The Chartered Institute of
Public Finance & Accountancy

The Royal Borough of Kensington and Chelsea

External Assurance Review

October 2023

A Report by:
The Chartered Institute of Public Finance and Accountancy
October 2023

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

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1.1 Summary of Findings, Issues, Evidence and Analysis

Overall summary

The review is focussed primarily on providing assurance on the financial position of the Royal Borough of Kensington and Chelsea (RBKC) and assessing whether the council has taken appropriate steps to minimise the need for government support.

The council has taken positive steps to improve financial resilience since the initial review in 2019. The council compares well with its nearest neighbour group when it comes to debt as a percentage of income and reserves. Its capital spend as a proportion of net revenue spend has fallen consistency over the last 6 years and the council holds reserves that provide resilience in the face of increased borrowing costs and increasing service pressures. Governance and financial management arrangements are sound and medium-term financial projections are realistic and considered. The council has benefitted from consistent leadership in delivering council priorities but also specifically in respect of the Grenfell Recovery Programme. The council is in a reasonable position to meet the challenges it faces and overall and we have not identified any issues that would constitute an impediment to providing Exceptional Financial Support (EFS).

However, there are some areas where improvement is needed. Asset Management plans are still being developed along with the development of a 30-year HRA Business Plan. These are likely to bring with them further financial pressures. New governance arrangements designed to improve the operational delivery of the capital programme are still in their infancy and will be important in reviewing the priority areas for capital spend given limited resources and the increasing costs of borrowing. The council's savings programme is a significant undertaking and will need careful management given the relatively limited need to deliver savings previously. With a significant change project in the implementation of a new integrated software Enterprise Resource Planning System (ERP) system to deliver as well and ambitious Council Plan priorities, the council will have a difficult balancing act in applying its finite capacity whilst managing stakeholder expectations. The council does, however, have a sound financial base which can provide some confidence as it moves forward.

1.2 Key Risks and Recommendations

Key risk	Risk rating (see details in Annex 1)	Recommendation (including Timeline)
1. Finance business partnering is not fully developed in the council and Service budget managers are still over reliant on Finance to update and interpret their budget position.	3	The council should further develop its approach to business partnering in finance to ensure it is equipped to manage service and budget pressures. December 2024
2. Financial decisions are taken independently of risk and service performance through separate but consolidated reporting.	3	The council should maximise the opportunity through the ERP implementation to integrate risk, service, and financial reporting through dashboards to ensure resources are focussed in the right areas. On-going
3. The benefits of improved user experience and self-service through the new ERP system are not fully realised.	4	The council should ensure that the implementation plan includes a well thought out benefits realisation process during the life of the project. December 2024
4. The ability to deliver savings plans in line with the 2023/24 budget target and medium-term financial plans.	4	The council should model the potential different scenarios, beyond best and worst case, to assess the impact on its services if it does not deliver on its savings plans and the impact of different levels of council tax. This will ensure it can manage any changes through its MTFS and adjust its priorities and savings plans as necessary. November 2023
5. The council may have a different interpretation from the CIPFA Code of Practice on Local Authority Accounting and does not have all the detailed information necessary on its Housing Revenue Account (HRA) assets in the absence of componentisation accounting.	3	The council reviews the introduction of component accounting for the HRA and its interpretation of the code in consultation with its auditors and after considering materiality. March 2024

6. The Grenfell Cost Recovery Strategy to recover compensation costs does not deliver the required return to recover the payments made through the recovery plan.	3	The council continues to monitor the development cost recovery strategy and continues to work with its advisors to risk assess different scenarios and achievability. January 2024
7. The council faces challenges in balancing expectations around investment in the community, particularly through its housing investment programme, with the financial imperatives it must meet.	3	The council adopts a clear strategy to balance the need to revise and scale back some of its housing investment programme with the expectations of its communities and other stakeholders. April 2024
8. The council's reserve levels, and their purpose are not formally risk assessed or modelled formally for their appropriateness.	3	The council should develop its reserves strategy, as part of its medium-term financial strategy, to include risk modelling to ensure reserves are appropriate and proportionate to the risks facing the council. December 2023
9. The council's current capital programme to deliver its priorities is unaffordable.	4	The council should continue with its process to develop its strategic capital programme framework and its implementation to ensure the capital programme is affordable and sustainable. Ongoing

2 Introduction

2.1 Background

The Royal Borough of Kensington and Chelsea (RBKC) (The council) has asked the Department for Levelling Up, Housing and Communities (DLUHC) for Exceptional Financial Support (EFS) of £75 million. RBKC formally requested EFS in January 2023 to help cover the costs of resolving all civil claims that have been lodged for loss of life, personal injury, and other losses caused by the Grenfell Tower tragedy in June 2017. When such requests are made, under the EFS framework, DLUHC requires authorities to undergo an External Assurance Review, conducted by CIPFA as part of its wide-ranging programme of review work.

On 10 May 2023, Minister Rowley wrote to the Leader of the council, Cllr Elizabeth Campbell, to inform the council of the decision to agree in-principal support for 2022/23 and 2023/24.

CIPFA carried out a short review of the council's financial position in March 2019 on behalf of DLUHC to assess the financial position at the time in light of requests for financial support after the Grenfell tragedy. This informed DLUHC's assessment about providing further support to the council to help meet the costs of their recovery programme and Grenfell Tower site costs. DLUHC did not require the review to make cost saving recommendations. However, the review did highlight that the council needed to quickly identify and implement both efficiency and savings reductions to secure financial sustainability. For the upcoming review, we are looking to build on the review from 2019 looking at the steps the council has taken towards financial sustainability.

The Grenfell Recovery Strategy was agreed by the council in January 2019 and set out the council's plans to support a community-led recovery for the bereaved, survivors and the local community. It committed £50 million over five years to deliver a number of services and initiatives to ensure that residents have the support, skills, and new opportunities they need to help their recovery. This included dedicated support for bereaved and survivors and support to the wider community, including targeted emotional health and wellbeing services and initiatives to build on community capacity. The NHS also committed £50 million and developed its own strategy to support recovery.

2.2 Requirement

DLUHC asked CIPFA to undertake the external assurance review on which the capitalisation is conditional. They invited us to consider two key questions:

1. Is there overall assurance of the council's financial position?

2. Has the council taken all reasonable steps to minimise the need for government support?

To answer these questions, we were asked to look at the following key themes:

- *Financial management and financial sustainability:* an assessment of the council's financial management and management of risk, financial pressures, deliverability of savings plans and efficiency in delivering service,

- *Financial governance and decision making:* an assessment of a council's financial governance/management processes, leadership, operational culture, whether it has the appropriate financial governance procedures in place, and the capability and capacity to make any necessary transformation

- *Capital programme/companies:* an assessment of the council's capital programme and management of related risks including arrangements with Local Authority Owned Companies

- *Commercial assets/debt:* an assessment of the council's assets and investments including dependence on commercial income, debt costs and other risks.

2.3 Methodology

In our approach, we were mindful of the two key questions. On the review themes, we took a proportionate approach and focused particularly on:

1. Financial management and financial sustainability
2. Financial governance and decision making
3. The Grenfell Recovery programme
4. The capital programme

Companies, commercial assets, and their associated debt proved less pertinent to the specific question of the capitalisation award. They are nevertheless addressed more generally in the final sections of the report.

Our approach comprised the following elements:

Desktop analysis

DLUHC provided some appropriate background. We reviewed the material and made supplementary document requests to the council. The team has analysed around 47 documents and other artefacts that have been shared by the council as being relevant for the review. We also examined relevant comparator material. We would like to record our thanks to officers for their ready compliance with our request for reports and data.

Specialised inputs

Some comparative data analyses were conducted on issues such as revenue spend and indebtedness using CIPFA's Financial Resilience Index and the Office for Local Government. Where relevant they are included in the report.

Interviews

The bulk of the fieldwork comprised interviews. These provided the invaluable 'triangulation' of our analysis. Council officers, members, auditors, and other experts were invited to give views and respond to queries provoked by documentary evidence. We would like to thank everyone involved for their courtesy and constructiveness.

Report drafting, feedback and fact-checking

The above inputs were then analysed and subjected to our professional and expert judgement. The result is this report.

This report was fact checked as far as possible and is based on the fieldwork completed within the time frame for the review. It was not a comprehensive audit of the Council's finances. As a consequence, the conclusions do not constitute an opinion on the status of the Council's financial accounts.

CIPFA's review team consisted of two experienced consultants with relevant backgrounds in all areas of the review's scope. CIPFA would like to take this opportunity to thank the council for being so amenable and open to meeting with the review team and for the considerable effort that has been expended in collating and sharing key documents with CIPFA. We also thank everyone involved for the openness, tact, and honesty in what is a sensitive issue for the council.

3 Areas Reviewed

3.1 Review Area 1 - FINANCIAL MANAGEMENT / SUSTAINABILITY

An assessment of the Local Authority's financial management and management of risk, financial pressures, deliverability of savings plans and efficiency in delivering services.

The financial management and risk assessment processes adopted by the Local Authority and a view on their appropriateness.

Key findings and analysis

The council's self-assessment against CIPFA's Financial Management Code is a fair assessment of its position and demonstrates the council has **established arrangements and overall processes to ensure sound financial management and risk assessment processes are in place.** Some key improvements have been identified in the council's action plan which are consistent with our findings as part of the review. The council formally reviews its four-year Medium Term Financial Strategy (MTFS) on an annual basis and updates the council, as required, though its quarterly reporting against the budget and budget preparation. The latest MTFS covers 2024/25 to 2027/28.

Council members have confidence in the process and feel the revenue budget is 'fairly well run.' They do, however, highlight some improvements designed to minimise underspends and challenge savings proposals if other funds can be redirected or repurposed. The council has now adopted a new approach to address this. There is focus from the Overview and Scrutiny committee throughout the year on the council's financial position and specific scrutiny prior to budget approval. There is an established budget working group involving members and officers. Members and officers alike are aware that there are challenges, not least, some potentially 'unpalatable' decisions on the HRA due to historic underinvestment in housing stock.

The council also approved its Council Plan for four years alongside the MTFS and Budget *'to become the best council for a borough that is greener, safer and fairer.'* This alignment ensures that the MTFS reflects the financial consequences of emerging issues and demands, including Grenfell and in-year service growth and changes to funding arrangements. The council routinely assesses financial risks and articulates associated medium-term capital and revenue budget pressures in its four-year forecasts.

The Medium-Term Financial Strategy and Budget setting

Overall, the MTFS presented to Full Council on 12 July 2023 projects a developing worst case budget gap over the four years (2024/25 to 2027/28) of £42 million by 2027/28. The best case projects a deficit of £32 million by the end of 2027/28. The budget gap for 2024/25 is estimated at between £3.7 million and £4.4 million. The level of required savings is challenging but not untypical and more work needs to be done to firm up savings over the next year. This is considered later in the report. The council has undertaken some detailed modelling on the best and worst cases and has set out detailed assumptions, including the use of contingencies and the continuation of social care funding. The MTFS includes all the key elements required of a financial strategy, identifying pressures, funding changes including proposed council tax increases, savings. It also includes the reserves strategy, treasury management and borrowing and capital strategy.

