Belfast City Council

Report to:	Strategic Policy and Resources Committee
Subject:	**Local Government Finance Act 2011**
Date:	4 November 2011
Reporting Officer:	Ronan Cregan, Director of Finance and Resources
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1.0	**Relevant Background Information**
1.1	The purpose of this report is to provide Members with an overview of the implications of the introduction of the new Local Government Finance Act 2011.
1.2	The Act modernises the legislative framework relating to Local Government Finance and Councillors' remuneration. It introduces a new capital finance system and sets out the legislative framework within which the council may manage its finances. It allows the council greater freedom to manage its own finances without having to obtain consent from the Department of the Environment.

2.0	**Key Issues**
2.1	**Annual Budget** The full council is still required to set an annual budget, however, the Act now requires the Director of Finance and Resources to submit to the council a report on the robustness of the estimates and the council must have regard to this report when considering the estimates for the next financial year. The first report of this kind with be presented to the council as part of the rates setting process for 2012/13.
2.2	**Reserves** The Director of Finance and Resources is now required to provide the council with a report on the accuracy of its reserves when Members are considering the estimates and setting the rate. The first report of this kind with be presented to the council as part of the rates setting process for 2012/13.

2.3	**Borrowing Powers** The new Act retains the power to borrow but removes the requirement for prior approval being sought from the Department of the Environment. Instead the council must now comply with a regulatory framework, known as the Prudential Code, which is already being used by local authorities in the rest of the UK. The Code requires the council to demonstrate that its borrowings are prudent, affordable and sustainable. In order to comply with the Code the council must now agree a set of Prudential indicators which include the following: 1. The impact of borrowing decisions on the level of the district rate; 2. The balance between capital financing and the revenue estimates; 3. The maximum amount of borrowing the council can take on. The council will also be required to agree a Treasury Management Strategy which will set the boundaries for how the council borrows and invests its money.
2.4	In summary, the Act reflects the need for the finances of the council to be aligned to the delivery of its priorities in an affordable, prudent and sustainable manner. In future, the current rates setting process will be supplemented by the agreement of the Prudential indicators and Treasury Management Strategy. To support Members in implementing these new requirements officers have been working with the Chartered Institute of Public Finance and Accountancy (CIPFA) on developing a draft set of Prudential indicators and the Treasury Management Strategy. It is intended to present these to the Strategic Policy and Resources Committee in December for consideration and to present them for formal agreement at the January meeting.
2.5	**Capital Programme** One of the main benefits of the new Finance Act is that the council will have greater flexibility in the way it manages the Capital Programme. At present, the annual cost of the loan repayment for a scheme is budgeted for at the point when the scheme is committed to the Capital Programme. There are times, however, when schemes are delayed for reasons such as planning permission difficulties, land issues, and scheme design problems, etc. This means that the need to borrow for such schemes is delayed. With the new Act, if the full budget for the capital programme loan repayments is not needed in a particular year, that element of the budget which is not required may be reallocated in that year to pay for other capital schemes, on a one-off basis. Members will therefore be able to re-prioritise schemes which the council had not previously been able to commit to for affordability reasons. This will create more flexibility in implementing the Capital Programme, however, we will need to amend how smaller capital schemes are progressed through the Capital Programme approval process. Council officers will be working with Members over the coming months to define and agree this revised process.
2.6	**Members Allowances** The Department of the Environment has just issued draft Guidance on Councillors Allowances for consultation and this will be discussed with Members in December.

	Recommendations
	Members are asked to note the contents of this report and agree to consider a draft set of Prudential indicators and Treasury Management Strategy in December.