2021/22 no specific provision has been allocated in the budget for ongoing costs relating to the pandemic. However the settlement confirmed the Council will receive further non-ringfenced funding of £5.6m which the Government expects to be targeted to help with any ongoing COVID-19 service pressures, plus a further £1.8m to help meet any additional costs associated with local council tax support caseloads during 2021/22. Once these funds are received, these will be transferred into the Council's reserves and will be available for use during 2021/22 as required. In addition the reimbursement of fees and charges scheme has been extended until the end of June 2021 which will limit the Council's non-commercial income losses to just under 30%.
- 7.8 The Council's financial position is complex and subject to many factors and therefore the forecasts are subject to continuous review and refinement to reflect latest information as it emerges before the final budget is considered at the Council's budget setting meeting in March 2021.

8. RISKS

- 8.1 The Council faces various financial risks. These will be set out in more detail in the Budget Setting report to Leadership Team on 10 February and Full Council on 3 March 2021 and will build on those reported to Leadership Team on 11 November 2020. The main risks known at this stage include:

COVID-19 Pandemic

- 8.2 The pandemic has brought increased spending pressures, as well as significant loss of income with Council Tax and Business Rates collection and fees and charges income down significantly compared to previous years. The Council has received some funding from the government to help with these challenges although some call on reserves to fund these pressures cannot be ruled out depending on the financial implications of the latest restrictions. There is however an ongoing risk of pressures in future years and longer term. One off funding of £5.6m has been received and an additional £1.8m for increases in Council Tax support for 2021/22 but it remains unclear if this will be sufficient. Any longer term implications will need to be managed through the Council's financial planning process.

Budget Pressures

- 8.3 Increased pressure on front line service budgets is likely to bring significant challenges going forward. For Kensington and Chelsea, homelessness and housing, social care and high needs are the top three. The budget pressures are not simply from increases in numbers. For social care and high needs, the Council is supporting people with greater complexity of need and people are living longer. As part of the financial planning process, officers have used data and insight to estimate these pressures for 2021/22 and additional provision has been built into the budget. However, there is a risk that demands are higher than anticipated and there is a shortfall on the budget. Spend against all budgets is managed through the year and with increased scrutiny on such high risk budgets.

Brexit

- 8.4 At the time of writing a new trade deal following the end of the post-Brexit transition has been agreed. However, the potential impact of new UK-EU trading arrangements cannot be forecast with great certainty at this stage and these terms may have a potential impact on local and wider economy and Local Government – including the ability to generate revenue, the supply and cost of staff, higher prices, local property values, changes to legislation and many more. The impact will remain under close monitoring during 2021/22.

Government Funding

- 8.5 Over the last three years, the Government have been consulting on changes to the method which determines Local Authority funding (Fair Funding Review) and a new formula was planned for introduction from 1 April 2020. This has however been delayed again until at least 2022. Although officers are looking at different scenarios in terms of impact on funding for Kensington and Chelsea, it is difficult to say with any certainty. Therefore, financial plans do not include any impact at this stage but indications are that Government funding for Kensington and Chelsea will reduce.

Delivery of Savings

- 8.6 Financial Plans currently assume that all savings as part of the 2021/22 budget process will be delivered. However, there is a risk (for a number of reasons) that some may not be achieved for a number of reasons. An example being that some savings previously approved have needed to be revised or delayed as a result of the pandemic. As part of the in-year financial monitoring processes, progress against these savings is tracked and any at risk items are highlighted and alternative savings identified if required.

Economic Conditions

- 8.7 The state of the economy can affect Local Authorities in a number of ways. The report to Leadership Team on 11 November 2020 included the latest estimates for interest rates and inflation but these remain volatile and will remain under review. Reduced inflation should prevent contract prices increasing too quickly and although lower interest rates reduce the cost of borrowing for funding the Council's Capital Programme, they also reduce investment income on the Council's balances. There are also indirect implications from changes in the economy. Income from fees and charges and rental of commercial property are a key income source and fluctuations can mean income shortfalls against the budget. At the same time, there could be increased demand for hardship support services, such as Council Tax and rent support. The pandemic has had an enormous impact on all of these areas during 2020/21 and, although the government has reimbursed a proportion of this lost income the scheme has not covered losses of commercial rent or reduced investment income.
- 8.8 This is not an exhaustive list. By reviewing risks on a regular basis any major new risks are identified and appropriate mitigations developed. The Council's Reserves Policy is a tool for managing these risks and also the inclusion of a central contingency within the base budget. The budget report to Leadership Team on 10 February 2021 will contain the Section 151 Officer's statutory opinion on the Adequacy of Reserves and Robustness of Estimates.