The council does, however, recognise the need to develop its 30-year HRA Business Plan as part of its forthcoming budget setting process. Investment models are being explored but options are limited at the moment with work currently taking place to look at the sale of void properties and discussions with the Tenant Management Organisation. Rephasing of the capital programme and housing stock targets and specifications are also being considered.

The council does have an ambitious capital programme which they plan to fund through borrowing. This increases the projected deficit and will need careful management and most likely compromise, (a detailed review of the capital programme is included later in the report). However, the council has undertaken detailed and transparent modelling of its budget pressures, assumptions and savings plans with clear Red, Amber, Green (RAG) ratings against Directorate Savings Plans. It has also now introduced a Charging Strategy with a current assumption that fees and charges will increase by 4% from April 2024 and 2% thereafter. Income for 2023/24 is projected at £140 million and is increasingly important in offsetting spending pressures. Modelling on the impact of any increases will be important throughout the year to ensure they deliver against target.

One key assumption is that council tax levels will increase by 1% with a 2% increase for Adult Social Care, 3% overall. This is below the current 5% threshold set by legislation. Discussions as part of our review demonstrated the political leadership of the council were very mindful of the pressures on the community and the sensitivities of the Grenfell tragedy when developing its council Plan and supporting MTFS. We do, however, understand that members are looking at the options around maximising council tax income as part of the forthcoming budget process.

Financial Management

The council has assessed itself against the CIPFA Financial Management Code and has not identified any material weaknesses. This is also reflected in the Annual Governance Statement. Our review confirms the self-assessment is a fair assessment of the arrangements in place. Areas for improvement are identified, however, and they are monitored through an action plan and reported through to the Audit and Transparency Committee. The specific areas are:

- Using an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions
- The development of finance business partnering
- Extension of the medium-term financial planning horizon to 5 years for revenue forecasts and 10 years for capital to improve financial resilience assessments; and
- A new approach to the governance and management of the Capital Programme

These identified improvements are considered, where required, in the relevant section of the report. We do, however, also identify some further areas that the council should consider.

Financial, risk and performance information is regularly reviewed and separate reports are produced by the finance and strategy teams. The information is comprehensive but if the reporting was fully integrated through service and financial planning reports this could help the council and the Leadership to fully assess and understand the implications of service and spending trends and also support the focus on business partnering. The implementation of a new ERP system across the council might provide a further opportunity to do that, (the ERP system implementation is also considered later in the report).

When setting the budget, Section 25 of the Local Government Finance Act 2003 requires the Executive Director of Resources (Section 151 Officer) to report to members on the robustness of budget estimates and the adequacy of proposed financial reserves. Our review confirms that the MTFS and Budget setting report is consistent with the judgement that assumptions and levels of reserves are appropriate. We do, however, make recommendations in respect of the reserves strategy to improve transparency and alignment to risks later in the report.

Risk Management

The council has a comprehensive Risk Management approach which is also included in the MTFS and a key part of its decision making. Management of Risk is taken seriously at Director level and there is bi-monthly officer scrutiny at the Risk and Control Board, and it is considered routinely at the Audit and Transparency Committee. Local financial risks including recovery from the Grenfell tragedy and balancing the budget and wider sector risks such as social care pressure are clearly referenced. All specific financial risks are not included in the Budget report as a clear appendix but integrated throughout the strategy itself. Links are also made to contingency planning and the council's Reserves Strategy.

The Reserves Strategy

The council has improved its process designed to manage its reserves. The council recognises the need to hold a prudent level of reserves and maintains a General Fund balance of £10 million which it considers to be a minimum requirement. The council is forecasting to maintain this balance over the next 5 years. Total reserves stood at £196 million at 31 March 2022, decreasing to £150 million at the end of March 2023. The plan to increase its reserves is prudent in light of the pressures highlighted in the report and this is considered further in the report The council has tightened up its approach to ensure that reserves are only drawn down where there are no available underspends, and the contingency budget is not available. The council is clear that the use of reserves is not a sustainable approach to address structural budget issues but will probably be needed to offset short-term pressures and one-off costs. This is sensible and fits with the prudent approach referred to in the MTFS. The Council has agreed that reserves will also be monitored more closely in ongoing reports to the Leadership team (the Executive) which includes lead members and officers. Further comparison on reserves relative to other comparable councils is included later in the report along with some further things for the Council to consider.

In terms of the financial position at the end of 2022/23, the outturn report, overall, shows a resilient position in the short term. This is summarised below.

Revenue Budget Outturn 2022/23

The overall position on the general fund revenue budget before any transfers to reserves is an underspend of £10.236 million. Of this position, there is an underspend of £3.315 million against service budgets arising from a combination of service expenditure being lower than budgeted and income being higher. The council reported that this element of the underspend was not anticipated when the budget was set, and it compares favourably with the forecast service underspend of £2.315 million reported at quarter 3. The council is currently managing within budget for social care services but experiencing overspends in housing services. Contingency funds are held by the council to manage the impact of unforeseen circumstances. In 2022/23 there is an underspend of £5.359 million against this budget as funds have not been fully utilised, as had also been the case in previous years. As a result of previous underutilisation, the budget for 2023/24 was reduced to £3.7 million and the council, through interviews and an updated approach to its savings programme, have highlighted that this will be kept under review throughout the year. The underspend of £5.359 million has been transferred to a Contingency Reserve for use in future years.

General Fund Capital Programme 2022/23

The overall position on the general fund capital programme is an underspend of £20.162 million against the revised budget of £96.332 million which reflects significant slippage on schemes. This is considered further in the Capital Programme Section of the report.

Housing Revenue Account (HRA) Revenue Position 2022/23

The end of year position on the Housing Revenue Account (HRA) based on total expenditure of £55.743 million, and total income of £63.085 million achieved primarily through dwelling rents and service charges to tenants and leaseholders is an in-year underspend of £7.342 million. This underspend will be used to enable investment in HRA properties by funding part of the HRA capital programme expenditure.

Housing Revenue Account (HRA) Capital Position

The overall position on the Housing Revenue Account capital programme is an underspend of £5.043 million against a revised budget of £64.782 million.

Risks

1. Finance business partnering is not fully developed in the council and Service budget managers are still over reliant on Finance to update and interpret their budget position.

2. Financial decisions are taken independently of risk and service performance through separate but consolidated reporting.

Recommendations

1. The council should further develop its approach to business partnering in finance to ensure it is equipped to manage service and budget pressures

2. The council should maximise the opportunity through the ERP implementation to integrate risk, service, and financial reporting through dashboards to ensure resources are focussed in the right areas

The Local Authority's capability and capacity to drive any changes that need to be made in this area.

Key findings and analysis

There are experienced finance staff at middle management levels and in key specialist roles such as HRA accounting, although the council does make use of interim staff and it is important that they consider appropriate succession plans and continued capability assessments to identify any skills gaps. The finance team's capacity was increased in October 2022 to develop in year reporting to provide a clearer focus on the MTFS. There was also an increased focus on managing the capital programme due to concerns about slippage with specific support for the capital programme. **There is experience in the capital accounting team** who work closely with the financial management and strategy teams and project managers within Directorates are also in close contact. There is an acceptance, however, that business partnering is underdeveloped, and plans are being developed to address that.

Budget holders meet monthly with the business partners and management accountants, but the council recognises it can do more to develop understanding and ownership amongst budget holders and has specific improvement actions to develop that, identified earlier. The council draws on specific specialist advice from Arlingclose in respect of treasury management and prudential code requirements, LG Futures for funding formula scenarios and benchmarking. Tri-borough arrangements for treasury management and pensions also provide resilience and the finance team keep up to date with developments on the prudential code and relevant CIPFA guidance through Deputy S151 meetings across the London boroughs.

Implementation of a new Enterprise Resource Planning (ERP) system

Another key priority over the next year is the implementation of a new ERP solution. A detailed business case was presented to the Leadership team on 15 February 2023 to approve the replacement of the current system which falls out of standard support from the current software provider in 2027. This will involve minimum costs, including implementation costs, over a 10-year period of between £35.5 million and £42.5 million. Sponsors, Leadership team and Senior Responsible officers are set out as part of the proposed governance structures. Risks have been identified along with key success criteria. Given the complexity of the implementation and inherent risk associated with ICT implementations such as this, it is vital that the governance and cost control arrangements are tight and the MTFS is continually updated to reflect cost profiles. Support and buy in for the implementation across the council will be key. Careful prioritisation and allocation of resources will be essential in delivering this against the other priorities under the Grenfell Recovery Strategy, review of the capital programme, HRA and savings plans. The council is currently undertaking site visits to gather learning from other implementations including at Norfolk, Barnet and Hillingdon and the ability to improve user experience and develop self-service needs a well thought out benefits realisation review process during the life of the project.

Risks

3. The benefits of improved user experience and self-service through the new ERP system are not fully realised.

Recommendations

3. The council should ensure that the implementation plan includes a well thought out benefits realisation process during the life of the project.

An assessment of the Local Authority's savings plans including their deliverability and appropriateness.

Key findings and analysis

Work is ongoing to formally develop the council's programme management approach to identifying and deliver future savings and reinforce accountability at Director level. Lead Members have a good grasp of the challenges, but the council is still working through how it balances its needs for savings with meeting some of its ambitious council plan priorities. The council has not had to develop a savings programme in this way in the past and will need to quickly demonstrate it can formalise and deliver its savings plans. The council does recognise this and the need to keep this under close scrutiny.

A target has been set to take 2% out of staffing budgets in 2024/25 and vacancies are being held where appropriate. The Leadership Team consisting of lead officers and members have confidence that this can be achieved. Members have a focus on driving down agency costs, but this is challenging and probably unachievable at the moment in a difficult recruitment market. Contingencies are being applied to meet pressures ahead of increasing budgets or to meet savings that have not been delivered given historic underspends.

Achievable savings in 2022/23 and 2023/24

The latest position reported to the council on 27 September 2023 is a forecast overspend of £5.1 million against a revised net budget of £181.846 million. The overall position incudes a forecast overspend of £3.926 million across service budgets made up of £3.163 million cost pressures in Housing arising largely from temporary accommodation and the ongoing use of commercial hotels to meet demand; £0.257 million pressures in Resources and Customer Delivery due to contract costs associated with the new sovereign IT service; and £0.506 million pressures in Environment and Communities, where the £2.267 million Parking Services overspend is offset by an overachievement of income across Cleaner, Greener and Cultural Service, and Transport and Regulatory Services. Further pressures of £1.198 million on Treasury interest budgets driven by lower cash balances and the higher interest rate environment increasing the costs of any new borrowing during 2023/24 - a position that will become clearer as the year progresses – account for the difference.

The General Fund budget includes total savings of £11.851 million. Of this, £1.344 million are savings agreed as part of previous budget setting processes for delivery this year and £10.507 million have been agreed as part of the 2023/24 MTFS. A summary of the Q1 savings forecast by directorate is set out below in Figure 1 below. The reported position at Q1 includes £9.853 million of savings that are considered achievable this year, and pressures of £1.998 million where savings are deemed unachievable in respect of the specific themes agreed. This position is reflected in the Q1 forecast overspend of £5.124 million.

