



Fermanagh & Omagh
District Council
Comhairle Ceantair
Fhear Manach agus na hÓmaí

Capital Strategy Report

2026-2031

Introduction

CIPFA's Prudential Code requires a Council to demonstrate that it takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. It requires the Council to have in place a Capital Strategy that sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to risk, reward and impact on the achievement of priority outcomes. A soundly formulated capital investment programme must be driven by the desire to provide high quality, value for money public services. The Prudential Code recognises that in making its capital investment decisions the Council must have explicit regard to option appraisal and risk, asset management planning, strategic planning, and the achievability of future plans.

This Capital Strategy gives a high-level overview of how capital expenditure, capital financing, investments and treasury management activity contribute to the delivery of the Council's plans and provision of local services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance Members' understanding of these sometimes technical areas.

The purpose of the Capital Strategy is to firmly place decisions around borrowing in the context of the overall longer-term financial position of the Council and to provide improved links between the Council's revenue and capital budgets. Decisions made this year on capital and treasury management will have financial consequences for the Council for many years into the future. They are therefore subject to compliance with the Local Government Finance Act (NI) 2011, CIPFA Prudential and Treasury Management Codes and to the strategy and policy framework summarised in this report.

Capital Expenditure and Financing

Capital expenditure is where the Council spends money on assets, such as property or vehicles, which will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £3,000 are not capitalised and are charged to revenue in year.

Capital Plan

The Capital Plan includes a general allocation to support in-year works planned and will be subject to review during the forthcoming financial year. The Capital Plan is presented to Council for approval as part of the Rates Setting Process and is included within the Council's Medium-Term Financial Plan 2026-2031. In 2026/27, the Council is planning capital expenditure of £34.6m and the table below summarises total estimated capital expenditure each year to 2030/31.

Table 1: Estimates of Capital Expenditure in £millions

Capital Expenditure	2024/25 Actual £m	2025/26 Revised £m	2026/27 Estimate £m	2027/28 Forecast £m	2028/29 Forecast £m	2029/30 Forecast £m	2030/31 Forecast £m
Total Expenditure	7.5	16.0	34.6	61.4	40.0	10.7	4.2

Further consideration is required on the affordability of the capital plan for 2026-2031 and the affordability of individual projects included within the capital plan. This is to ensure that the total capital investment of the Council remains within sustainable limits, and that all the resources available to Council and those estimated to be available in the future, together with the totality of proposed capital plans and income and expenditure forecasts, medium term forecasts, borrowing strategies, maintenance costs and planned disposals, risk and uncertainty are taken into account. The capital plan for 2026-2031 includes a number of projects that are currently at the stage of business case development, and these business cases will require consideration of proposed investments to ensure they are prudent, sustainable and affordable, the outcome of these business cases will be determined by future Council decisions which will inform the proposed capital plan.

Governance: The estimated capital plan prioritises capital projects that have received external funding and it is supported by the Council's Options Appraisal Policy (Economic and Business Cases), with governance arrangements in place for the development, prioritisation and implementation of the Council's capital programme. The governance arrangements include a Capital Service Team, managed by a lead officer, an officer led Capital Programme Board which considers and challenges capital and asset management plans that reports to the Corporate Leadership Team and to the Regeneration and Community Committee. The Board is aligned to the Elected Member Capital Programme/Investment Oversight Group which meets up to four times per year.

Capital Financing: All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves, and capital receipts) or debt (borrowing and leasing). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2024/25 Actual £m	2025/26 Revised £m	2026/27 Estimate £m	2027/28 Forecast £m	2028/29 Forecast £m	2029/30 Forecast £m	2030/31 Forecast £m
External Sources	2.2	10.6	13.6	17.7	16.2	5.0	-
Own Resources	5.3	5.4	21.0	7.6	4.2	1.2	1.0
Debt/Borrowing	-	-	-	36.1	19.6	4.5	3.2
Total Financing	7.5	16.0	34.6	61.4	40.0	10.7	4.2

Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as Minimum Revenue Provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance.

