

Executive Decision Report

<p>Decision maker(s) at each authority and date of Cabinet meeting, Cabinet Member meeting or (in the case of individual Cabinet Member decisions) the earliest date the decision will be taken</p>	<p>Leadership Team - 26 February 2018</p> <p>Forward Plan reference: 05169/18/K/A</p> <p>Leadership Team Portfolio: Lead Member for Corporate Services</p>	 <p>THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA</p>
<p>Report title (decision subject)</p>	<p>CAPITAL PROGRAMME 2018-19 – GENERAL FUND</p>	
<p>Reporting officer</p>	<p>Director of Finance</p>	
<p>Key decision</p>	<p>YES</p>	
<p>Access to information classification</p>	<p>Public</p>	

1. EXECUTIVE SUMMARY

- 1.1 This report sets out the proposals for the Council's latest General Fund Capital Programme totalling £416.639m over the financial years 2017/18 to 2019/20, providing a Revised Budget for the current Financial Year and setting an Original Budget for 2018/19 with associated forecasts for 2019/20 and future years. The content of the Housing Revenue Account Capital Programme is included within the HRA business plan, which is elsewhere on this agenda.
- 1.2 In October 2017 a report entitled Capital Programme Update and Review was submitted to Leadership Team and Council which provided the Council with an amended Capital Programme for 2017/18 and future years taking into account the unprecedented demands that the Grenfell Fire has placed upon the Council's capital programme, and in particular the need to fund additional permanent properties for former Grenfell tower residents in order that the Council's commitment to rehouse these residents can be met.
- 1.3 That report also stated that the change in circumstances arising post Grenfell and further proposed changes to the CIPFA prudential code for capital guidance, means that the Council has had to review its processes for allocating, prioritising and funding future capital expenditure into a revised Capital Strategy.
- 1.4 In January 2018 a report entitled General Fund Capital Strategy 2018-19 was submitted to Leadership Team and Council which recommended that:
- Approval be given to the content of the proposed Capital Strategy and that it be adopted as part of the Council's budgetary and policy framework, within Council Policies, and that
 - departments be authorised to submit bids for schemes not to exceed £20m in total, to be included in the Capital Programme, for submission to the Leadership Team in February 2018.
- 1.5 The capital strategy sets out a basis for assessing the competing demands across the Council, setting out the gap between aspirations and available resources, options for identifying alternative sources of funding, and a basis for determining priorities given limited resources. The purpose of the Capital Strategy is not to allocate resources. Actual decisions about how resources are allocated to individual schemes are taken as part of the Budget Setting decision making process.
- 1.6 This report builds on the two previously submitted reports. It includes revised cash flows for the existing programme and proposed additions to the programme within the cash limit set in the earlier report.

2. RECOMMENDATIONS

- 2.1 Leadership Team is requested to:
- a) approve the revised Capital Programme for the period 2017/18 to 2019/20.
 - b) Agree the additional capital bids submitted for inclusion in the 2018/19, 2019/20 and Future Years Capital Programme.
 - c) Submit the Capital programme and agreed additional bids to the Council for approval.
 - d) Submit the revised Minimum Revenue Provision Policy for 2017/18 and the Policy for 2018/19 to the Council for approval.

3. REASONS FOR DECISION

- 3.1 The Capital Programme is an integral part of the Council's business and financial planning. Under the Council's Constitution, Leadership Team and subsequently Full Council are required to approve the overall Capital Programme each year.
- 3.2 The Council has a duty under section 3(1) of the Local Government Act 2003 to determine and keep under review the level of resources it can afford to borrow. Section 3(5) of the Local Government Act 2003 provides that the Secretary of State may by regulations make provision about the performance of that duty.
- 3.3 Regulations made by the Secretary of State require the Council to have regard to the Prudential Code for Capital Finance on Local Authorities published by CIPFA (Chartered Institute of Public Finance and Accountancy) regarding the affordability of the Capital Programme.

4. DETAIL

2017/18 Capital Programme

- 4.1 The 2017/18 General Fund Capital Programme budget was £272.508m, as approved by the October 2017 meeting of the Full Council. The latest forecasts, per the Quarter 3 Budget Monitoring Report are submitted elsewhere on the Leadership Team agenda and estimate that only £240.935m will be spent in year and that £37.394m will be re-phased into 2017/18 or later years. It is recommended that the latest forecast figures be adopted as the Revised Budget for 2017/18.
- 4.2 Table 1 below shows the summary level 2017/18 forecast against budget, a detailed scheme level analysis is provided at Appendix 1 to this report.