Figure 1. Quarter 1 2023/24 Savings

Directorate	Savings Pre-2023/24 £'000	Savings 2023/24 MTFS £'000	Savings Total 2023/24 £'000	Savings Achievable 2023/24 £'000	Savings Unach-ievable 2023/24 £'000
Adult Social Care	0	(2,312)	(2,312)	(2,312)	0
Children's Services	(320)	(1,226)	(1,546)	(1,146)	400
Environment and Communities	(149)	(3,772)	(3,921)	(3,064)	857
Housing and Social Investment	(675)	(1,371)	(2,046)	(1,305)	741
Resources and Customer Delivery	(200)	(1,643)	(1,843)	(1,843)	0
Chief Executive	0	(183)	(183)	(183)	0
Grand Total	**(1,344)**	**(10,507)**	**(11,851)**	**(9,853)**	**1,998**

Medium term savings plans and savings programme

The savings strategy included in the MTFS for 2024-2027 identifies all the future savings that are currently agreed. These previously agreed savings are not significant enough to meet the projected deficit and the council has now developed further savings proposals by Directorate and through its overall programme for the next four years from 2024/25 through its leadership team away days. The approach to manage the programme and the areas for review have been identified and included in the MTFS. This is set out below.

The council has recognised the importance of a coordinated and programme focussed approach to delivering its financial savings but also maintaining or improving outcomes for its communities. This is challenging and managing the community and political expectations is going to be difficult. The newly introduced corporate change programme with a dedicated Programme Management Office function and the Head of Strategy will be key to this.

It is approaching this through a twin track approach:

1. A corporate change programme has been developed to support the implementation of the cross-cutting commitments in the new council Plan and delivery of the MTFS. This programme is designed to be about more than savings and 'doing more with less' but also how the council will work towards becoming the 'best council,' whilst at the same time doing this in a more efficient way to maximise the financial benefit of this transformation. This is ambitious and the council may need to assess where it will compromise and determine criteria it might need to apply to do this.

2. Services have themselves been working with the council's financial management division to propose and implement their own savings which will then be supported corporately as well.

These approaches are proposed to include:

- Reviewing how services are delivered to ensure outcomes are achieved in the most cost-efficient manner, including through the corporate change programme detailed below and new operating models.

- Identifying opportunities to achieve the same outcomes but for less.

- Aligning spending plans to the priorities in the new Council Plan and which is expected to increase spend in some areas but reduce by more spend in non-priority areas.

- Reviewing internal resources and processes to ensure good value for money.

- Maximising opportunities to generate income.

The council states that the *'Corporate Change Programme will look to focus on those areas that are: - Explicitly linked to the commitments in the council Plan - Cross-cutting council activity - Significantly impact on improving resident experience.'* It will be important to see the detail which is due to be presented to the leadership team as part of the November 2023 budget proposals. There is Corporate Change Board with PMO support with responsibility for overseeing the change programme.

Figures developed so far include minimum and maximum savings potential by directorate, but it is too early to say whether these are deliverable and appropriate until the council formally approves them and can demonstrate they are properly resourced. This more detailed work is now taking place as part of the wider programme management.

The continued modelling and risk assessment of achievability of the savings plans will be essential, in particular, how quickly they can be enacted if the council is to achieve its savings targets, let alone its ambition of maintaining or improving its services. It will also determine whether the council can stick to its position of only applying reserves to fund one off cost and short-term pressures. The latest reserve position and 2022/23 outturn does provide the council with some resilience but the ability to apply reserves to meet new one-off pressures and meet any increased borrowing costs is likely to be more limited in the future.

Risks

4. The ability to deliver savings plans in line with the 2023/24 budget target and medium-term financial plans.

Recommendations

4. The council should model the potential different scenarios, beyond best and worst case, to assess the impact on its services if it does not deliver on its savings plans and the impact of different levels of council tax. This will ensure it can manage any changes through its MTFS and adjust its priorities and savings plans, as necessary.

Compliance with Local Government accounting codes and international financial reporting standards

Key findings and analysis

The council understands the requirements set out in the Local Authority accounting codes and international financial reporting standards.

Review of the draft statements for 2022/23, discussions with external audit, review of internal audit reports and meetings with the council did not identify any areas of non-compliance with accounting codes and international financial reporting standards. The Annual Governance Statement (AGS) that the council has produced, and its code of Corporate Governance is consistent with the principles of the CIPFA and SoLACE framework: Delivering Good Governance in Local Government.

However, the application of component accounting was discussed as part of the interviews, specifically in respect of the HRA. The council has an accounting policy for componentisation which appears, in spirit, to match that of the CIPFA Code of Practice on Local Authority Accounting although the draft accounts refer to “recognising component parts of a material asset” rather than the Code’s “a cost that is significant in relation to the total cost of the item” regarding what will be considered for componentisation. This is a subtle distinction, but it may be appropriate for the council to re-consider their accounting policy against the definition in the Code of Practice. The council is aware of this in respect of the HRA and is planning to improve its process to capture this information. Some of these elements may be material not only to accounting in this area but also developing the detailed capital programme going forward[1].

Risks

5. The council may have a different interpretation from the CIPFA Code of Practice on Local Authority Accounting and does not have all the detailed information necessary on its Housing Revenue Account (HRA) assets in the absence of componentisation accounting.

Recommendations

[1] Note 24 to the draft 2022-23 financial statements.

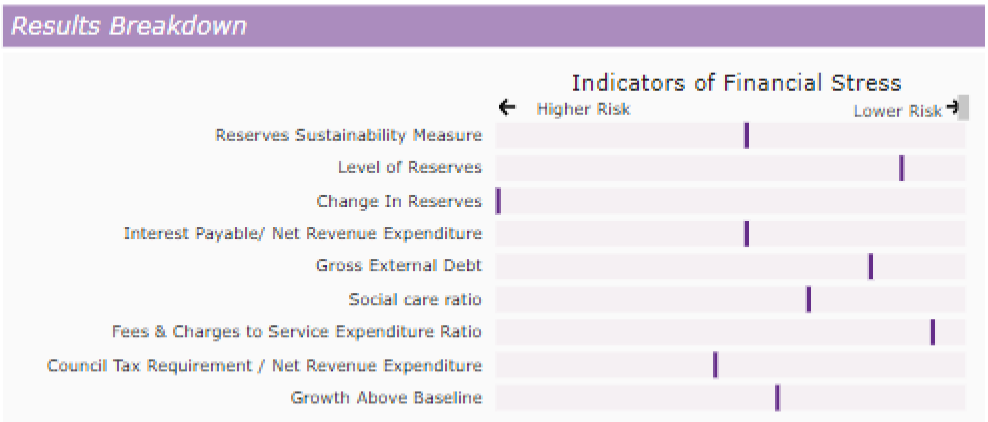
5. The council reviews the introduction of component accounting for the HRA and its interpretation of the code in consultation with its auditors and after considering materiality.

The efficiency of service delivery, including against comparator Local Authorities, sector metrics and wider public sector metrics.

Key findings and analysis

In assessing the efficiency of service delivery, including against other councils, we have used benchmarking information derived from CIPFA statistics and the Financial Resilience Index (FRI). Some of the data should be treated with caution and there will probably be particular circumstances relevant to the council, including the impact of the Grenfell Recovery Programme, that need to be considered. However, these may warrant further investigation by the council. Figure 2 shows a high-level summary of the position, using the resilience index and appropriate analysis follows for other indicators. It uses nearest neighbour analysis where appropriate[2].

Figure 2. CIPFA Financial Resilience Index - Financial stress indicators



Net revenue and service expenditure

- Per head, Kensington and Chelsea's total service expenditure is slightly above the 75th percentile among its nearest neighbours, indicating that it is spending more per resident than the majority of similar London Boroughs. Moreover, it is approximately 27% higher than the group average in this regard.

- Except for Education Services, Kensington and Chelsea spend more per head than its nearest neighbours in all service areas.

- When combined, Education Services and Adult and Children's Social Care account for 57% of the authority's total service expenditure.

Financial Resilience Indicators

- Over the last 3 years, Kensington and Chelsea's reserves have grown by less than 1%, this ranks as the lowest in the group, the median change is 59%. It is this

[2] The nearest neighbour analysis features 40 metrics that use a wide range of social-economic indicators. The tool is designed to interpret results and assess how the statistical distance between other authorities arises. It allows authorities to see how the statistical relationship between a council and its statistical relevant neighbours has changed

Change in Reserves indicator that the index shows as the authority's least resilient area relative to the others.

- That said, in 2021/22 Kensington and Chelsea had the third highest ratio of reserves to net revenue expenditure when compared to its nearest neighbours, at 85%.

- In all other indicators, the council is shown to be in the middle or at lower potential risk. It has the second highest fees and charges to service expenditure ratio, which suggests its capacity to ensure budget flexibility is higher than some London Boroughs.

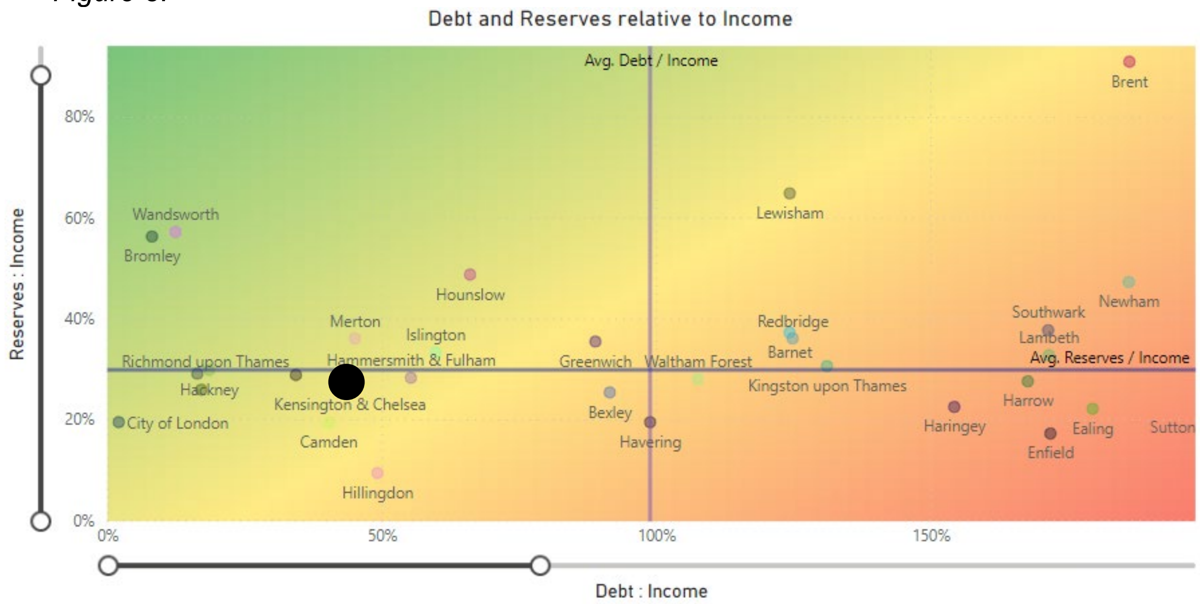
- Taken together, Kensington and Chelsea's average ranking amongst its nearest neighbours across all primary indicators in CIPFA's Financial Resilience Index places it in the top 5 which indicates good performance in the majority of the of the areas scrutinised.