9. REVISED THREE-YEAR FORECAST

- 9.1 The Council's medium term financial position is by necessity fluid and responds to reflect the changing circumstances faced by the Council, updated priorities and ambitions, the latest budget position and a range of external factors such as economic conditions and Government legislation.
- 9.2 Although a balanced budget is planned for next year subject to finalising figures over the next two months and local decisions on Council tax, Members are asked to consider the latest financial position beyond 2021/22, noting that the Council, in common with all authorities, continues to face a challenging financial outlook.
- 9.3 At present, the Council's overall budget planning position indicates a forecast budget gap for the period 2022/23 of £10m and a further £13m for 2023/24.
- 9.4 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 in line with the Council's priorities published as part of the Council Plan which is currently being refreshed in light of the Covid-19 pandemic and the Recovery Framework. Further details will be published in the budget report in February 2021 and the full review of the Medium Term Financial Strategy in July 2021.

10. CAPITAL PROGRAMME

- 10.1 Table 4 shows the movements in the forecast Capital Programme since the report in December 2020.

Table 4: General Fund Capital Programme Update at January 2021

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Capital Programme as at December 2020	111,234	213,253	135,932	1,938
Re-phasing procurement of vehicles – Waste & Cleansing Services contract	-	(1,934)	1,187	-
Transfer Relocation of Shared Services Car Pound to Capital Pipeline	-	(1,300)	(1,000)	-
Disabled Facilities Grant – Future Years	-	846	846	846
Proposed Capital Programme as at December 2020	111,234	210,865	136,965	2,784

- 10.2 The movements outlined in Table 4 result in a net reduction to the Capital Programme between 2020/21 and 2023/24 of £509,000. Work to finalise the position for the funding of the Capital Programme is ongoing and is delegated to the Executive Director of Resources as Section 151 Officer. The final position will be reported the Leadership Team within the Budget Setting report in February and will reflect the latest 2020/21 monitoring position as at quarter 3.

11. BUDGET TIMETABLE

- 11.1 After consideration of this report at Leadership Team on 13 January 2021, the next steps in the Budget timetable are set out in Table 5. On 3 March 2021, Council will be asked to approve a range of financial plans, including:

- Revenue Budget 2021/22 and Council Tax levels 2021/22, including Reserves Strategy;
- Capital Programme 2021/22 to 2024/25;
- Treasury Management Strategy, including the Minimum Revenue Provision policy;
- Housing Revenue Account Budget 2021/22; and
- Housing Revenue Account 30 year Business Plan

- 11.2 This report is primarily focussed on the revenue budget and capital programme. The draft Treasury Management Strategy, Housing Revenue Account budget and business plan are subject to separate approval processes but will come to Leadership Team on 10 February 2021 for recommendation to full Council.

Table 5 – Budget Timetable

Date	Event
13 Jan 2021	Leadership Team – draft Budget, update on financial position, note the Council Tax and Business Rates base (this report)
21 Jan 2021	Revenue savings and capital investment consultation closes
26 Jan 2021	Overview & Scrutiny Committee – Final Report from the Scrutiny Budget Working Group
10 Feb 2021	Leadership Team – Recommendation of Budget and Council Tax 2021/22
25 Feb 2021	London Assembly agrees the GLA budget, including the precept
Feb 2021	Final Local Government Final Settlement published
3 March 2020	Full Council – approval of Budget and Council Tax for 2021/22

12. EQUALITY IMPLICATIONS

- 12.1 Where specific budget proposals have an equalities impact, these are considered and assessed by the relevant services as part of the final decision-making and implementation processes. The report to Leadership Team on 11 November 2020 included a section on the equalities impact for each individual service review proposal included in the report.
- 12.2 The equalities impact of any proposed increase of council tax will be assessed and reported for consideration by the Leadership Team and Council as part of the council tax setting process.

13. LEGAL IMPLICATIONS

- 13.1 The Council is required to set a balanced budget. As part of budget setting and approval, the Chief Finance Officer should project the budget for the medium term, including the impact of capital investment and comment on the level of reserves. This will be included in full in the annual Council Tax and Budget report for the Leadership Team in February 2021.
- 13.2 The Government has the power to limit budget increases if these are deemed to be ‘excessive’. Under the provisions of the Local Government Finance Act 1992, and the regulations made under the Act, a referendum is required - the outcome of which is binding - where the billing authority proposes what the Government regards as an excessive council tax increase.

