

Dear Chief Finance Officers

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

1. This direction commences from financial year beginning 1 April 2025. The direction issued on 2 August 2022, of the same name as this direction, will continue to apply to the financial years beginning 1 April 2022 to 1 April 2024 inclusive, without amendment.
2. In November 2024, the Local Government Finance Policy Statement announced the extension of the flexible use of capital receipts to 2030, **to give local authorities the continued freedom to use capital receipts from the sale of their own assets (excluding Right to Buy receipts) to help fund the revenue costs of transformation projects and release savings.**
3. Accordingly, the Secretary of State directs, in exercise of her powers under sections 16(2)(b) and 20 of the Local Government Act 2003 ("the Act"), directs that local authorities defined in the Local Government Act 2003, section 33(1)(a)-(g), (l)-(m), (jc) and (jd), and fire and rescue services defined in (j), may treat as capital expenditure which:
  - i. is incurred by the Authorities that is designed to **generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners;** and
  - ii. is properly incurred by the Authorities **for the financial years that begin on 1 April 2025, 1 April 2026, 1 April 2027, 1 April 2028 and 1 April 2029.**
4. In further exercise of the Secretary of State's powers under section 20 of the Act, it is a condition of this direction that expenditure treated as capital expenditure in accordance with it **only be met from capital receipts**, within the meaning of section 9 of the Act and regulations made under that section (for current provisions see Part 4 of S.I. 2003/3146, as amended), **which have been received in the years to which this direction and the previous directions of the same name issued on 6 February 2018 and 2 August 2022 apply.**
5. It is a condition that the disposal of assets by which the capital receipts, as per paragraph 4, are obtained must be disposals by the local authority outside the "group" structure. Here, "group" has the same meaning as defined in "group accounts" in the Code of Practice on Local Authority Accounting, as issued by Chartered Institute of Public Finance and Accountancy (CIPFA), whether or not these transactions are consolidated into group accounts and irrespective of whether the authority produces group accounts.
6. It is a further condition that local authorities applying this direction must send details of their planned use of the flexibility to the Secretary of State, for each financial year in which the direction is used. This should be sent as soon as is practicable after the council has determined and approved its strategy for the use of the direction, but must be sent before the flexibility is used. Where local authorities update their plans during the financial year, an updated plan reflecting

the changes must be sent to the Secretary of State. This requirement can be met by providing to the Secretary of State a copy of the authority's own planning documents. However, details provided to the Secretary of State must include as a minimum:

- the amount of planned capitalisation using the flexibility for the relevant financial year;
- the purpose of the expenditure to be capitalised with a description of the associated projects;
- the amount of expenditure that was capitalised using the flexibility for the prior financial year; and,
- the efficiency savings that are directly attributable to the use of the flexibility that were achieved for the prior financial year.

If any of this information is unavailable or unknown, the council must set this out with a description as to why it cannot be provided.

7. The value of expenditure capitalised must not exceed the amount set out in the plan, including any updated plans, provided to the Secretary of State as per paragraph 6.
8. By submitting the information set out in paragraph 6 to the Secretary of State the council will have met the condition; there is no further requirement to receive explicit consent in order to use the flexibility as set out in this direction. It is expected that authorities will evidence, as necessary, to their external auditors that they complied in full with this condition.
9. This direction is given for the purposes of Chapter 1 of Part 1 of the Act only. It does not grant 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 year concerned.
10. When applying the direction, the Authorities are required to have regard to the Guidance on Flexible Use of Capital Receipts issued by the Secretary of State under section 15(1)(a) of the Act.
11. If you have any queries in connection with the above, please do not hesitate to contact the Ministry of Housing, Communities and Local Government at the email address: [capitalreceiptsflexibility@communities.gov.uk](mailto:capitalreceiptsflexibility@communities.gov.uk).

Yours sincerely,

Jim McMahon



Minister of State for Devolution and Local Government.