Debt, Borrowing and Capital Expenditure:

- Kensington & Chelsea hold external debt just under the average of its nearest neighbours and only two of its nearest neighbours hold less.

- This results in a relatively low debt: income ratio of 43%, which places it in the bottom quartile of all London Boroughs. On the other hand, it is reserves to income ratio of 26% is under the group average. This is illustrated in figure 3 below.

Figure 3.



- Kensington and Chelsea's capital expenditure to net revenue expenditure has fallen consistently over the last six years from 73% to 30% in 2021/22. As such, it has gone from having the highest ratio to being in line with the median authority and shows an improvement in financial resilience since the review in 2019.

- Despite the fact it is prudential borrowing to provision for repayment has steadily decreased since 2016/17, at 28%, amongst its nearest neighbours only Sutton has a higher ratio. While this suggests the council's borrowing activity is relatively high compared to its repayment obligations, this should be considered alongside the low level of debt it holds.

It is important to consider this material in the context of the council's wider performance, service effectiveness, inspection ratings and its established medium term financial strategy. The council has identified the need to demonstrate further benchmarking of performance in its assessment against the financial management code. The council may want to consider how it uses some of this comparative information to inform future budget reports and savings opportunities, including 'what if?' modelling in key service areas. Further analysis is also available in published CIPFA Value for Money (VFM) toolkits.

Overall assessment

The analysis does not indicate immediate areas of concern. It does however confirm the need to maintain a close eye on reserve levels given the significant reduction in reserves in 2021/22 but also higher than average overall balances. Levels of borrowing also remain relatively high. However, the council was able to contribute £10.236 million back to reserves through underspends in 2022/23.

An assessment of the position on and any risks related to the Grenfell costs that are driving the Local Authority's request for EFS.

Key findings and analysis

The council's request for capitalisation is for up to £75 million. The purpose is to enable the council to pay its share of the civil compensation claims due to the bereaved, survivors and first responders of the Grenfell Tower tragedy and associated legal costs.

Our review of the compensation assessment indicates that the £75 million is reasonable based on the modelling and advice received and the risks associated with the process. Over two thirds of the cost has already been incurred and the remainder covers compensation and compensation uncertainties with the upper and lower range of the uncertainty coming in at less than 10% of remaining potential compensation. We are acutely aware of the sensitivities due to ongoing negotiations and for that reason, are careful what is disclosed in the report.

The council's most recent VFM opinion (Figure 4) issued by the external auditors Grant Thornton on 23 June 2023 showed the council had made good progress in responding to previous recommendations made in previous qualified VFM audit opinions. This is, however, based on an historic position.

Figure 4.

2019/20

All prior year issues that were observed as being addressed in 2018/19 have continued remain appropriate in 2019/20. In addition, the Council has taken further actions to respond to each of the prior year challenges and this has resulted in 9 of the 12 prior year failing considered to be addressed. On balance this suggests that majority of the issues raised in prior years have been responded to and of those which are not considered addressed in full, this is due to the nature of the arrangements with the completion of the door replacement programme spanning multiple years but seen to be progressing in the 2019/20 year. On balance, however, we would suggest the Council's response suggests that the risk in relation to the Grenfell response that we identified has been appropriately addressed in 2019/20.

Therefore, taking all the above aspects into consideration we have concluded that:

- **in 2019/20 the Council made proper arrangements to ensure it took properly informed decisions and properly deployed resources to achieve planned and sustainable outcomes for taxpayers and local people, 'except for' the fact that the fire door replacement programme to ensure fire doors are fit for purpose across the estate remains ongoing and therefore these specific arrangements cannot be concluded upon as effective in achieving value for money. The 'except for conclusion' has been made in relation to the sub-criteria of sustainable resource deployment as a result of the incomplete nature of the replacement programme meaning that arrangements to manage and utilise assets to support the delivery of strategic priorities were ineffective (sub-criteria 2, sustainable resource deployment – Appendix A)**

It has been noted that, due to the scope of our work, we have focused on reviewing the Council's response to specific failings leading to prior years qualified opinion but have observed a much more extensive response by the Council, with comprehensive arrangements and processes being put in place across multiple teams in addition to those noted in our work. Further improvements have also been noted in subsequent years (2020/21 to 2022/23 to date); however, these have not formed part of the scope of our work focused on specific financial years. These are reported to the public enquiry, which is ongoing, and the Council continues to co-operate with, and demonstrate a continuous commitment and effort by the Council to improve arrangements and processes for the benefit of their residents on an ongoing basis.

The council has longstanding and comprehensive governance structures to manage costs and risks associated with Grenfell. These were established in 2020 by the Monitoring Officer. Risks associated with the Grenfell programme, including the cost recovery strategy, are considered regularly though the Risk Control Board which meets every 2 months, the Grenfell Strategic Planning Group, the Grenfell Assurance Board and also Extended Management Team. It forms a standing agenda item at leadership team meetings. The council has also produced its Annual Impact report which has been reviewed by the Overview and Scrutiny Committee as well as Internal and External Audit. The council has also mapped where audit and scrutiny activity has taken place across the council.

The council continues to receive extensive and specialist legal advice and support to assess the risks and costs associated with Grenfell Recovery Programme and costs are known and verified on a continuing basis. Costs draughtman check on claims including interim claims to ensure they are proportionate and accurate through independent legal support using established costs shares based on the overall Grenfell settlement approach. The council has a clear legal strategy with the Head of Insurance and the Solicitor and Monitoring Officer tracking claims on a weekly basis, with weekly meetings with the Director of Grenfell Partnerships who has been in post since the disaster. The council is pursuing an alternative dispute resolution process (ADR), comparable to a court settlement based on advice. This is considered by the council to be the appropriate approach to adopt to deliver value for money to the public and the council believes, based on extensive advice, that it has a reasonable chance of settling in line with the request for EFS.

The council is reporting a balanced position on legal and corporate costs against budget at the moment in the Q1 budget monitoring report at £1.593 million. These costs are tracked and reported formally monthly through the Head of Legal Services and Monitoring Officer and the Head of Insurance. The Grenfell Corporate budget is used to fund costs including the legal support for the public and criminal inquiries, and insurance costs such as those relating to the civil claim, and expenditure is expected to remain within budget.

There are sensitivities in respect of covering any costs of compensation through council tax rises. As mentioned above, the request for EFS recognises that the use of capital receipts and borrowing, supported by the EFS, will avert the need for the council to increase council tax to cover compensation payments or revisit other priorities to meet compensation payments. There is, however, a wider debate that the council needs to have on its approach to council tax given some of the financial challenges it has highlighted in the future in its MTFS.

The council has modelled the different scenarios to fund the compensation prior to making a request for capitalisation support, including the use of reserves but after considering its reserves strategy and wider medium term financial strategy, concluded that there were potential risks with the council's financial sustainability in applying reserves to compensation payments. The ability to look to fund the costs without the need for EFS is considered later in the report.

Risks

None identified.

Recommendations

None identified.

An assessment of the Local Authority's overall strategy for managing these costs, including the proposed use of capitalisation funded by additional borrowing.

Key findings and analysis

In developing the strategy for managing the costs highlighted above, the council has articulated its clear commitment to delivering the Grenfell recovery strategy and undertaken risk assessment and sensitivity assessment to arrive at the request for EFS. The council has extensive checks and balances in place. It has confidence in its cost assessments but is alive to the risks associated with such a complex and protracted process. It has drawn a clear distinction between the compensation process and its proposed approach to cost recovery and there is a consistent focus through our interviews on dealing with the claims and then publishing the cost recovery strategy with an aim of being able to repay any borrowing in the short term (2-3 years). The council has clearly identified that they are expecting to recover a share of these costs back from other defendants based on legal advice and modelling. This appears reasonable based on discussions with those close to the case. It identifies this approach as the most appropriate way to manage 'cashflow' requirements that will be bought about by the eventual settlement. It has also identified the impact of the request on its borrowing position (considered further on in the report).

The council is sensitive to the timing of cost recovery actions with the impending public enquiry and public perception. However, it is important that any decisions on future housing investment, in particular, the need to restrict future investment are carefully considered in this context. As highlighted earlier, there is a potential tension between ambitious council Plan priorities and projected future financial deficits.

Modelling and strategy

A review of reserves at the end of the financial year 2022/23 indicates that £74.1 million (or 53%) of their total usable earmarked reserves of £140.4 million are potentially available to contribute to mitigate risks although it is understood that at least £24.8 million of this has been committed after the year end.

The council is also reviewing its capital programme which may free up earmarked reserves although the council still needs to develop its asset management strategy and undertaking a stock condition survey (due to report in approximately April 2024) which will be key to determining what reserves are needed to support the capital programme going forward. This also creates doubt on the ability to realise capital receipts through disposals in the absence of appropriate plans. Having considered all of this, the council should develop its reserves strategy further to fully risk assess what an appropriate level of reserves is based not only on the risks from the Grenfell Recovery Programme but also wider risks and priorities the council is facing and the savings it needs to make. In the absence of this further formal review, it is difficult to be conclusive on whether further reserves could be applied to meet remaining compensation costs. This is considered further later in the report.

Having said that, the current level of reserves are held in light of the fact the council is anticipating a developing worst case budget gap over the four years (2024/25 to 2027/28) of £42 million by 2027/28 and the significant costs placed on the council through the compensation scheme.

Our earlier financial resilience analysis recognises the recent draw down on reserves, relative to comparable authorities. There may also be risks to the wider Grenfell Recovery Strategy sustainability if this reserve (£13.5 million) would need to be drawn on too to meet settlement costs. and propose to repay all the borrowing for the compensation from these reimbursed costs.

The council has significantly lower rates of Council Tax by comparison with other local comparable authorities. There is a potential challenge back to the council that if it knew compensation was due, it should have made adequate provision in the intervening years to ensure an EFS was not required. Although reserves could have been redirected to meet the liabilities, compensations payments were not really planned for at the time because it was expected that 3rd party payments, for example, from Grenfell building contractors would come through more quickly than they have. There may be a risk that agreeing to the EFS could be perceived as a reward for failure to provide adequately for compensation payments given the uncertainty over the time that the inquiry would take. However, the councils approach detailed above appears reasonable.

After careful consideration, we do consider that the overall strategy is reasonable and carefully considered and that the council would be left with little, if any, reserve flexibility, if they were to not receive the EFS.

Risks

6. The Cost Recovery Strategy does not deliver the required return to recover the payments made through the recovery plan.

7. The council faces challenges in balancing expectations around investment in the community, particularly through its housing investment programme, with the financial imperatives it must meet.