Table 1 – 2017/18 Revised Budget and Projected Outturn

Service	Original Budget (inc c/fwd from 2016/17)	Revised Budget (Council October 2017)	Forecast Outturn	Variance forecast to Revised Budget	Amounts Re-phased to Future Years
	£m	£m	£m	£m	£m
Expenditure					
Housing General Fund	13.308	183.478	183.720	0.242	0
Adult Social Care	4.109	3.809	1.247	(2.562)	2.530
Children's Services	24.956	17.065	18.708	1.643	2.035
Environment, Leisure and Residents Services	10.254	8.453	4.974	(3.479)	4.092
Libraries, Archive and Heritage Service	0.498	0.498	0.330	(0.168)	0.168
Transport and Technical Services	7.260	3.882	1.852	(2.030)	2.047
Corporate Services/Property	89.251	55.323	30.104	(25.219)	26.522
Total General Fund Expenditure	149.636	272.508	240.935	(31.573)	37.394

- 4.3 Overall delivery in 2017/18 has not matched expectations, which is in part due to the impact of the Grenfell Recovery process and temporary cessation of non-essential capital expenditure whilst the 2017-20 capital programme was reviewed with a view to freeing up resources to fund the requirements of the Grenfell acquisition programme, still maintaining schemes that are contractually committed, meet essential maintenance needs or have a significant degree of matched funding or income generation. Detailed reasons for variances and delays in schemes are dealt with in the Quarter 3 General Fund Capital Programme Monitoring report elsewhere on the agenda.
- 4.4 In progressing delivery of the Capital Programme the accurate profiling of capital expenditure will be a priority concern in the monitoring of the programme to ensure that the revenue impact associated with borrowing to fund capital schemes is based on appropriate estimates of annual expenditure. This will be addressed through the utilisation of key milestones and indicators.

Capital Bids and Additional Borrowing

- 4.5 At meetings held in January 2018 the Leadership Team and Council approved a new General Fund Capital Strategy for 2018/19 and the adoption of its content as part of the Council's budgetary and policy framework. The Capital Strategy sets out the long term context in which capital expenditure and investment decisions will be made, giving due consideration to both risk and reward and the impact on the achievement of corporate priorities.
- 4.6 The draft Medium Term Financial Strategy has identified £25 million of borrowing for both 2018/19 and 2019/20 to fund essential capital works, in the absence of usable reserves or capital receipts, to be prioritised by

means of a bidding process using the scoring mechanism included within the Capital Strategy.

- 4.7 At the January 2018 Leadership Team and Council meetings it was agreed that bids for up to an initial £20 million of schemes would be invited from departments to be considered as part of the Council tax setting in February 2018. The initial prioritisation being undertaken by the existing officer board prior to agreement by members.
- 4.8 Service area bids were submitted to, evaluated and scored by the Capital Strategy and Asset Management Board officer group in January 2018. Appendix 2 provides the detail of those schemes put forward to Leadership Team for consideration and agreement for inclusion in the 2018/19, 2019/20 and Future Years Capital Programmes. The total value of schemes recommended for inclusion is £20.267m but this includes some schemes where alternative funding other than borrowing or receipts has been identified. All schemes submitted for consideration achieved a minimum score of at least 50 in the ranking proposals.
- 4.9 Schemes submitted by Transport and Technical Services were all considered to meet the criteria for funding from the Car Parking Account (CPA) Reserve and so the call on borrowing could be reduced. Where the submitted bids were not already an agreed utilisation of the CPA these bids have been restricted to 2018/19 requirements and the affordability of later year's requirements to the CPA will be reviewed in future bidding processes.
- 4.10 Any borrowing entered into must meet the tests set out in the CIPFA Prudential Code, specifically that it is prudent, affordable and sustainable. This requires scrutiny of bid submissions to ensure that all material risks and opportunities are addressed and the scoring is reflective of compliance with these requirements. Borrowing should only be undertaken when officers and Members are satisfied that appropriate provision has been made to ensure that the interest costs can be serviced and the principal repaid.
- 4.11 The council's Prudential Indicators are contained within the Treasury Management report in full elsewhere on this agenda. This includes information relating to the Council's Capital Financing Requirement and Minimum Revenue Provision calculations and associated policies. The impact of the requirements for the Council to undertake borrowing and accounting treatments associated with the Grenfell Recovery process, as agreed with the DCLG, have required an updated Minimum Revenue Provision Policy to be produced which is also attached as Appendix 3 to this report. This updated Policy will need to be approved by Full Council.

2018/19 to 2019/20 and Future Years Capital Programme

- 4.12 The existing 2018/19 to 2019/20 and Future Years Capital Programme was agreed within the Capital Programme Update and Review report

submitted to Leadership Team and Council in October 2017. Table 2 below provides a summary level updated Capital Programme for these years amended to include re-phasing of forecast expenditure from 2017/18, the value of Capital Bids submitted for consideration and approval and changes in the requirements associated with Grenfell related expenditure. A detailed analysis at scheme level is provided at Appendix 4 which distinguishes between the existing programme and proposed new schemes.