- 13.3 Schedule 7B of the Local Government Finance Act 1988 provides for the local retention of business rates. The Secretary of State has the power under the Act to designate two or more “relevant authorities” as a pool of authorities for the purposes of Schedule 7B. The Secretary of State may only make such a designation if each authority covered by the designation has agreed to it.
- 13.4 Section 13A of the Local Government Finance Act 1992 requires the Council to have a council tax reduction scheme. The scheme must specify the reductions which are to apply to the amounts of council tax to be paid by those the Council consider to be in financial need. Each financial year the Council must consider whether to review its scheme or to replace it with another scheme.
- 13.5 The Secretary of State has made regulations under s11A of the Local Government Finance Act 1992 which allows Councils to reduce the discount for second homes. Under s11B of the 1992 Act the Council may increase the council tax payable in respect of long-term empty properties.
- 13.6 In considering whether to approve the draft budget, members are also required to comply with the public sector equality duty contained in the Equality Act 2010. This means that they must pay ‘due regard’ to the need to eliminate discrimination and advance equality of opportunity for those who possess a protected characteristic under the Act, and to foster good relations between those who share a protected characteristic and those who do not. The equality impacts of specific budget proposals have been assessed and reported to the Leadership Team on 11 November 2020, and should be taken into account in considering this report.

14. FINANCIAL AND RESOURCES IMPLICATIONS

- 14.1 These are addressed throughout the report.

Mike Curtis
Executive Director of Resources

Background papers used in the preparation of this report:

Local Government Act 1972, Local Government Finance Act 1992(as amended)
2020/21 budget files

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Appendix 1 – Proposed savings for 2021/22 subject to consultation
Appendix 2 – Council Wide - Draft Budget 2021/22
Appendix 3 - Council Tax base 2021/22
Appendix 4 – Garden Squares Tax Base 2021/22
Appendix 5 – Summary of Draft Local Government Finance Settlement 2021/22

Summary of New Proposed Savings

Appendix 1

Savings Items	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	Total £'000
STAFFING – COUNCIL WIDE					
Savings following a review of the Council's staffing model and pay and grading structure to improve the efficiency of decision making, reduce unnecessary duplication, and reduced use of agency staff.	212	4,756			4,968
A GREAT PLACE TO LIVE, WORK AND LEARN					
Family and Children's Services					
Additional income from traded services with schools (Reference GPL1)	0	55	0	0	55
Planning and Transport					
Efficiency savings following review of the planning legal budget (Reference GPL3)	0	50	0	0	50
A GREAT PLACE TO LIVE, WORK AND LEARN TOTAL	0	105	0	0	105
A PLACE OF CULTURE TO VISIT AND EXPLORE					
Culture, Leisure and Community Safety					
One off external funding towards staff costs at Leighton House Museum.	0	19	(19)	0	0
Economy, Employment and Innovation					
Additional income from opportunities for partnership working and income generation in Libraries (Reference PoC2)	0	200	0	0	200
A PLACE OF CULTURE TO VISIT AND EXPLORE TOTAL	0	219	(19)	0	200
FINANCE AND CUSTOMER DELIVERY					
Reviewing contracts within Customer Services for potential efficiencies. (Reference CC4)	0	100	0	0	100
Savings through the review of the Council's spend on subscriptions (Reference CC9)	0	100	0	0	100
Savings through reducing the Council's external legal spend and instead growing expertise in-house. (Reference CC10)	0	37	0	0	37
Savings on stationery and printing costs within Financial Management (Reference CC6)	26	0	0	0	26
Efficiency savings from implementation of single IT Service Desk Model (Reference CC7)	0	120	39	0	159
Financial Systems - efficiency savings on contracts. (Reference CC10)	0	36	0	0	36

