



Department for Levelling Up, Housing & Communities

The Rt Hon Greg Clark MP
*Secretary of State for Levelling up Housing &
Communities*

**Department for Levelling Up, Housing and
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Council Leaders in England

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Dear Leader,

FLEXIBLE USE OF CAPITAL RECEIPTS FOR TRANSFORMATION PROJECTS

Today, I have issued an amended direction allowing the flexible use of capital receipts for transformation costs (the Direction). In making the change, I have clarified the Government's intention for use of the Direction by setting out explicitly what constitutes a qualifying disposal. This makes clear that capital receipts used in accordance with the Direction **must only be from disposals where the authority does not still retain some direct or indirect control of the assets**. This clarification can only be deviated from, on an exceptional basis, with the express permission from the Secretary of State.

This flexibility has been in place since 2016, to enable local authorities to use the value of assets to fund transformation projects that produce long-term savings or reduce the costs of service delivery. Most councils use the flexibilities sensibly and will not be affected by this change. Nevertheless, some councils have sought ways to use the Direction in direct conflict with its spirit and intent. This has made it necessary to amend the Direction to make sure that, where it is used, it is done so in line with the intended purpose.

To be clear, I am not seeking to prevent disposals as part of normal business. I understand that local authority companies and joint arrangements are helpful for the delivery of a range of services, and I am not seeking to prevent that. The clarifications are only applicable to the use of capital receipts in accordance with the Direction.

The Prudential Framework enables local decision-making while protecting local tax payers from risk that arises from investment and borrowing. As set out in our local government capital strategy, published July 2021, we are strengthening the capital framework to constrain risk better as well as monitoring the sector carefully. I will not hesitate to act where the spirit of the law is ignored or flouted and where we believe councils are engaging in practices that put local tax payers at unacceptable risk.

Tackling these issues is essential for preserving the freedom for most councils to take sensible decisions about investments to benefit their communities. It is vital, therefore, that councils do not expend valuable time and resource on exploring novel practices and ways to circumvent the rules set by government. Equally, commercial firms and companies encouraging councils to design schemes that ultimately increase risk to local taxpayers should pay close attention to this amended direction.

I hope this clarification is helpful, and my officials will be happy to provide any further detail if required.

Yours ever,

Rt Hon Greg Clark MP
Secretary of State for Levelling Up, Housing & Communities