

THE DRAFT LOCAL GOVERNMENT

(FINANCE) BILL

Executive Summary

July 2009

DEPARTMENT OF THE ENVIRONMENT

EXECUTIVE SUMMARY OF THE DRAFT LOCAL GOVERNMENT (FINANCE) BILL

Background

1. The Department of the Environment (the Department) proposes to modernise the legislative framework relating to local government finance and councillors' remuneration in Northern Ireland through the introduction of a Local Government (Finance) Bill.

Proposed Finance Provisions

2. The greater part of the legislative framework concerning local government finance is in Part V of the Local Government Act (Northern Ireland) 1972. Although this has been updated by subsequent legislation, the provisions on borrowing and council funds are mostly unchanged.
3. The proposed Bill will modernise the legislative framework for local government finance by making provision:
 - to remove the requirements for district councils to gain departmental approval for borrowings and the application of their funds or any proceeds from the sale of capital assets;
 - to introduce certain new powers, including the power to invest;
 - to introduce a prudential regime for capital finance;

- to clarify the nature of the general grant by replacing the two elements of the grant (the resources element and the de-rating element) with two separate grants – a rates support grant and a de-rating grant; and
- to extend to all departments the general power which allows the Department of the Environment to pay grants to councils.

Financial Administration

4. It has been recognised for some time that the legislation for local government finance needs to be updated to reflect modern accounting practices and to bring it in line, where appropriate, with best practice observed by local authorities in Great Britain.
5. This need was identified by the Local Government Taskforce Finance Sub-group in its final report submitted in July 2006, as one of a number of areas for future work. The sub-group suggested that consideration could be given to a system of directions from the Department, based on the Statement of Recommended Practice for Local Authorities (SORP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). Membership of the sub-group included elected members and officers from local government and officials from central government.
6. The new capital finance system sets out the legal framework within which a district council may manage its finances and central government may regulate that activity.

7. The innovative feature of the new system is that district councils will have greater freedom to manage their own financial affairs without having to obtain consent from the Department, and control by central government will be retained through regulations and guidance.

Grants to Councils

8. The Department currently pays a general grant to councils, consisting of a de-rating element and a resources element.
9. The separation of the general grant into two elements has caused some confusion in the past, which the Department aims to remove by replacing the two elements of the general grant with the proposed de-rating and rates support grants. The statutory formulae currently used to calculate the separate elements of the general grant will be applied subsequently, without amendment, to the calculation of the de-rating and rates support grants.
10. The power to pay grants for other purposes currently applies only to the Department of the Environment. This means that, if another department wants to make payments of grants to councils for its own purposes, those payments have to be made through the Department.
11. The current arrangement is unsatisfactory, as the Department has had to pay out grants over which it had no control in respect of policies for which it had no responsibility.

12. This situation has attracted comment from auditors in the past. The Department now intends to address this by extending a power to all departments that will enable them to pay grants in relation to their areas of responsibility.

Proposed provisions on Councillors' Remuneration

13. In March 2005 the then Minister with responsibility for local government, Angela Smith, announced the setting up of an independent review of councillors' remuneration in Northern Ireland. The Department established a Councillors' Remuneration Working Group (CRWG), which included in its membership representatives from the National Association of Councillors, the Northern Ireland Local Government Association, trade unions, business and voluntary sectors together with an independent member.
14. When conducting its review, the CRWG received views, both orally and in writing, from a number of councils and local government organisations. In June 2006, a copy of the CRWG's final report was sent to all councils and to each councillor for comment.
15. The Department has already taken forward most of the recommendations of the CRWG through regulations, made under the Local Government Act (Northern Ireland) 1972. The remaining recommendations will require primary legislation.

16. The proposed Bill will introduce new powers enabling the Department to make regulations:
- to require councils to make and publish a scheme of allowances; and
 - to establish an independent remuneration panel to advise the Minister of the Environment on councillors' allowances.

Miscellaneous

17. In order to ensure that all provisions relating to local government finance arrangements and payments by councils are consolidated into one piece of legislation, the Department proposes to repeal and re-enact some provisions of the 1972 Act.

Equality

18. Under the terms of section 75 of the Northern Ireland Act 1998, the Department carried out screening for equality impact and is satisfied that the proposed legislation will not lead to discriminatory or negative differential impact on any of the section 75 groups. A copy of the screening form can be viewed on the Department's website <http://www.doeni.gov.uk/index/information> .

Human Rights

10. The Department believes that the proposed legislation is compatible with the Human Rights Act 1998.

Consultation

11. The consultation document, which includes a draft of the Bill is available to view at:
http://www.doeni.gov.uk/index/local_government/local_government_consultations.htm
12. The closing date for submitting a response to the consultation is 31 October 2009.
13. If you have any queries in relation to the proposals, or would like to receive a copy of the consultation document, you should contact:

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