Recommendations

6. The council continues to monitor the development cost recovery strategy and continues to work with its advisors to risk assess different scenarios and achievability.

7. The council adopts a clear strategy to balance the need to revise and scale back some of its housing investment programme with the expectations of its communities and other stakeholders.

The ability of the Local Authority to meet pressures through its own resources and thus minimise the need to borrowing including appropriate use of reserves and service efficiencies.

Key findings and analysis

The council has forecast that over the period 2024/25 to 2027/28 there could be a £42 million budget gap in the worst-case scenario and a £32.3million budget gap in the best-case scenario. The difference is largely being due to whether social care grants confirmed until the end of 2025 are continued. There are, however, increasing pressures in respect of temporary housing and the sustainability of the HRA that the council needs to try to mitigate. In 2022/23 there was an underspend of £10.2 million against budget largely due to recovery of income streams following Covid £3.3 million with the balance of £6.9 million due to underspends on central budgets held to deal with in-year risks and unforeseen pressures. However, as highlighted earlier, the council is forecasting an overspend of £5.1 million against a revised net budget of £181.846 million. The overall position incudes a forecast overspend of £3.926 million across service budgets.

This line of enquiry has been considered in more detail under the assessment of the position on and risks around Grenfell costs and the overall strategy for managing the costs. The assessment earlier in the report of proposed savings plans also impacts on the decision on the extent of borrowing required. The council still has significant reserves that could potentially be applied to minimise borrowing and to meet its projected capital programme of £579 million from 2025/26. However, the absence of an asset management strategy and stock condition survey along with a full risk assessment and modelling of scenarios on reserves creates an incomplete picture. With projected budget deficits in the future the council still has pressures to deal with which limit its ability to use its own resources to meet the legal costs of Grenfell. It is important, as highlighted earlier, that is considers its position on Council Tax as part of its strategy in the future, accepting the sensitive situation and the commitments it has made in its council Plan.

Our review shows that the council has appropriately **considered its own resources to minimise the need for borrowing** but does suggest that it needs to deliver its savings programme to meet other pressures, review its capital programme against key priorities, consider its position on council tax and thoroughly risk assess its reserves. This includes the potential use of reserves to balance the budget in 2023/24 and help smooth savings plan delivery. On balance, the anticipated short-term pressure bought about by meeting the projected legal settlement does restrict the ability to use its own resources.

Risks

8. The council’s reserve levels, and their purpose are not formally risk assessed or modelled formally for their appropriateness.

Recommendations

8. The council should develop its reserves strategy, as part of its medium-term financial strategy, to include risk modelling to ensure reserves are appropriate and proportionate to the risks facing the council.

An overall judgement on the Local Authority's approach to financial management and future sustainability taking into consideration all aspects of the local authority's key financial responsibilities e.g., revenue budget, capital programme, Housing Revenue Account etc.

The analysis does not indicate immediate cause for concern. It does, however, confirm the need to review the future capital programme for affordability, deliver on challenging savings plans, develop the 30-year HRA Business Plan, conduct a thorough risk assessment of its reserves and consider its historic approach to low council tax levels. The council may want to consider how it uses some of this comparative information to inform future budget reports and savings opportunities, including 'what if?' modelling in key service areas.

The councils MTFS, budget reports, (confirmed through supporting interviews), show the council has considered its available resources to minimise the need for borrowing or additional financial support. This includes the use of reserves to help balance the budget in 2023/24 but with significant financial challenges ahead, any further application of reserves in place of EFS could create challenges for the council.

The council understands the requirements of the local government accounting codes and international financial reporting standards. We do recommend, however, that the council reviews the introduction of component accounting for the HRA and its interpretation of the code in consultation with its auditors and after considering materiality.

No concerns have been raised by the external auditors in their most recent reports or conversations as part of the review.

3.2 Review Area 2: DECISION MAKING

An assessment of the council's financial governance / management processes, leadership, operational culture, whether it has the appropriate financial governance procedures in place, and the capability and capacity to make any necessary transformation including:

The adequacy of the Local Authority's internal processes and sense of strategic vision and direction.

Key findings and analysis

The council has an established internal process for ensuring its financial plans align to the strategic vison and direction. This is all clearly set out in the council's constitution which is updated annually. There is a stable political and leadership position, many of whom have seen the council through the challenges it faced through Grenfell and the appointment of the new Chief Executive, previously a member of the Grenfell Enquiry team, provides continuity, challenge and appropriate balance to priorities and direction.

Full council, the Leadership Team ('the council's 'Executive'), supporting committees and also scrutiny arrangements are all embedded. The Council Leader, Finance Portfolio lead and the Audit and Transparency Committee have an appropriate focus on finance and governance, supported by a formal scrutiny process. Scrutiny undertakes focused 'Deep Dive' reviews. An ethics panel is in place with a statutory independent person.

Full Council focuses on priority issues for the community. The Leadership Team is responsible for significant, policy, financial and service decisions. It is made up of no more than ten councillors with the leader and up to nine other lead members. Project champions work in support, made up of non-executive councillors and there are also executive advisory forums. Six of the nine members sit on the Grenfell Recovery Board as well as the Leadership team.

The alignment of the council Plan with the MTFS is important and ensures council ambitions are not considered without due regard to the financial implications. The impending move to five-year planning horizons for the council's revenue expenditure and ten years for its capital programme also allow for strategic vision and direction, accepting the current challenges with short term settlements announcements.

The councils budget setting timetable (Figure 5) is set out clearly and included below.

Figure 5.

Action	Meeting	Date
To discuss MTFS being presented at 12th July Leadership Team	Overview and Scrutiny Committee	5 July 2023
Medium Term Financial Strategy (including Capital Strategy)	Leadership Team	12 July 2023
Update on Financial Plans (including draft proposals for budget reductions and capital investment)	Leadership Team	8 November 2023
Consultation on draft budget proposals and capital investment launched		9 Nov 2023 to 21 Dec 2023
Update on Financial Plans (including consultation on draft proposals for budget reductions and capital investment)	Overview and Scrutiny Committee	15 Nov 2023
Update on Financial Plans including fees and charges (update on new savings if required to balance the budget, update on Government Funding)	Leadership Team	6 Dec 2023
Update on Financial Plans (including Council Tax base and Government funding)	Leadership Team	17 Jan 2024
Draft budget for 2024/25	Overview and Scrutiny Committee	29 Jan 2024
Draft Budget for 2024/25 and Council Tax levels	Leadership Team	7 Feb 2024
Agree Budget for 2024/25 and Council Tax levels	Council	28 Feb 2024

Key decision templates are in place for committee decisions and agenda planning and pre agenda support has been improved. Fortnightly meetings are in place with representatives from departments and the leadership team, including members, to develop forward plans across the council and for committees which include financial potential financial issues and implications. Joint leadership team members also meet fortnightly on an informal basis with the statutory officers and Directors.

The Extended Management Team (EMT) have oversight of risk management, performance and finance on a bimonthly basis and Directorates own the service delivery model and depts provide the control. The Grenfell directorate also now feeds into the wider strategy delivery. The wider strategic vision is considered later in the report.

The Local Authority's capacity and capability to improve and transform, including through acknowledgement of problems, openness, and collaboration with sector support.

Key findings and analysis

In common with many authorities, the council faces challenges around capacity and capability but there is no indication that these yet affect financial management processes and leadership. There are some significant change projects in train with the ERP implementation, review of the capital programme, development of a cross cutting savings programme and the development of an Asset Management Plan and updated HRA Business Plans. The council acknowledges these challenges and understands that it might need wider help to address them.

The bi-borough arrangements provide resilience for legal services with a shared Director of Legal Services and solicitors given difficulties in attracting and retaining appropriately skilled and qualified legal support. The London Borough's legal alliance provides a framework of solicitors to draw on and these arrangements help to mitigate some of the challenges in recruiting to key legal posts experienced across the sector. This capacity and consistency is key in delivering the Grenfell Recovery Strategy and interviews with individuals supporting the Grenfell Recovery Strategy were attracted to the council through their desire and commitment to help address the problems and support the communities affected.

Member understanding, particularly with the Leader of the council and the portfolio lead for Finance and Customer Delivery, is good. Member training is comprehensive covering all aspects of the councillor role. Formal inductions are in place, briefings on finance are held on a regular basis and specialist HRA consultants are available to provide advice.

The council is open to collaboration. Tri and Borough arrangements (referred to earlier) provide resilience, but the council recognises that it needs to keep them under review to ensure they still deliver VFM for the council. There are key relationships with the non-governmental sector (NGS) and the council is focussed on working with the NHS on mental health support particularly. The council, however, does identify specific challenges in working with the NHS around hospital discharge and wider health prevention work. The Grenfell Housing Management team and Housing Needs team are working with the displaced and based on feedback. strong relationships are in place with healthy challenge. The council has developed partnerships with over 100 local organisations through its Grenfell recovery programme and in its latest impact report for 2023 have highlighted key outcomes including:

- 736 bereaved and survivors accessing the Dedicated Service by December 2022.
- 66 per cent of survivors rated Grenfell Housing Services as good or excellent.
- Over 2000 children and young people have accessed targeted emotional health and wellbeing services between October 2021 and September 2022
- Over 1100 adults have accessed targeted emotional health and wellbeing services in community-based services.

Achievement of some of these outcomes is helped through consistent leadership through the Director of Grenfell Partnerships who has been in post since the start of the recovery programme.

The council recognises the importance of the new Change Board and the Head of Strategy role in driving through cross cutting strategies. This includes the data insight function responsible for corporate performance reporting. The new corporate PMO role is also key to supporting this work.

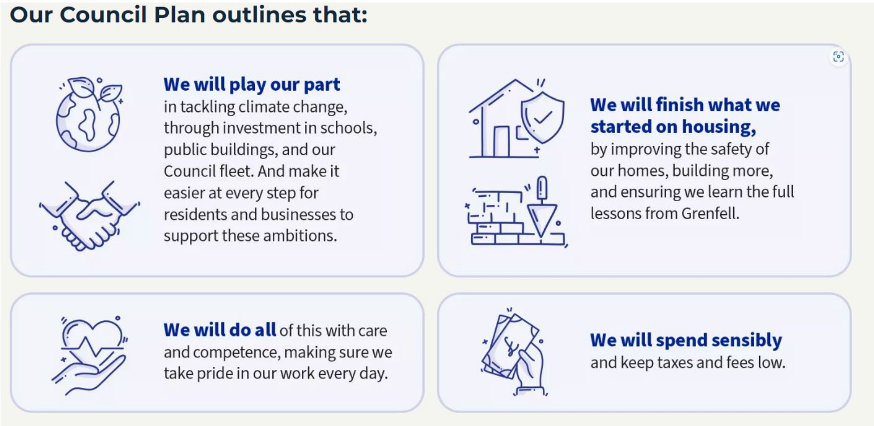
There are examples of where the council has demonstrated its openness to collaboration and sector support. It has undertaken a corporate equalities peer review, works with the Institute for Leadership and Management (ILM) and is actively considering apprenticeships to support programme delivery. SOCITM have also undertaken a review of the use of ICT systems including the behaviours of users and the LGA's Centre for Governance and Scrutiny undertook reviews in 2019 and 2021. Routine benchmarking through CIPFA statistics, OFLOG data and London council benchmarking takes place but the council is looking at how it can use this work to better inform and enhance reporting as part of its review of compliance against the financial management code.

