



Ministry of Housing,  
Communities &  
Local Government

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

Dear Peter,

1. I refer to your email of 1 October 2020 (“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 £4.8m with respect to the financial year 2020/21, 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 Peterborough City Council (“the Authority”) treat as capital expenditure, expenditure which:
  - i. Is either:

- a. revenue expenditure and meets the definition of an additional cost pressure as identified and agreed with the Ministry of Housing, Communities and Local Government (MHCLG) through the Authority's formal request for exceptional financial support; or
    - b. any revenue expenditure not exceeding the value of income losses in the financial period 2020/21 as identified and agreed with MHCLG through the Authority's application;
  - ii. is properly incurred during the financial period 2020/21
  - iii. does not exceed a total of £4.8m.
- 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 Authority may only capitalise expenditure when it is incurred;
  - ii. where expenditure is capitalised, the Authority 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. the Authority will undergo an external assurance review focusing on its financial position and on its ability – including the strength of its governance arrangements – to deliver a plan for financial sustainability without further recourse to Government for additional support. This is to be completed by the end of May 2021 unless a later date for completion is advised by the Department, and will be commissioned by MHCLG, with the intention of it resulting in an agreed plan between the Authority and the Secretary of State to address the review's recommendations; and
  - iv. where the authority's capital financing requirement is increased as a result of the capitalisation of expenditure under this direction, 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.
- 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 Authority to be satisfied that any amount to which this direction is applied is properly incurred in the financial years concerned
- 6. Approval of the total not exceeding £4.8m takes into account the Secretary of State's consideration of the effect on the national economy of granting capitalisation directions to local authorities in England for expenditure incurred in the financial years that began on 1 April 2020. It ensures that the total amount of

expenditure which may be treated as capital expenditure by virtue of such capitalisation directions does not exceed a limit which the Secretary of State considers prudent.

Yours sincerely,

Matthew Hemsley

*Authorised to sign this direction by the Secretary of State for Housing, Communities and Local Government*