Savings Items	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	Total £'000
Efficiencies in the Governance and Mayoralty Service (Reference CC14)	0	28	0	0	28
FINANCE AND CUSTOMER DELIVERY TOTAL	26	421	39	0	486
HEALTHY, CLEAN & SAFE					
Community Safety, Culture and Leisure					
Additional income from filming and events in parks and leisure centres (Reference HCS17)	0	10	0	0	10
Environment					
New waste and Street Cleansing contract procured at lower cost following re-tendering exercise whilst still retaining quality. (Reference HCS14)	0	1,605	0	0	1,605
Additional income from changes in the structure for charging for Highways Licenses (Reference HCS4)	0	48	0	0	48
Additional income from changes in the structure for charging for residents permits. (Reference HCS2)	0	278	0	0	278
Additional income from Garden Waste Service (Reference HCS9)	0	10	0	0	10
New Recycling Bag contract procured at lower cost following re-tendering exercise. (Reference HCS13)	0	60	0	0	60
The Department for Transport have recently extended lane rental powers to highway authorities following trials held with Transport for London and Kent County Council. This scheme will involve work promoters having to pay a daily charge for every day they are on site carrying our street works. Income planned from 2023/24 (Reference HCS5)	0	0	0	45	45
The introduction of cashless parking will bring lower maintenance costs relating to the pay-and-display machines due to reduced need for cash handling. (Reference HCS3)	0	320	0	0	320
Savings following a review of corporate grants with a focus on clearer co-ordination with the voluntary and community sector (Reference HCS15)	0	100	120	0	220
Other value for money and efficiency savings	0	23	0	0	23
HEALTHY, CLEAN & SAFE TOTAL	0	2,454	120	45	2,619

Savings Items	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	Total £'000
SUPPORTING AND SAFEGUARDING VULNERABLE RESIDENTS					
Adult Social Care and Public Health					
The Council has block contracts for care placements. These reductions are from a more efficient use of voids within these contracts to enable allocation of spot placements and avoid additional expenditure on external provision. (Reference SSV2)	0	400	0	0	400
This is a continuation of work that has already commenced in Mental Health facilities and some Learning Difficulty facilities in the borough. The savings are to be realised by working with existing residents to ensure they access and utilise Housing Benefit they are entitled to which will reduce the need for council expenditure. (Reference SSV3)	0	200	0	0	200
Family and Children's Services					
Increased income for Joint Funding for Social Care Placements (Reference SSV11)	0	250	0	0	250
Contingency previously built into Youth Services budget not required (Reference SSV5)	0	260	0	0	260
Review of Tri-Borough Placement Service Cost-Sharing Arrangements (Reference SSV6)	0	89	0	0	89
Housing and Social Investment					
Savings on temporary accommodation costs with a focus on prevention and early intervention and supporting households moving out of temporary accommodation (Reference SSV9)	0	706	294	0	1,000
SUPPORTING AND SAFEGUARDING VULNERABLE RESIDENTS TOTAL	0	1,905	294	0	2,199
GRAND TOTAL	278	9,837	434	45	10,577

GENERAL FUND DRAFT BUDGET 2021-22
Appendix 2

	2020/21	Inflation	Adjust	Growth	Savings	Fees and Charges	2021/22
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Expenditure							
Services	144,325	4,221		7,794	(13,056)	(969)	142,315
Grenfell	12,000		(1,500)				10,500
Grenfell Corporate Costs	4,500		(500)				4,000
COVID-19 Recovery Framework	0			8,000			8,000
TOTAL SERVICES	160,825	4,221	(2,000)	15,794	(13,056)	(969)	164,815
Corporate items	(1,410)	(2,280)		2,676	(2,608)	500	(3,122)
Levies	12,467	72			(1,187)		11,352
NET OPERATING EXPENDITURE	171,882	2,012	(2,000)	18,470	(16,851)	(469)	173,045
Contingency	5,211				13		5,224
Transfer to/(from) reserves (Grenfell)	(10,500)		2,000				(8,500)
Transfer to/(from) reserves (Other)	0		(921)				(921)
New Homes Bonus	(783)		132				(651)
Adult Social Care Grant	(5,093)		(1,084)				(6,177)
AMOUNT TO BE MET FROM BUSINESS RATES AND CTAX	160,717	2,012	(1,873)	18,470	(16,838)	(469)	162,020
Retained business rates	(54,560)		834				(53,726)
Revenue Support Grant	(10,108)		(56)				(10,164)
MHCLG BR Levy surplus	(199)		199				0
SETTLEMENT FUNDING ASSESSMENT (SFA)	(64,867)	0	977	0	0	0	(63,890)
COVID-19 Additional Funding (including Local council tax support grant)	0		(7,364)				(7,364)

	2020/21	Inflation	Adjust	Growth	Savings	Fees and Charges	2021/22
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Contribution to/(from) Collection Fund	(5,954)		15,606				9,651
Transfer to/from reserves (Collection Fund)	0		(5,800)				(5,800)
COUNCIL TAX REQUIREMENT	89,896	2,012	1,546	18,470	(16,838)	(469)	94,618
Estimated Council Tax income (frozen)	(89,896)						(89,896)
Budget gap	0						4,722