The presence or absence of strategic vision and direction within the Local Authority aligned to the Strategic Plan.

Key findings and analysis

There is vision and direction and a consistent understanding of priorities, strengths, and areas for improvement across councillors, senior leadership, and officers. There is a mature awareness that the required changes and priorities need the support of partners across the borough and the **Council Plan sets out a clear vision** which set out below. There is a confidence and consistency amongst officers in what it is designed to do but also a realism that it will be difficult.

Figure 6. RBKC Council Plan 2023/24 to 2026/27



In March 2023, the council launched its new **Council Plan**. The plan is ambitious and sets out what the council needs to do to improve over the next four years. It recognises the importance in shaping how resources are allocated, and performance is measured. Over 1000 residents, bereaved and survivors helped shape it and shared their views on what was important to them and where the council needed to change.

It is supported by an action plan and progress is reported publicly through the council's website. The action plan gives an overview of what the council will do to deliver its plan over the next two years, highlighting the key things that will be delivered in that time. This includes delivering council-wide change activities, many of which are about embedding the broader lessons from the Grenfell tragedy, responding to the challenge from bereaved, survivors and residents to use the learning from the tragedy.

The capacity and capability of Local Authority leadership, including that all senior posts are filled with permanent appointments.

Key findings and analysis

The council has benefited from consistent leadership across finance, legal and the recovery programme. This has ensured a consistent approach to managing the programmes and change since our original review in 2019. There are no significant vacancies in the key teams, at the moment. This was evidenced through interviews and review of team structures. Nevertheless, middle-management recruitment challenges in some departments should be kept under scrutiny.

The appointment of the new Chief Executive was seen as providing an opportunity for a further check on progress after previous involvement in assessing the council's response and the Leader of the council described a 'talk and design things' culture. The Leadership teams view was that there were few challenges in recruiting talent to leadership roles and indeed, felt that they had 'standout' colleagues who were attracted to work for the council due to its brand and particular focus on supporting communities after Grenfell. The leadership includes a very experienced Director of Resources and a Director of Financial

Management with experience of having to make challenging decisions and address acute financial pressures in their previous role.

Strong working culture and working relationships between councillors and officers, senior leadership and junior staff, and openness to challenge and change.

Key findings and analysis

There is clear member appetite to challenge officers appropriately and interviews with lead members, Senior officers but also middle and supervisory managers referenced the robust but constructive challenge across the council. Members are keen to hear how the council acts and there was a consensus that the council is in reasonable shape to deal with the pressures it is facing. Members want to ensure, however, that the council delivers its council Plan and in respect of Grenfell, build something into the base budget for revenue pressures beyond 2028 and become self-sufficient in maintaining improvements secured through the Grenfell Recovery Programme. This is a difficult balance to strike. The healthy culture referenced throughout our review and openness to challenge, and change will be needed to deliver the council's ambitions and address the risks the council is facing, highlighted in the report. Independent members sit on the council's Audit and Transparency Committee and have an annual meeting with the auditors. There is governance officer support for members to inform their work.
There is a jointly developed members training programme with regular formal and informal meetings. Members feel reassured by the information they receive, and officers are seen as always forthcoming, providing good executive summaries and briefings. In respect of the Audit and Transparency Committee, there is awareness of the growing information and detail that the committee has to deal with, much of which may be necessary. However, this needs to be kept under review alongside potential overlaps with other committees and groups.

Interviews, particularly with statutory officers and External Audit confirmed there was a good understanding of officer and member roles and responsibilities.

Risks

None identified.

Recommendations

None identified.

3.3 Review Area 3: CAPITAL PROGRAMME

An assessment of the council's capital programme and management of related risks including:

The Local Authority's governance of its capital programme, including the adequacy of its internal processes, scrutiny of investment decisions, use of sufficient expertise, and adequacy of ongoing monitoring of performance.

Key findings and analysis

The council recognises the financial and delivery challenges associated with its capital programme. It has also identified that with its new Council Plan and limited resources, it needs to ensure it has a prioritised, justifiable, and affordable programme. Although a capital handbook and strategies are in place, interviews with the Leadership Team identified that the council is having to 'start again' to develop some of the information and processes it needs.

Specific work is needed to develop an overall AMP and work is underway to map assets to requirements and a stock condition survey is due to be completed in April 2024. This will be vital in ensuring any plans take full account of suitability and sufficiency of the councils' assets. The council also recognises that some of the financial commitments need to be matched by the delivery of the projects and operational service delivery needs more focus. The council is currently introducing a Programme Management Office to support the delivery of the capital programme to help address this issue and is introducing a gateway process to provide rigour around delivery.

There is also a severe financial challenge faced by the council's HRA which has been exacerbated by higher inflation and interest rates. The current business plan for the HRA is ambitious and challenging and a thirty-year business plan needs developing for February 2024. There is also a significant structural maintenance backlog on the HRA properties. The council needs to spend £620 million over six years but estimates there will be a funding gap of around £400 million to achieving this. The main reasons identified for this are:

- Temporary Accommodation pressures - The council has a limited supply of housing and low turnover of residents. Additional housing stock is required to reduce the reliance on high-cost temporary accommodation.

- Under investment in planned maintenance and investment prior to 2017.

- Achieving Net Zero targets - The council declared a Climate Emergency in 2019 and set ambitious targets to be carbon net neutral for its own operations by 2030 and across the borough from 2040. The costs of meeting this across the council are estimated at £144 million but the actual costs are likely to be significantly higher than this. The HRA Business Plan sets out the need to spend £67 million over a six-year period towards achieving net Carbon Zero for the council's own housing stock. Over the longer term, significant additional funding will be needed, and this still need to be quantified.

The council's future plans are therefore not affordable, and it recognises these will need to be reviewed.

There has been significant slippage on the capital programme which has led to a large Budget Stabilisation Reserve (£28.1 million). This has led to some frustration with council members.

The current capital programme also has more than 100 individual capital schemes. These schemes range from £10,000 to £55 million in 2023/24. The council does, however, have established procedures for governance of its capital programme; these are made up of:

- A Council Plan which sets out strategic priorities.
- Approval by the Executive of the Capital Strategy, Treasury Management Strategy and Capital Investment Programme, including the prudential indicators referred to within them.
- A Capital Handbook which provides a series of procedures and toolkits including detailed guidance and joined up processes for services to follow and provide effective governance over capital expenditure and funding.

However, governance and monitoring of the capital programme has not been as strong as it should have been. In 2022/23, a review of the General Fund capital programme was undertaken by 31ten, an external consultancy with expertise in local government capital programmes. The consensus was that the council's capital programme is managed effectively from a financial point of view, but that there is not enough equivalent focus and discipline in relation to the programme's practical delivery. Based on meetings with council officers, a number of risks remain current, although corrective action is being taken to address them. These are:

- Governance risks – in particular, lack of oversight, clarity of decision making and accountability.
- Investment decision risks – links to and understanding of bidding processes.
- Capital monitoring risks – tracking of performance in delivery, focus on revenue spending and a lack of evaluation processes upon completion.

The review also identified the need to bolster capacity to deliver internally including procurement, project, and contract management skills and with improved management of external resources used by the council. The council has a Commercial Assurance Panel for Procurement and Legal Services; however, the council has put the following actions in place to address the weaknesses:

- Plans to strengthen the Capital Programme Leadership team.
- A strategic review to improve delivery and reporting of the capital programme.
- Clearer timelines and gateways to monitor decisions to ensure slippage is identified early so action can be taken.
- Ongoing work on development of a new strategic capital programme framework that will provide the mechanism and tools to improve the capital programme's oversight and governance functions.

Risks

9. The council's current capital programme to deliver its priorities is unaffordable.

Recommendations

9. The council should continue with its process to develop its strategic capital programme framework and its implementation to ensure the capital programme is affordable and sustainable.

Whether the Local Authority is accurately classifying investments within its capital programme, (e.g., whether it is pursuing any investments primarily for yield, whether regeneration projects are achieving wider socioeconomic benefits etc).

Key findings and analysis

There are no indications that the council is classifying investments within its capital programme incorrectly, pursuing investments primarily for yield or without regard for wider socioeconomic benefit. A review of the investment property portfolio identified other land and buildings in the accounts of £230 million for 2022/23 with over half retail and advertising sites £78 million and office, land, car park and community £66 million. The value of the investment portfolio is, however, calculated to have dropped by £3.5 million or 1.5% from 2021/22. The portfolio generated gross rental income from investments of £16.2 million in 2022/23 (£14.6 million 2021/22). The properties are in borough and deliver an overall average headline return of around 7%. The current capital programme does not contain any commercial schemes and the External Auditors have not identified any specific concerns in respect of asset categorisation or commercial activity.

The council's Treasury Management Strategy sets out the following key principles for investments:

- Deliver on the priorities of the council Plan.
- Be spent on the council's capital assets and be aligned with the council's priorities.
- Maximise the use of the council's existing assets. It will maintain and refurbish those assets economically, having regard to all relevant costs and income over the asset life cycle, seeking to minimise under-use and dispose of surplus assets promptly to best advantage.
- Identify sustainable funding sources to support capital investment.
- Be the basis for determining the council's three-year Capital Programme.
- Identify opportunities for delivering improvements to the Borough's assets and infrastructure in partnership with other organisations and agencies.
- Ensure a rigorous approach to options appraisal is applied, particularly for significant investment proposals.
- Ensure that investment proposals which result in a revenue saving or income generation are encouraged and prioritised.
- Where appropriate, be aligned and co-ordinated with priorities of partner organisations and regional strategies to maximise the outcomes from capital investment across the borough.

The Treasury Management Strategy is based on CIPFA's Code of Practice on Treasury Management, and the council applies CIPFA Guidance to determine appropriate asset values.

Risks

None identified.

Recommendations

None identified.

The delivery and governance of major investments, whether directly or through wholly or partly owned companies, including the transparency of such arrangements to council members and externally.

Key findings and analysis

The council do not deliver any major investments directly or through wholly or partly owned companies. The council has two wholly owned subsidiaries "Kensington and Chelsea TMO (Tenant Management Organisation) Repairs Direct Limited" and "Notting Dale Heat Network Limited." Both companies are currently dormant.

Risks

None identified.

Recommendations

None identified.

The Local Authority's risk management processes, both for individual investments and the capital programme as a whole, and adequacy and timeliness of mitigation actions.

Key findings and analysis

The council's activities expose it to a variety of financial risks including:

- Credit Risk - the possibility that other parties might fail to pay amounts due to the council.
- Liquidity Risk - the possibility that the council might not have funds available to meet its commitments to make payments.
- Market Risk – the possibility that financial loss might arise for the council as a result of changes in such measures as interest rate movement.