Planned MRP/repayments and use of capital receipts over the period of the Capital Plan are as follows:

Table 3: Replacement of debt finance in £ millions

	2024/25 Actual £m	2025/26 Revised £m	2026/27 Estimate £m	2027/28 Forecast £m	2028/29 Forecast £m	2029/30 Forecast £m	2030/31 Forecast £m
MRP (£million)	1.1	1.3	1.0	0.7	2.4	4.0	4.2
Capital Receipts (Planned use)	-	-	1.5	2.8	-	-	-
TOTAL	1.1	1.3	2.5	3.5	2.4	4.0	4.2

The Council's policy for the calculation of MRP in 2026/27 will be the asset life method for borrowing following the introduction of MRP, and loan principal on borrowings made before the introduction of MRP. The Council's Minimum Revenue Provision Policy is included within its Medium-Term Financial Plan.

The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 4: Estimates of Capital Financing Requirement in £ millions

	2024/25 Actual £m	2025/26 Revised £m	2026/27 Estimate £m	2027/28 Forecast £m	2028/29 Forecast £m	2029/30 Forecast £m	2030/31 Forecast £m
Capital Financing Requirement	3.8	2.5	1.7	37.1	54.3	54.8	53.8

Asset Management: To ensure that capital assets continue to be of long-term use, the Council has an Estates Strategy (2020 – 2030) and a Fleet Strategy (2021 -2025) both of which are under review. The Estates Strategy, which supports the delivery of Council Priorities sets out an internal framework for the co-ordinated management of the Council's estate over a 10-year period. It is based on 3 Themes – Reducing the impact of the Estate on the Environment; Effective Estate and Asset Management; and Innovation and Customer Focus. The purpose of the Fleet Strategy is to provide a comprehensive vehicle fleet for all aspects of Council service delivery and focuses on 3 Themes – Reducing Omissions; Efficiency and Cost Effectiveness; and Safety and Compliance. The Council also has in place an Asset Acquisition and Disposal Policy the aim of which is to set out and inform members, officers and other interested parties of the principles and procedures by which the Council will acquire or dispose of land, buildings and facilities and to ensure that this is compliant with all relevant government guidelines for disposal of assets.

Asset Disposal / Capital Receipts: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts. The Council's plans for capital disposals requires further development, consideration and Council decision making, therefore, for the purposes of financing of proposed estimated capital spend it is estimated that capital receipts from asset disposal will average £300k per annum over the medium term. Any significant variation year on year will be taken into account when considering funding and financing

of approved annual Capital Plans. The Council's Estate Strategy is currently under review and further capital receipts may materialise in the medium term. The Council's Capital Programme/Investment Oversight Group which meets quarterly, investigates, identifies and takes forward new and innovative opportunities for income generation (revenue and capital) that support the delivery of Council objectives. Estimated Capital receipts are summarised in the table below.

Table 5: Capital receipts receivable and loans repaid in £ millions

	2024/25 Actual £m	2025/26 Revised £m	2026/27 Estimate £m	2027/28 Forecast £m	2028/29 Forecast £m	2029/30 Forecast £m	2030/31 Forecast £m
Asset sales	0.2	0.2	0.2	1.0	0.2	0.2	0.2
Loans repaid	-	-	-	-	-	-	-
TOTAL	0.2	0.2	0.2	1.0	0.2	0.2	0.2

The Annual Statement of Accounts for the year ended 31 March 2025 includes Assets held for Sale and Surplus Assets in the amount of £0.3m (31 March 2024 £0.3m). Proceeds from the disposal of these assets represent capital receipts which will be transferred to the Council's Capital Receipts Reserve when disposal takes place which will also include capital receipts from other assets that become surplus to requirements and are disposed of in line with the Asset Acquisition and Disposal Policy.

