



Ministry of Housing,  
Communities &  
Local Government

**Jeremy Pocklington, CB**  
Permanent Secretary  
**Ministry of Housing, Communities &  
Local Government**  
2 Marsham Street  
London SW1P 4DF

[www.gov.uk/mhclg](http://www.gov.uk/mhclg)

Meg Hillier MP  
Chair of the Committee of Public Accounts  
House of Commons  
14 Tothill Street  
London  
SW1H 9NB

5 October 2020

Dear Meg,

**ELEVENTH REPORT OF SESSION 2019-21: LOCAL AUTHORITY INVESTMENT IN  
COMMERCIAL PROPERTY**

In the Government's response to the Committee's report *Local Authority Investment in Commercial Property*, the Department committed to writing to you, in September 2020, setting out its approach and timescale for improving its data on council commercial activity, how this relates to its broader review of the prudential framework and how the improved data will be used to strengthen framework compliance. In response to Recommendation 8, the Department agreed to set out how its data review will address the concerns the Committee raised relating to data on new forms of commercial activity, and on the use of data to assess framework compliance.

The annex sets out the Department's planned approach and current progress in improving its data on local Government capital activity, including the risks, trends and drivers of commercial investment and borrowing. The annex includes the Department's plans for how the outcome of the review will be used to strengthen the Department's effectiveness as steward of the capital system by improving future monitoring of risk and compliance, and the Department's intention to use the data review as an evidence base to inform further reform to strengthen the framework. This is provided in fulfilment of the Department's commitment to recommendation 8 of the Committee's report.

I hope this information is helpful to the Committee.

Yours,

**JEREMY POCKLINGTON**

## ANNEX A – A SUMMARY OF THE LOCAL GOVERNMENT CAPITAL DATA REVIEW

### Overview

1. In March 2020, the Department announced its intention to undertake a capital data review (the review) to improve its understanding of borrowing and investment activity. The objective of the review is to build a comprehensive understanding of the risks, trends and drivers of capital investment behaviour in the sector, to ensure Government is able to monitor and address risks from local authority commercial activity, and assess whether the Prudential Framework (the Framework) is fit for purpose.
2. The first phase of the review will identify and collect the data needed to address Government's knowledge gaps. Following this, the Government will analyse the data to build a comprehensive picture of borrowing in the sector, and identify the most useful data. This stock take will improve the Department's ability to monitor trends, risks and compliance in the sector in the future. Following this, the Department will introduce a regular data collection process to maintain oversight of risk, informed by the data collection outlined above.
3. The data collected will also be important evidence in the Department's wider review of the Prudential Framework. As local government capital and investment activity is complex, government needs the right data to ensure that its interventions and policy decisions do not have unintended consequences. It is the Department's intention that the review will provide the evidence and understanding needed to address weaknesses in the Prudential Framework without inadvertently restricting beneficial investment.
4. The review is part of MHCLG's overall capital strategy, which comprises a number of initiatives to ensure that the Department remains effective in its role as stewards of the local government capital system. The other elements of this programme of work are set out in the Department's full response to the Committee's report *Local Authority Investment in Commercial Property* published in the Treasury Minutes, September 2020.

### Background and context

5. The National Audit Office (NAO) report *Local authority investment in commercial property* (Feb 2020) and subsequent Committee report highlighted the risks to the local government sector from the rapid increase in the amount of commercial property investment by local authorities, associated with a sharp rise in borrowing and local government debt.
6. In its report, the Committee also highlighted that the Government has gaps in its data, which it recommended Government should address to improve its oversight of commercial activity.
7. Although the Department has, since 2016, improved its data and the analytical methods used to understand commercial investment, the Department agrees with the Committee's recommendation that more is needed. The Department recognises that the data required to identify and monitor risks associated with capital and investment activity, needs to be responsive to changes in trends and behaviours in the sector.

### Planned scope of the review

8. The key outcomes the Department intends to achieve through the review are:
  - **Outcome 1:** comprehensive data on local authority investment and borrowing activity that closes Government's knowledge gaps. The data itself can be analysed and used for multiple purposes to form a strong evidence base for future decision

making. This will also inform considerations of what data the Department should collect in future.

- **Outcome 2:** a better understanding of commercial investment activity in the sector, its relationship to borrowing, and the risks to financial sustainability. Borrowing and commercial investment have an important role in service delivery, housing and regen, as well as being part of wider financial management such as cashflow and treasury management. It is important for Government to understand this.
- **Outcome 3:** an understanding of the drivers of recent trends in local authority investment and borrowing activity, such that the Department understands not only what has happened, but why.
- **Outcome 4:** a better understanding of the scale and nature of non-compliance with the Framework, to assess whether the current Framework is still fit-for-purpose to constrain risk in the sector.

9. **The first stage** will be a landscape review intended to gather evidence and data. It will consist of the follow steps:

- Identify and collect the data Government needs for an appropriate understanding of the risks and drivers of local authority borrowing and investment activity.
- Analyse the data to build a comprehensive picture of the current risk and how prevalent non-compliance with the Framework is.
- Determine what data government needs to systematically collect in future to maintain effective oversight of the system, commensurate to the Department's role as steward.

10. A key focus of the review will be to understand commercial investment and its relationship to recent increases in borrowing and the risks to the sector. However, the scope will also extend to understanding the relationship of borrowing with service delivery, treasury management and the wider role in financial management – this will be key to understanding how interventions on borrowing may have unintended consequences.

11. The data collected will not be limited to commercial property investments, but will also include financial investments, including investments in companies and joint ventures.

12. **The second stage** will be to use the data as part of our wider review of the Framework. This will include an evaluation of what further policy decisions are needed to strengthen compliance with the Framework.

### **Progress and future timeline**

13. To date, the Department has developed the project plan for the capital data review, and worked with key stakeholders including the NAO, HM Treasury and CIPFA, to ensure that it is robust and meets addresses the requirements of the recommendations from both the NAO and the Committee, with respect to improving Government's data.

14. The Department has generated a comprehensive list of data needs and is developing the appropriate methods to collect the data.

### Key milestones timeline

<b>Milestone</b>	<b>Date</b>
Finalise comprehensive list of data requirements	By end Sept
Request additional information from local authorities (pilot)	Early October
Request additional information from local authorities (full sector)	End October/early November
First set of additional data collected	By end Dec 2020
Review future data needs and develop data policy	Jan 2021
Develop next set of policy reform informed by the additional data	Jan 2021 onward.
Department to write to PAC on Framework review	July 2021