Table 2 – 2018/19 & 2019/20 Capital Programme

Service	2018/19 Budget	2019/20 Budget	Future Years Budget	Total 2018-2020 Budget
	£m	£m	£m	£m
Expenditure				
Housing General Fund	37.245	1.240	0	38.485
Adult Social Care	6.257	0.463	0.200	6.920
Children’s Services	11.516	26.681	5.804	44.001
Environment, Leisure and Residents Services	6.579	6.509	3.728	16.816
Libraries, Archive and Heritage Service	0.168	0.120	0	0.288
Transport and Technical Services	6.988	1.897	0.850	9.735
Corporate Services/Property	37.810	9.221	0.428	47.459
Total General Fund Expenditure	106.563	46.131	11.010	163.704

Grenfell related expenditure

- 4.13 In October 2017, the Leadership team agreed to a total addition to the Capital programme of £235 million to cover a range of costs relating to rehousing the victims of Grenfell Tower. This included not only the acquisition of properties to rehouse families, but an estimate of the capitalised cost of compensating registered providers for losses arising to them from rehousing Grenfell tenants on protected rents. Following discussions with MHLCG officials, it has been determined that this sum will not be capitalised but will be a charge to revenue but the Council will resource this from the revenue reserve previously earmarked for capital financing which will now be part of the Grenfell Reserve.
- 4.14 The previous estimate for Grenfell related costs , had no allowance for capital costs relating to the safeguarding of the tower , these are estimated at £18 million and are included in the revised cash flows shown in the appendix. No allowance is included for the future demolition or use of the site which will be subject to a report at a later date.

Funding the Capital Programme

- 4.13 The proposed revised 2017/18 to 2019/20 and Future Years Capital Programme is £416.639m in total.

- 4.14 Table 3 below summarises the proposed funding sources to fund the revised programme. Exactly which resources are applied as part of the year end processes will depend upon a range of factors, but resources will be applied in such a way to reduce the long term impact of any borrowing on the Council’s revenue budget.

Table 3 – 2017/18 to 2019/20 Agreed Capital Resources

Service	Total 2017-2020 Budget £m
Resources	
Capital Grants & Contributions	(31.149)
S106/CIL Contributions	(22.822)
Capital Receipts Reserve	(117.582)
Car Parking Account reserve	(15.795)
Borrowing	(229.291)
Total General Fund Resources	(416.639)

- 4.15 Within the approval to the Capital Review in October 2017, the exact details of how individual projects will be funded was delegated to the Director of Finance. The current resourcing outlined in the table above assumes full use of existing capital receipts and earmarked revenue reserves previously designated for capital support. As such, going forward the necessity for borrowing could be replaced by the use of other earmarked revenue reserves, or vica versa, the level to which these can be used will need to be determined in the light of the ongoing revenue costs post Grenfell.

5. PROPOSAL AND ISSUES

Capital Strategy and Major New Schemes

- 5.1 The Council’s programme includes:

- schemes to meet the Council’s condition, sufficiency and suitability requirements as required within the capital strategy;
- specific provision to address the needs of the Grenfell Recovery process, increasing the supply of permanent social housing or meeting other capital costs arising, such as compensating leaseholders for the loss of assets;
- schemes that will potentially realise significant improvements to services or mitigate spending pressures;
- schemes that will deliver savings or increase income to fund service investment; and,
- schemes where the Council can realise the value of its assets to rebuild existing facilities and/or enable regeneration of the Borough.

6. OPTIONS AND ANALYSIS

- 6.1 Please see **paragraph 5**, of this report.

7. CONSULTATION

7.1 There are no specific consultation issues relating to this report.

8. EQUALITY IMPLICATIONS

8.1 There are no equality implications arising from this report.

9. INFORMATION, COMMUNICATIONS AND TECHNOLOGY (ICT) IMPLICATIONS

9.1 There are no information, communication and technology (ICT) implications arising from this report.

10. LEGAL IMPLICATIONS

10.1 The Council has a duty under section 3(1) of the Local Government Act 2003 to determine and keep under review how much money it can afford to borrow. Section 3(5) of the Local Government Act 2003 provides that the Secretary of State may by regulations make provision about the performance of that duty. Regulations made by the Secretary of State require the Council to have regard to the Prudential Code for Capital Finance in Local Authorities published by CIPFA regarding the affordability of the Capital Programme. The Prudential Code requires the consideration of matters including the implications for the Council Tax, prudence and the long-term implications of any external borrowing.

Legal Implications provided by Joyce Golder, Principal Solicitor on 020 7361 2181

11. FINANCIAL AND RESOURCES IMPLICATIONS

11.1 These are addressed throughout the report and within appendices.

Chris Buss
DIRECTOR OF FINANCE

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

Capital Programme Update and Review report – 19th October 2017

General Fund Capital Strategy 2018-2019 – 10th January 2017

which can be found at:

<http://www.rbkc.gov.uk/councilanddemocracy/howthecouncilmanagesmoney.aspx>

Capital Programme Bid submissions

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Attachments:

Appendix 1 – 2017/18 Quarter 3 Monitoring Position

Appendix 2 – Summary of Capital Bids Received

Appendix 3 – MRP Policy

Appendix 4 – 2017/18 to 2019/20 and Future Years Proposed Capital Programme