	Band D Equivalents
Tax base before Council Tax Support and losses on collection	110,198.0
Council Tax Support	(11,015.3)
Losses on Collection	(2,231.6)
Class O exempt dwellings	50.1
Royal Borough of Kensington and Chelsea 2021/22 Council Tax Base	97,001.3

Movements on 2020/21 tax base

	Band D Equivalents
2020/21 Tax base before Council Tax Support and Losses on Collection	97,506.5
Tax base increase	897.8
Council Tax Support	(1,414.6)
Losses on Collection	11.6
Royal Borough of Kensington and Chelsea 2021/22 Council Tax Base	97,001.3

Figures are provisional and subject to finalisation

Garden Squares	2020-21 Tax Base	2021-22 Tax Base	Change Total
<u>Name</u>	<u>Band D Equivalent</u>	<u>Band D Equivalent</u>	
ADDISON GARDENS	127.40	126.40	-1.00
ARUNDEL GARDENS/LADBROKE GARDENS	250.10	247.90	-2.20
AVONDALE PARK GARDENS	30.20	32.40	2.20
BARKSTON GARDENS	254.10	254.40	0.30
BINA GARDENS (WEST)	189.90	187.00	-2.90
BOLTON GARDENS	111.60	112.40	0.80
BRAMHAM GARDENS	392.20	396.30	4.10
BROMPTON SQUARE	155.60	162.50	6.90
CAMPDEN HILL SQUARE	85.10	84.40	-0.70
CAMPDEN HOUSE COURT	220.10	220.00	-0.10
CLARENDON RD/LANSDOWNE RD	39.50	37.70	-1.80
COLLINGHAM GARDENS	182.50	182.90	0.40
CORNWALL GARDENS	645.50	643.90	-1.60
COURTFIELD GARDENS (EAST)	216.20	212.20	-4.00
COURTFIELD GARDENS (WEST)	429.50	430.00	0.50
EARLS COURT SQUARE	288.00	291.30	3.30
EDWARDES SQUARE	241.10	245.60	4.50
GLEDHOW GARDENS	249.20	248.30	-0.90
HEREFORD SQUARE	77.70	74.20	-3.50
HOLLAND RD/RUSSELL RD	178.30	183.20	4.90
HORNTON ST/HOLLAND ST	116.10	117.70	1.60
IVERNA COURT	198.30	206.20	7.90
KENSINGTON SQUARE	126.80	127.40	0.60
LEXHAM GARDENS	291.40	294.40	3.00
MORETON & CRESSWELL GARDENS	100.10	103.00	2.90
NEVERN SQUARE	310.80	318.60	7.80
NORLAND SQUARE	172.30	172.40	0.10
OVINGTON SQUARE	165.30	171.00	5.70
PEMBRIDGE SQUARE	201.70	199.10	-2.60
PHILBEACH GARDENS	331.40	338.90	7.50
ROYAL CRESCENT	182.10	186.80	4.70
ST JAMES'S GARDENS	152.80	153.00	0.20
STANLEY CRESCENT	184.10	186.50	2.40
STANLEY GARDENS (NORTH)	117.20	117.00	-0.20
STANLEY GARDENS (SOUTH)	154.70	159.50	4.80
SUNNINGDALE GARDENS	29.90	31.70	1.80
WETHERBY GARDENS	328.30	332.30	4.00
ARUNDEL GARDENS/ELGIN CRESCENT	274.70	274.00	-0.70
BLENHEIM CRESCENT/ELGIN CRESCENT	264.00	263.10	-0.90
EMPEROR'S GATE	219.60	236.10	16.50
LADBROKE GROVE	56.20	55.10	-1.10
ROSMEAD	134.40	134.30	-0.10

Garden Squares	2020-21 Tax Base	2021-22 Tax Base	Change Total
LANSDOWNE RD/LANSDOWNE CRESCENT(K/A LANSDOWNE GDNS)	152.90	153.50	0.60
HANOVER	145.90	146.30	0.40
MONTPELIER GARDENS	113.30	113.60	0.30
NOTTING HILL	36.30	38.10	1.80
Totals	8,924.40	9,002.60	78.20

DRAFT LOCAL GOVERNMENT FINANCE SETTLEMENT 2021/22 APPENDIX 5

1. Introduction

On 17 December 2020, the Secretary of State for the Ministry for Housing, Communities and Local Government, Rt. Hon. Robert Jenrick MP, made a written statement to Parliament on the provisional local government finance settlement 2021/22.