The Local Government Finance Act (Northern Ireland) 2011 (the 2011 Finance Act) makes provision for a District Council to plan for the proper administration of its financial affairs. Part 1 of the 2011 Act also makes provision for a Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt.

Treasury Management

Treasury Management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, where there is a shortage of cash this will be met by borrowing. This will avoid excessive credit balances or overdrafts in the Council's bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

Due to decisions taken in the past, the Council had at 31 March 2025, £2.6m borrowing at an average interest rate of 6.8% and £35.8m treasury investments at an average rate of 4.98% (31 December 2025 - £41.4m at an average interest rate of 4.16%). The Council's policy on treasury investments is to prioritise security and liquidity over yield - that is to focus on minimising risk rather than maximising returns. The Council holds all invested funds in line with its Treasury Management Strategy Statement for 2026/27.

Borrowing Strategy: The Council's main objective when borrowing is to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans

(currently available at around 4.6% (previous year 5.3%) and long-term fixed rate loans where the future cost is known but which attract higher interest rates currently 5.7% to 6.1% (previous year 5.7% to 6.1%) These interest rates have been considered by the Council's Treasury Management Advisors in consideration of long-term borrowing rate of 5% linked to estimated future potential external borrowing. There is a risk that this rate included in the forecasts maybe too high or too low.

Projected levels of the Council's total outstanding debt are shown below, compared with the capital financing requirement (see above).

Table 6: Gross Debt and the Capital Financing Requirement in £ millions

	2024/25 Actual £m	2025/26 Revised £m	2026/27 Estimate £m	2027/28 Forecast £m	2028/29 Forecast £m	2029/30 Forecast £m	2030/31 Forecast £m
Capital Financing Requirement	3.8	2.5	1.7	37.1	54.3	54.8	53.8
Current External Debt	(2.6)	(2.1)	(1.5)	(1.0)	(0.7)	(0.5)	(0.4)
Projected External Debt (balance)	-	-	-	(16.1)	(35.1)	(38.1)	(39.7)
Total Debt	(2.6)	(2.1)	(1.5)	(17.1)	(35.8)	(38.6)	(40.1)

Statutory guidance is that debt should remain below the Capital Financing Requirement, except in the short-term. As can be seen from Table 6 above, the Council expects to comply with this in the medium term.

Liability Benchmark: To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £10m at each year-end, which attracts a MiFID (Markets in Financial Instruments Directive) Professional Status for the Council, however it is noted that the minimum level of £10m may not be achievable over the medium term as spend on the capital programme progresses. The liability benchmark is currently at a £24.7m investment position and is forecast to change to a £53.8m borrowing position over the next five years (based on the assumption that £10m remains the preferred year end investment level) as detailed in Table 7 below.

Table 7: Liability Benchmark in £millions (extracted from Treasury Management Strategy Statement)

	2024/25 Actual £m	2025/26 Revised £m	2026/27 Estimate £m	2027/28 Forecast £m	2028/29 Forecast £m	2029/30 Forecast £m	2030/31 Forecast £m
Liability benchmark	24.7	27.5	13.3	(37.1)	(54.3)	(54.8)	(53.8)

The liability benchmark indicates that the Council does not need to borrow in the medium term to finance the capital programme as cash balances are utilised but there may be a need to borrow in the future depending on how the capital programme progresses.

Affordable Borrowing Limit: The Council is legally obliged to set an Affordable Borrowing limit (also termed the Authorised Limit for external debt) each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.

Table 8: Authorised limit and operational boundary for external debt in £millions

	2024/25 Actual £m	2025/26 Revised £m	2026/27 Estimate £m	2027/28 Forecast £m	2028/29 Forecast £m	2029/30 Forecast £m	2030/31 Forecast £m
Operational boundary -Total external debt	(2.6)	(2.1)	(1.5)	(17.1)	(35.8)	(38.6)	(40.1)
Authorised limit - Total external debt	(3.6)	(3.1)	(2.5)	(18.1)	(36.8)	(39.6)	(41.1)

Further details on borrowing are included in the Council’s Treasury Management Strategy Statement for 2026/27.