To mitigate these risks, the council produces three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and Treasury Indicators and Treasury strategy - The first, and most important report is forward looking and covers:

- The capital plans, (including prudential indicators).
- A minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time).
- The Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicators.
- An Investment Strategy, (the parameters on how treasury investments are to be managed).

A Mid-Year Treasury Management Report – This is primarily a progress report and provides an update to members on the capital position, amending Prudential indicators as necessary, and whether any policies require revision.

An Annual Treasury Report – This is a backward-looking review document and provides details of a selection of actual Prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

These reports are extensive and before going to council approval they are scrutinised by the Governance and Audit Committee and cover the council's treasury position, borrowing and investment strategies and performance and debt rescheduling.

In addition to the three major reports detailed above, in 2023/24 quarterly reporting is also communicated to the EMT.

Members with responsibility for treasury management are required to undertake training and we understand that such training has been completed for relevant members. The CIPFA Treasury Management Code requires that the training needs of treasury management officers are periodically reviewed, and training given as needed.

The council has an ambitious capital programme over the next three years that was agreed by council in March 2023. However, a review is underway to ensure that schemes continue to be in line with council priorities, they are affordable and can be delivered over the next three years.

In line with best practice and the requirements of the Prudential Code, the Capital Strategy is reviewed on an annual basis to ensure that it reflects the changing needs and priorities of the council and the community and the resources available to fund capital investment.

In determining the level of capital investment to be undertaken, affordability and available resources are key considerations including the long-term impact of borrowing and other forms of capital funding on related revenue budgets. These considerations also apply to the use of leases, public-private partnerships, and outsourcing arrangements to procure public assets.

The responsibility for the final funding of the capital programme is delegated to the Executive Director of Resources (Section 151 Officer). The overall basis of funding decisions is that external sources will be used first with subsequent use of council reserves and finally external borrowing to finance any outstanding unfunded priority items.

Despite these risk management processes, there has been significant slippage on the capital programme which has led to a large "Budget Stabilisation Reserve" (£28.1 million). and There are also severe financial challenges in meeting the current plans for housing investment through the HRA which have been highlighted earlier.

Risks

See earlier risks identified.

Recommendations

See earlier recommendations identified.

Whether and to what extent the Local Authority is complying with statutory guidance relevant to its capital programme, including but not limited to investment guidance, minimum revenue provision guidance, and accounting codes.

Key findings and analysis

The council has up-to-date and comprehensive policies on Treasury Management and Minimum Revenue Provision with clear reporting on the CIPFA Prudential Code requirements. This includes the treatment of MRP in relation to borrowing taken out to rehouse residents affected by the Grenfell tragedy. No material issues have been raised in External Audit reports or in discussion. The council understands that it must set aside prudent MRP to cover the cost of all debt but should continue to assess its provisions against benchmarks so that asset lives and borrowing terms remain appropriate.

The council adopts CIPFA's Code of Practice as part of the council's Financial Procedure Rules.

The council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Lead Member for Finance and Customer Delivery and for the execution and administration of treasury management decisions to the Executive Director of Resources, who will act in accordance with the council's policy statement and TMPs (treasury management practices) and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

The Audit and Transparency Committee is responsible for ensuring effective scrutiny of treasury management strategy and policies.

It was also noted that the council are changing their way of calculating MRP to the annuity method in 2023/24. The wording of this indicated that they may be applying this retrospectively which is not permissible. However, it has since been confirmed that there are no plans to apply MRP retrospectively.

The council's draft 2022/23 accounts state that the council complies with all relevant statutory guidance. These comprise the "Code of Practice on Local Authority Accounting in the United Kingdom 2021-22" supported by International Financial Reporting Standards (IFRS) and statutory guidance issued by HM Government and the particular provisions in respect of capital accounting and financing.

The council sets and manages a range of indicators required under the Prudential Code covering the level of capital expenditure and the cost of financing it, to ensure borrowing is responsible and affordable. One such measure is the council's Capital Financing Requirement (CFR), which represents the amount of council's capital expenditure funded by internal or external borrowing (see Figure 7).

Figure 7. Capital Financing Requirement 2022/23

	General Fund £m	HRA £m	Total £m
Opening CFR 31/03/2022	**272.93**	**213.76**	**486.69**
Net Capital Expenditure in 2022/23	49.03		49.03
Minimum Revenue Provision (MRP)	(2.73)		(2.73)
Closing CFR 31/03/2023	**319.23**	**213.76**	**532.99**

External borrowing remains well within the Capital Financing Requirement, Authorised Borrowing Limit, and the Operational Boundary.

The council's management of treasury risks actively works to minimise the council's exposure to the unpredictability of financial markets and to protect the financial resources available to fund services. The council has fully adopted the CIPFA Code of Treasury Management Practice. Each year the Director of Finance presents an Annual Treasury Management Report which covers the council's current treasury position, borrowing and investment strategies and performance and debt rescheduling.

The Annual Treasury Management Strategy which incorporates Prudential indicators was approved by the full council on 1 March 2023. Actual performance is also reported each year and mid-year.

The Prudential and Treasury Management Code is adhered to using Arlingclose Treasury advisers with whom the capital team have regular meetings. This provides further reassurance that the Prudential indicators are met and is recorded in the three key Treasury reports as described earlier in this report.

Risks

None identified.

Recommendations

None identified.

3.4 Review Area 4: COMMERCIAL ASSETS/DEBT

An assessment of the council's assets and investments including dependence on commercial income, debt costs and other risks including:

The Local Authority's overall position on borrowing and indebtedness and the impact on its longer-term sustainability, including liability benchmarking.

Key findings and analysis

The council has short-term borrowing of £2.4 million and long-term borrowing of £229.2 million at the end of 2022/23. Total liabilities from financing activities at the end of the 2022/23 financial year were £522.8 million. Long term assets (£2.307 billion) exceed long term liabilities (£298 million) by £2.009 billion.

There is no perceived risk that the council will be unable to raise finance to meet its commitments. It is, however, exposed to the risk that it may need to refinance a significant proportion of its borrowing at a time of unfavourably high interest rates. This risk is managed by maintaining a spread of fixed rate loans and maturities and ensuring that no more than 30% of the council's borrowing matures in any one financial year. The current spread of maturity of loans looks reasonable and is included in figure 8 below:

Figure 8. Maturity of loans

Maturity Period	**2022/23**	
	Principal	**Interest**
	£'000	£'000
Maturing in under one year	9	7,613
Maturing between one and two years	12,709	7,613
Maturing between two and five years	13,026	19,710
Maturing between five and ten years	22,525	29,085
Maturing between ten and 20 years	55,047	47,980
Maturing between 20 and 30 years	90,047	25,016
Maturing after 30 years	35,865	4,090
Total	**229,228**	**141,107**

The council is currently maintaining an under-borrowed position, with £229.2 million of loans at an average rate of 3.32% as at 31 December 2023. The council is expected to be under borrowed for the next three years (see figure 9).

Figure 9.

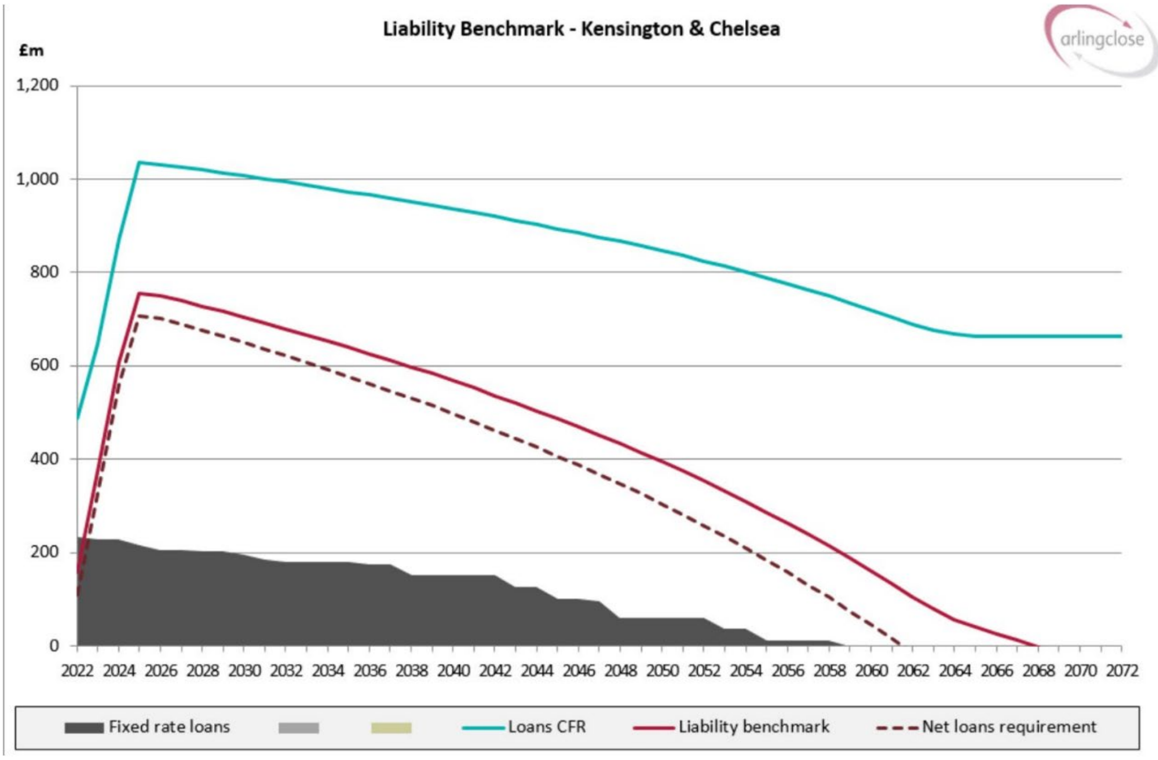
Table 6: Gross Borrowing and Under-Borrowed Position £m

	2022/23 Budget £m	2023/24 Budget £m	2024/25 Forecast £m	2025/26 Forecast £m
Debt as at 1 April	234.24	258.19	412.97	545.26
Expected Change in Debt in year	23.95	154.78	132.29	4.24
Gross Debt 31 March	**258.19**	**412.97**	**545.26**	**549.50**
Capital Financing Requirement	544.29	707.58	847.91	858.73
Under / (over) borrowing	**286.10**	**294.61**	**302.64**	**309.23**

5

The Liability Benchmark (figure 10) forecasts that the council would need to borrow £143.6 million in 2023/24, and a further £378.5 million in 2024/25 (collective £522.1 million requirement) as set out in the graph below.

Figure 10.



Where external loans are less than the liability benchmark, this indicates a borrowing requirement thus identifying where the council is exposed to interest rate, liquidity, and refinancing risks. The treasury strategy does identify the risks that the council faces with future borrowing and the work it is doing to review the capital programme.

The council's approach to mitigating risk is to hold significant earmarked reserves which are available for flexible use combined with its Treasury Management Strategy where the council continually mitigates risks by:

- scenario planning.
- diversifying its investment instruments and
- strictly following its policy to invest in high credit quality counterparties.