This appendix provides a summary of the key highlights and the implications for next year's budget.

The Settlement consists of three main elements which define the Council's Core Spending Power – the Settlement Funding Assessment, Government Grants and assumptions around Council Tax. Overall there have been no substantive changes since the announcements in the Spending Review in November and the publication of the technical consultation but there are a couple which have been highlighted through this appendix.

2. Core Spending Power

Overall Core Spending Power across London has increased by 3.8%. For Kensington and Chelsea this is 4.0% (£6.7m). However, this should be interpreted with caution because it assumes the maximum increase in Council Tax which remains a local decision. An overall summary is set out in Table 6 and the remaining sections set out details of the changes in the individual components.

Table 6 – Core Spending Power 2020/21 to 2021/22

	2020/21	2021/22
	£'m	£'m
Settlement Funding Assessment	62.8	62.9
Compensation for under-indexing the business rates multiplier	2.1	2.7
Council Tax of which;	91.0	95.0
• <i>Council Tax Requirement excluding parish precepts (including base and levels growth)</i>	85.1	86.4
• <i>additional revenue from referendum principle for social care</i>	5.9	8.6
Improved Better Care Fund	7.4	7.4
New Homes Bonus	0.8	0.7
Winter Pressures Grant ¹	0.0	0.0
Social Care Support Grant ²	0.0	0.0
Social Care Grant	5.1	6.2
Lower Tier Services Grant	0.0	1.0
Core Spending Power	169.3	176.0

3. Settlement Funding Assessment (SFA)

The Settlement Funding Assessment amount consists of two funding streams – Business Rates Retention and Revenue Support Grant (RSG). The level of business rates retained has been frozen (previously this was increased in line with inflation). A compensating S31

grant will be paid to ensure this freeze is revenue neutral for councils. RSG will increase by 0.55%.

The 2021/22 SFA for Kensington and Chelsea is £62.9m and is in line with financial plans – RSG is £10.2m and Business Rates baseline is £52.7m.

4. Other Grants

Improved Better Care Fund (iBCF)

In 2020/21, the Winter Pressures grant was been rolled into the Improved Better Care Fund. The total value for 2021/22 for the iBCF is unchanged at £7.4m and is in line with financial plans.

Social Care Grant

As expected, the current social care grant will continue and an additional £300m has been confirmed nationwide. In total, the Council will receive £6.2m (up from £5.1m in 2020/21). The grant can be used to fund pressures across adults and children's services. This is in line with financial plans.

New Homes Bonus

The New Homes Bonus grant for 2021/22 will be £651,000. This is a reduction on the £783,000 received in 2020/21. This is broadly in line with previous financial plans.

Government has indicated that there will be a consultation on the New Homes Bonus scheme shortly to ensure it is effectively incentivising the creation of homes where needed most. The Council will review and respond to the consultation as appropriate.

5. Council Tax

The draft settlement included the announcement of the Council Tax Referendum threshold of 1.99% which is the same threshold as 2020/21. As expected the maximum Adult Social Care precept of 2% has been increased to 3% to fund the growing pressures in social care. This means that the Council could increase Council Tax by up to 4.99% without the need to hold a referendum. Any decision on Council Tax increases remains with Full Council.

6. Other Announcements

The ministerial statement included a number of other announcements which sit outside of the Local Government Finance Settlement and details have now either been confirmed or are expected over the next few weeks.

- COVID-19 Additional Emergency Funding

The Government has announced an additional £1.55bn of COVID funding for 2021/22. The Council's share of this has been confirmed as £5.6m and it is expected to be received in April 2021. Once received this will be transferred into the Council's reserves and will be available for use during 2021/22 for any ongoing Covid-19 pressures into the early part of 2021/22.

- Local Council Tax Support Grant

The Government has announced further funding to meet the additional costs associated with increases in local council tax support caseloads in 2021/22. The Council's allocation has been confirmed as £1.8m.

- Compensation for local tax losses in 2020/21

The Government has announced more details of its proposed scheme to compensate councils for up to 75% of their lost council tax and business rate income due to the pandemic during 2020/21. Officers are working through the details and the likely financial benefit.

The current scheme for the compensation for 75% loss of commercial fees and charges has also been extended to June 2021.

- Local Government Funding Reforms

There were no additional announcements or papers published on future planned local government funding reforms.