Treasury investment strategy: Treasury investments arise from receiving cash before it is paid out again. The Council’s policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy, and the Council may request its money back at short notice. The treasury investment strategy assumes that cash and investment balances are kept to a minimum level of £10m at each year-end, which attracts a MiFID (Markets in Financial Instruments Directive) Professional Status for the Council, however it is noted that the minimum level of £10m may not be achievable over the medium term as spend on the capital programme progresses.

Table 9: Treasury management investments in £millions

	2024/25 Actual £m	2025/26 Revised £m	2026/27 Estimate £m	2027/28 Forecast £m	2028/29 Forecast £m	2029/30 Forecast £m	2030/31 Forecast £m
Investments	35.8	45.0	30.0	10.0	10.0	10.0	10.0
Total	35.8	45.0	30.0	10.0	10.0	10.0	10.0

Further details on investments are included in the Council’s Treasury Management Strategy Statement for 2026/27.

The Council does not currently make investments for service purposes (i.e. assisting local public services in making loans to local service providers and local small businesses to promote economic growth) and does not invest in commercial property or activities purely or mainly for financial gain.

Risk management: The effective management and control of risk are prime objectives of the Council's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

Further details on treasury management prudential indicators are included in the Council's Treasury Management Strategy Statement for 2026/27.

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Corporate Services and Governance and the Head of Finance and staff, who must act in line with the treasury management strategy approved by the Council. Quarterly reports on treasury management activity are presented to the Policy and Resources Committee.

Other Liabilities: At 31 March 2025, the Council had debt of £2.6m. In addition to this, the Council has also provision of £4.5m to cover obligations for the closure and aftercare of its landfill sites in compliance with Northern Ireland Environment Agency Financial Regulations.

Governance: Decisions on incurring new discretionary liabilities are taken in consultation with the Chief Financial Officer and the Director of Corporate Services and Governance. The risk of liabilities crystallising and requiring payment is monitored by the Head of Finance and reported to the Policy and Resources Committee.

Further details on liabilities and provisions are included in the Annual Statement of Accounts for the year ended 31 March 2025.

Revenue Budget Implications: Although capital expenditure is not charged directly to the revenue budget, the direct revenue financing element of the capital plan, interest payable on loans and MRP/loans fund repayments are charged to revenue. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from general grant, district rates, capital grants and contributions.

Table 10: Proportion of financing costs to net revenue stream £millions

	2024/25 Actual £m	2025/26 Revised £m	2026/27 Estimate £m	2027/28 Forecast £m	2028/29 Forecast £m	2029/30 Forecast £m	2030/31 Forecast £m
Financing costs (£m)	1.1	1.3	1.0	0.7	2.4	4.0	4.2
Proportion of net revenue stream	2.2%	2.2%	1.6%	1.0%	3.5%	6.6%	7.4%

Further details on the revenue implications of capital expenditure are included in the Revenue Budget for 2026/27.

Sustainability: Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years may extend for up to 45 years into the future. The Director of Corporate Services and Governance and Head of Finance are satisfied that the proposed capital programme is prudent, affordable and sustainable, it is noted that some of

the projects in the capital programme require decision making as they are dependent on future consideration of full business cases and individual project affordability and there will also be a requirement to focus the Council's Estate Strategy to ensure the efficient, effective and sustainable use of Council Estate and to dispose of any identified surplus assets. Further, there is a continued requirement to review all revenue budgets to ensure they are supported by approved Council strategy and policy and that they are efficiently and effectively aligned to support the Council's Community and Corporate Plans.

Knowledge and Skills: The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. In addition, the Council makes use of external advisors and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisors. This approach is cost effective and ensures that the Council has access to knowledge and skills commensurate with its risk appetite. There are regular engagement and training arrangements in operation.