There is no indication that the current debt position of the council will impact on its longer-term sustainability although risks clearly remain with future borrowing.

Risks

See capital programme recommendation.

Recommendations

See capital programme recommendation.

The Local Authority's approach to asset management and valuation, a judgement on its asset portfolio including the potential use of appropriate asset sales over a reasonable timescale to raise capital receipts and reduce risk where appropriate.

Key findings and analysis

Assets are valued in accordance with the CIPFA Statement of Recommended Practice, and the last external audit report for 2021/22 did not identify any significant concerns. **The council recognises the need for a comprehensive Asset Management Plan alongside its capital programme** and has started considering potential asset disposals or repurposing ahead of developing any formal plans including the possibility of securing commercial income through the town hall building. It estimates, however, that some of these opportunities might not develop for up to 18 months. Work is still ongoing to map assets against requirements.

Where appropriate, a view on a proposed asset disposal plan (developed in conjunction with the Local Authority) with the understanding that the Local Authority should look to realise the maximum amount of capital assets to minimise borrowing, reduce capital financing requirements, and reduce risk, subject to value for money considerations.

It is not considered timely given the council's current position to work with them on a formal disposal plan at this stage. This may be appropriate in the future once the council develops is Asset Management plan, including any formal disposal plan. The council is expecting to cover the costs initially through the capitalisation support and then ultimately, by recovering the costs from co-defendants.

The Local Authority's commercial investment portfolio and forward strategy, including dependence on commercial income, exposure to debt costs, and providing recommendations on whether and how the Local Authority should take steps to reduce its exposure to investment risk. (This should not be limited to commercial property).

Key findings and analysis

There is **no formal commercial strategy or over reliance on commercial income** or significant exposure to associated debt costs. This was also confirmed through our discussions with the council's external auditors. Figure 11 below shows the sources of income, and it was identified earlier in the report that the council showed reasonable performance, return, and spread of risk across its commercial property portfolio.

Figure 11. RBKC Sources of Income 2023/24

Income source	2023/24	%
	£'000	
Revenue Support Grant	(11,919)	2%
Other Government Grants	(172,657)	26%
Council Tax	(98,529)	15%
Dedicated Schools Grant	(76,464)	12%
Other Income	(71,055)	11%
Business Rates	(56,636)	9%
Parking Income	(52,800)	8%
Fees and Charges	(39,778)	6%
Rental Income	(33,766)	5%
Other Grants	(14,130)	2%
Commercial Rent Income	(13,861)	2%
Transfer from Reserves	(8,418)	1%
Total:	**(650,013)**	**100%**

The Local Authority's approach to mitigating risk, such as the use of risk reserves or sinking funds to offset fluctuations in commercial income or debt costs.

Key findings and analysis

The council makes provision in reserves for a medium-term financial risk reserve. It draws on this to mitigate pressures and smooth savings delivery. It does not consider it appropriate to maintain separate risk reserves or sinking funds for commercial income and this appears reasonable based on their commercial profile However, increased debt costs will be addressed through the reserve. Debt is secured largely through PWLB (Public Works Loan Board) on a fixed rate which mitigates any fluctuations. Debt exposure is considered further below.

Reserves at the end of 2022/23 are listed in the figure 12 below:

Figure 12: Reserve balances 31 March 2023

		Balance at 31 March 2023
Grenfell	i	(13,507)
Special Projects	ii	(10,036)
Car Parking	iii	(22,374)
Budget Carry Forward	iv	(14,802)
Budget Stabilisation	v	(28,101)
Reorganisation	vi	(132)
Schools Balances	vii	(7,863)
Insurance	viii	(23)
Public Health	ix	(6,660)
Public Health - Cost of Living	x	(2,000)
Notting Hill Carnival	xi	(375)
Street Trading	xii	(183)
Affordable Housing	xiii	(9,900)
Local Projects	xiv	(710)
Troubled Families	xv	(1,029)
Proceeds of Crime Act	xvi	(142)
Dedicated Schools Grant Surplus	xvii	(1,336)
Contingency	xviii	(5,359)
Collection Fund (timing difference	xix	(15,852)
Sub-total of usable earmarked reserv		**(140,384)**
General Fund Working Balance		(10,000)
Total General Fund reserves per MIRS		**(150,384)**

The council uses a number of these reserves to mitigate risk including:

- *Budget Carry Forward Reserve (£14.8 million)* - provides the opportunity for resources to be mobilised swiftly to enable the council to respond efficiently in the face of unforeseen circumstances that were not known at the time of budget setting. However, it is understood that these reserves are now committed to support Covid 19 recovery, the council's response to the cost-of-living crisis and for the council Tax rebate given to property holders in Bands A-D.

- *Budget Stabilisation Reserve (£28.1 million)* - used to manage the impact of uncertainty in government funding.

- *Special Projects Reserve (SPR) (£10 million)* – this was established in 2017 post the Grenfell tragedy with a focus on being available for one-off funding to deliver projects that were not part of the standard council's revenue or capital budgets. The reserve is used for implementation of service redesign and transformation, revenue costs associated with the delivery of capital schemes, and pump-priming for invest-to-save. Allocations have already been agreed – including £11.0 million for implementation of the new enterprise resource planning (ERP) system. The reserve is expected to be fully utilised across the next two to three years

- *Collection Fund Reserve (£15.8 million)* - this is used to manage the surplus or deficit arising from timing differences in council's actual and estimated council tax base in monetary terms. Balances are subsequently recovered from or paid back to government by forming part of the estimate for the forthcoming year.

- *Contingency Reserve (£5.4 million)* A provision for contingency is held to safeguard the council's general fund balance. The Contingency Reserve contains unspent funds carried forward from 2022/23 to manage fluctuations in-year that are expected to arise from unbudgeted expenditure.

At the financial year end of 2022/23, the council had £74.1 million (or 53%) of their total usable earmarked reserves of £140.4 million available to contribute to mitigate risks plus £10 million in the General Fund working balance which the council considers its minimum working reserve. Where reserves have been committed after the 2022/23 financial year end this is noted above and we are aware that the contingency reserve has been reduced to £3.7 million in 2023/24.

The council's approach to mitigating risk is adequate to offset fluctuations in commercial income and debt costs. However, as referred to earlier, a risk-based assessment of reserves and what can be considered an appropriate balance in the context of the risk, would help to demonstrate that reserves are proportionate to risks and could not be redeployed.

The Local Authority's exposure to refinancing and other risks as a result of its chosen borrowing strategy.

Key findings and analysis

The **council's exposure to risk and refinancing is manageable** based on the review of the relevant prudential indicators, debt maturity profile and the sensible approach to using reserves. The debt profile referred to earlier shows a broad spread in maturity with fixed rate PWLB loans forming most of the borrowing. Projected future borrowing is also shown in Figure 13 below and Figure 9 earlier in the report shows a continued under-borrowed position.

Figure 13. Projected borrowing 2022/23 to 2025/26

Financing	2022/23 Budget £m	2023/24 Budget £m	2024/25 Forecast £m	2025/26 Forecast £m
External Resources	4.0	4.0	4.0	0.0
Capital Resources	85.1	43.9	9.9	0.9
Revenue Resources	11.7	11.4	12.5	0.0
Debt	60.3	167.1	146.1	17.7
TOTAL	**161.1**	**226.4**	**172.4**	**18.5**

This borrowing strategy is prudent as medium and longer dated borrowing rates are expected to fall from current levels once prevailing inflation concerns are addressed by tighter monetary policy. The council is being cautious with borrowing decisions in 2023/24 but recognises the need to review its capital programme.

Risks

See earlier risks identified.

Recommendations

See earlier recommendations identified.

Annex

A1 Risk Assessment – Method

Impact

Likelihood		Critical:3	Moderate:2	Marginal:1
	Probable:3	High - 9	High - 6	Medium - 3
	Occasional:2	High - 6	Medium - 4	Low - 2
	Improbable:1	Medium - 3	Low - 2	Low - 1

Likelihood:

- Improbable – possible, but unlikely to happen.
- Occasional – might happen, might not happen, in the order of 50/50
- Probable – most likely will happen.

Impact:

- Marginal – some minor (less than £1000) costs involved, possible minor operating difficulties largely contained within the council, some awareness / action may be required by members.
- Moderate – financial losses / costs up to £100k, operating impacts hitting services for some of the community, a significant issue for members to deal with
- Critical – major financial losses / costs in excess of £100k, subsequent intervention by DLUHC or other 3rd parties, reaches national press interest, major political embarrassment for members.

A2 Documents Reviewed

Capital Project Outline Business Case Template 6.9.2023

Capital Handbook

Capital Programme Board terms of reference final

Capital Programme Delivery Group terms of reference V.3

Q1 Monitoring Report 2023/24

RBKC Capital Programme Governance 31ten report

RBKC Capital Programme Leadership Workshop September 2023 v.6

RBKC Capital Programme Update August 2023

Capital Financing Requirement RBKC 9incl NRP) 2023/24 Q1

Cumulative Statement of MRP 2023/24

MRP Calculation for Grenfell Acquisitions 2023/24

MRP on Unsupported Expenditure 2023/24

RBKC HRA Dwellings Portfolio

RBKC Investment Operational Heritage Assets Report 2023

RBKC Investment Property Portfolio

RBKC Operational Heritage Assets

RBKC Operational Property Portfolio Final 2022/23

RBKC Operational Residential Portfolio 2022/23

Report Valuation RBKC HRA 2023

Bi Borough Structure Chart

Business Case for a replacement ERP system

Capital Board Presentation 17.7.2023

Finance Management Structure

Member Training

MTFS 2024/25 and Corporate Change Slides fort JLT Away Day

RBKC 2019 Review

Report to those Charged with Governance (ISA (International Standard on Auditing) 260) 2020/21

SIP Structure Chart July 2023

Template slides for Corporate Strategy DMT 16.1.22

Council Tax and Budget Report 2023/24

MTFS 2024/25- 2027/28

2022/23 Q2 (Quarter 2) Report

Treasury Management Strategy 2023/24

Legal, Financial Management and Property structure charts

July 2022, Review of compliance against the CIPFA Financial Management Code

HRA Business Plan

Corporate Strategy DMT January 2023 presentation

Capital Programme Board July 2023 presentation

MTFS and proposed savings EMT June 2023 presentation

Council Plan 2023/24 – 2026/27

Council Plan Action Plan 2023/24

Quarter 3 performance report 2022/23

EMT Full Pack 280623

EMT RCB Full Pack 10.05.23

EMT Full Pack 15.03.23

Costs of work by external lawyers June 2023

A3 Interviews Conducted

- Chief Executive
- S151 Officer
- Monitoring Officer
- Director of Financial Management
- Head of Financial Management
- Director of Housing
- Director of Grenfell Partnerships
- Monitoring Officer/Head of Legal
- Head of Finance
- Capital Accountant
- Director of Risk
- Risk Manager
- Head of Property Services
- Head of Internal Audit
- Leader of the Council
- Chair of Audit Committee
- Finance Lead Member
- External Auditors Grant Thornton
- Head of Strategy

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