



Ministry of Housing, Communities & Local Government

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Florence Eshalomi MP
Chair, Housing, Communities and Local
Government Committee
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20 February 2025

Dear Florence,

IN-PRINCIPLE CAPITALISATION SUPPORT FOR LOCAL AUTHORITIES

I am writing to inform you that the government has today published on gov.uk details of exceptional financial support provided to a number of local authorities to help them set balanced budgets for 2025-26. I want to make sure that councils have the information that they need to conduct their business sensibly, including setting their budgets. For this reason, the decisions were communicated to councils as soon as possible after the Local Government Finance Settlement. Given that this was while the House was in Recess, a Written Ministerial Statement will be made at the earliest possible moment once the House returns on 24th February 2025. I have also written today in similar terms to relevant MPs, the Opposition, and the Chair of the Public Accounts Committee.

On 3 February 2025, the Deputy Prime Minister set out the final Local Government Finance Settlement for 2025-26. The Settlement makes available over £69 billion for local government, which is a 6.8% cash terms increase in councils' Core Spending Power on 2024-25. The Settlement reaffirms this government's commitment to rebuild and reform local government, and to empower local leaders to deliver that change so that the benefits are felt in every community. The additional funding made available in this Settlement and the Budget will deliver over £5 billion of new funding for local services over and above local council tax.

The government is under no illusions about the fragile state of the sector and the pressures councils are facing to deliver for residents. Reform will take time, however, and we are committed to restoring stability and bringing forward reform to ensure local government is fit, legal and decent and can play its critical role in providing the services communities rely on. We have already taken steps to improve sector sustainability, including targeting money towards areas with greater need and demand for services and less ability to raise income locally at this year's Settlement with the introduction of the new £600 million Recovery Grant.

It is in this context that today my department wrote to 30 councils confirming that we would provide in-principle support to enable them to set balanced budgets. In some cases, this is in relation to requests for support in prior years or to reprofile existing support agreed in previous years. The total amount of support provided in-principle is c. £1.5 billion, around £1 billion lower than was announced last year.

I have no doubt in my mind that without the overall settlement, and the introduction of the Recovery Grant and other measures, more councils may have presented for EFS, and those who did would have needed additional support above and beyond the figure given above. That said it still shows the recovery will take time to complete, and councils will need Government to walk alongside them on the journey.

Details of the councils and support provided for 2025-26 has been published on gov.uk. In some cases, support also relates to 2024-25 and previous years. Support is being provided to six councils whose improvement is being supported via statutory intervention. We are continuing to work with these councils and through the Commissioners and Panels in place to support the councils' recovery from more severe financial issues. We are also providing capitalisation support for Lambeth's Housing Revenue Account for 2025-26. Support across all cases is being provided through capitalisation, a financial flexibility where the government permits councils, in special circumstances, to treat revenue costs as capital costs. We are also publishing a capitalisation direction for Kensington & Chelsea that was agreed under the previous Government but not published prior to the General Election; as well as a revision to a previously agreed capitalisation direction for Lambeth related to its redress scheme.

In making these decisions, we are committed to prioritising the needs of residents. This government is clear that it continues to expect value for the taxpayer's pound. As part of our partnership process, we will seek additional external assurance for some councils that will help support local improvement as well as providing an assessment on action each council is taking locally to help manage its position. I am clear that government will continue to expect councils to make sure they are doing all they can locally to deliver for residents.

The government has carefully considered appropriate protections for the public and the public purse – including the protection of treasured community assets. We have set out a clear expectation that where a council is considering financing capitalisation support through capital receipts, this should not be from the disposal of community and heritage assets. We have also already announced that, where councils deem it necessary to undertake additional borrowing to support their recovery, we will not replicate the previous government's approach of making that borrowing more expensive through an additional 1% premium.

My Department will continue to work closely with all councils covered by this announcement. We are committed to setting a new relationship with the local government sector. As part of this, we will treat all discussions with councils worried about their positions in confidence, with respect and determination to find a solution together.

Yours ever,



JIM MCMAHON OBE MP

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