

Clerk and Chief Executive of each District  
Council

**Local Government Division**

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Circular LG 19 /07

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Dear Chief Executive

**REVISED APPLICATION FORM FOR LOAN SANCTION UNDER SECTION 61(1) OF  
THE LOCAL GOVERNMENT ACT (NORTHERN IRELAND) 1972**

Section 61(1) of the Local Government Act (Northern Ireland) 1972 provides that where the Department is satisfied that, by reason of the nature of the expenditure incurred or to be incurred by a council in the exercise of any of its functions, the expenditure should be met by borrowing and repayment spread over a term of years, then the council may borrow on such terms and conditions as the Department approves.

The Department has reviewed the current procedures and with the assistance of representatives of the Association of Local Government Finance Officers (ALGFO) and colleagues in Economics Branch, Department for Regional Development has revised the application form for loan sanction and produced a template for completion of an economic appraisal as part of the application. Local Government Division would like to take the opportunity to thank all those who contributed to this exercise in any way.

The template (and worked examples) were circulated at the ALGFO meeting on 8 June 2007 and were generally accepted. These documents are based on the latest appraisal guidance issued by HMT ("Appraisal and Evaluation in Central Government" – The Green Book – 2003) and DFP ("The Northern Ireland Practical Guide to the Green Book" – 2003) and cover all the necessary appraisal steps.

Economic appraisals are recognised as an essential part of good management and ensure that all important factors impacting on the decision at hand are taken into consideration, as well as providing accountability to the ratepayer. Councils have made the point that, generally, appraisals would address issues at local level and only for major projects such as waste management, could the wider strategic context within Northern Ireland be considered. It is most important, however, that full details are provided in the following areas:-

- need and justification for the project;
- targets and objectives;
- options which have been considered and developed; and
- the most up-to-date estimated costs, together with details of anticipated grant; capital receipts; and application of reserves.

Rigorously establishing the need for a project is the first and most fundamental part of good economic appraisal. Therefore, I would draw your attention to the Minister's letter of 7 June 2007 to district council mayors and chairmen urging councils to exercise restraint in local government spending, ahead of final RPA decisions being taken. She stresses the importance of continuing to ensure that current legislation is adhered to and that expenditure incurred strictly reflects the bona fide discharge of a council's existing functions and does not go beyond those powers. Local government auditors have a role in being satisfied through their audit testing that councils have complied with relevant statutory provisions. With regard to this, I would refer you to the 'Report by the Chief Local Government Auditor – June 2007' (pages 11 and 12) in which he sets out some advice to assist councils in the present climate, before making decisions about capital expenditure.

It is not the intention of local government auditors to examine economic appraisals in detail. They will, however, look to see that appraisals have been carried out during testing of fixed assets. In addition, the Code of Audit Practice requires the work of local

government auditors to cover the arrangements made by a local government body to secure value for money. Economic appraisals provide the auditor with added assurance on the value for money considerations which have underpinned significant sums of capital expenditure.

The Department wishes to introduce the revised procedures **with effect from 1 January 2008**. Therefore, all applications for loan sanction, from that date onwards should be submitted in the new format. The intention is that Local Government Division (LGD) will examine economic appraisals and will continue to seek the advice of Economics Branch for major and complex projects. Economics Branch may also carry out a spot check on cases assessed by LGD, to ensure consistency of approach.

As you are aware, the Department can not approve an application for loan sanction until the necessary statutory approvals have been confirmed, nor is it the intention to issue an 'approval in principle' in the interim. However, in an attempt to speed up the process it has been decided that, in future, councils may submit incomplete applications (stating clearly if that is the case). As a first step in the process, the Department will examine the information provided and will confirm that the papers are in order and that the economic appraisal is satisfactory. The council will be advised that the case has been put on hold until such time as the statutory approvals are available. Unless the project itself has changed significantly in the intervening period, the economic appraisal will still be acceptable. However, if there is an increase in costs of 10% or more, the appraisal would have to be revisited. It should be noted that any future application related to an original project would be classified as a supplementary loan.

For submissions that are complete, the Department's target to deal with straight-forward applications is within 15 working days. For other cases where an economic appraisal requires more time, the aim will be to respond to the council within 30 working days. Should queries arise during the examination process, these will be dealt with by telephone with the officer who submitted the application, in the first instance.

I wish to confirm that the maximum term relating to the repayment period for loans is 50 years. This is in line with the arrangements under which the Department of Finance

and Personnel makes advances to district councils in Northern Ireland and is based on the maximum period for the Public Works Loan Board, determined by HM Treasury.

Should you require any clarification regarding this circular, please contact me or Janet Cooper (telephone numbers 9025 6079 or 9025 6083, respectively). Queries specifically relating to an economic appraisal should be directed to Keith Forster (telephone number 9054 0812) unless they are of a more routine nature when they could be handled by Local Government Division staff.

Yours faithfully



**MFT FINNEGAN (Miss)**

cc: Finance Officers of District Councils  
Members of the LG Finance Working Group  
Mrs Brenda Burke, DRD Economics Branch  
Mr David Murphy, NILGOSC