



Department for Levelling Up, Housing & Communities

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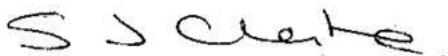
LOCAL GOVERNMENT ACT 2003 SECTIONS 16(2)(B) AND 20: TREATMENT OF COSTS AS CAPITAL EXPENDITURE

Dear Mike,

1. I refer to your letter of 26 January 2023 (“the application”), applying for a capitalisation direction to fund revenue expenditure incurred by the Council in respect of the pressures or income losses outlined in your request for exceptional financial support.
2. I can now confirm that the application is given approval at a total not exceeding £23.228m with respect to the financial year 2022/23, subject to the conditions outlined below. This direction takes immediate effect.
3. Accordingly, the Secretary of State directs, in exercise of his powers under sections 16(2)(b) and 20 of the Local Government Act 2003 (“the Act”), that the Royal Borough of Kensington and Chelsea (“the Council”) treat as capital expenditure, expenditure which:
 - i. is revenue expenditure and meets the definition of an additional cost pressure as identified and agreed with the Department for Levelling Up, Housing and Communities (DLUHC) through the Council’s formal request for exceptional financial support;
 - ii. is properly incurred during the financial period 2022/23; and
 - iii. does not exceed a total of £23.228m.
4. In a further exercise of the Secretary of State’s powers under section 20 of the Act, it is a condition of this direction that:
 - i. the Council may only capitalise expenditure when it is incurred;

- ii. where the Council's capital financing requirement is increased as a result of the capitalisation of expenditure under this direction:
 - a. any further borrowing from the date of the capitalisation letter up to and including, but not exceeding, the increase in the financing requirement must be obtained from the PWLB (Public Works Loan Board) and must be subject to an additional 1 percentage point premium on the interest rate above the rate the loan would otherwise be subject to. This requirement does not apply to borrowing in relation to your Housing Revenue Account. Where any borrowing to which these conditions initially apply is refinanced, the conditions must continue to apply to the resulting borrowing;
 - b. the Council shall charge annual Minimum Revenue Provision using the asset life method with a proxy 'asset life' of no more than 20 years, in accordance with the Department's Statutory Guidance on Minimum Revenue Provision issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.
 - iii. that within one month of receiving this capitalisation direction, the Council develops and shares with the Department an action plan for addressing the key recommendations from CIPFA's assurance review and that steps are taken to implement these recommendations over the next twelve months.
5. This direction is given for the purposes of Chapter 1 of Part 1 of the Act only. It does not convey any other consent that may be required or any view as to the propriety of the expenditure. It is for the Council to be satisfied that any amount to which this direction is applied is properly incurred in the financial years concerned.

Yours sincerely,



Suzanne Clarke

Authorised to sign this direction by the Secretary of State for Levelling Up, Housing and Communities.