



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

Medium Term Financial Plan 2020-2025

1. Legislative requirements

The Local Government Finance Act (Northern Ireland) 2011 is the primary legislation concerning the Councils responsibilities in respect of Estimates of Expenditure and Rates Process. Subsection 3 of this Act, requires that before 15 February the Council:

- (a) Shall consider the estimates for the next financial year;
- (b) May revise the estimates in such a manner as the Council thinks fit;
- (c) Shall approve the estimates, subject to any revisions under paragraph (b);
- (d) Shall authorise the expenditure included in the estimates; and
- (e) Shall fix for the next financial year the amount estimated to be required to be raised by means of rates made by the Council.

The Local Government Finance Act (Northern Ireland) 2011 also requires consideration of the Robustness of the Estimates and the Adequacy of any Financial Reserves for the financial year. The Act also requires the Council to determine and keep under review how much money it can afford to borrow.

Councils are required under the Rates (Northern Ireland) Order 1977 to set two district rates, one for domestic properties and one for non-domestic properties, that should be expressed in 'pence' terms and rounded to the nearest four decimal places. The domestic rate is based on capital values. It is a derivative of the non-domestic rate, which is based on rental values, and is arrived at by application of a conversion factor to the non-domestic rate. The Council is subsequently required under the Rates Regulations (Northern Ireland) 2007 to notify the Department of the district rates struck, within 7 days, of the relevant Council meeting and forward details of the Estimates to the Department by 1st March.

A key concept supporting the Act is the Prudential Code ('the Code') which underpins the system of capital finance. The requirements of the Act and the Prudential Code are reported in this Medium-Term Financial Plan for 2020-25.

2. Prudential Code requirements

The Council is required by Regulation to have regard to CIPFA's Prudential Code for Capital Finance in local authorities under Part 1 of the Local Government Finance Act (Northern Ireland) 2011. The Prudential Code sets out a clear governance procedure for the setting and revising of a Capital Strategy and Prudential Indicators and that this will be done in the same

process as the decision-making around the Council's Budget.

The main objectives of the Prudential Code (the Code) are to ensure, within a clear framework, that the capital expenditure plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice and in the full understanding of the risks involved and how these risks will be managed to levels that are acceptable to the Council. The Code requires authorities to look at Capital Expenditure and Investment Plans in the light of the overall organisational strategy and resources and ensures that decisions are being made with sufficient regard to the long run financing implications and potential risks to the authority. The Code highlights that effective financial planning, option appraisal, risk management and governance processes are essential in achieving a prudential approach to capital expenditure, investment and debt.

The Code also requires authorities to have a Capital Strategy in place to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability.

The Council's Medium-Term Financial Plan sets out the Council's Capital Plan for 2020-2025 and includes the Estimated Revenue Income and Expenditure 2020/21 as well as setting out the Council's future Revenue Income and Expenditure Financial Plans. It sets the framework around which the Council plans to use its financial resources to fund activity to deliver its service objectives, priorities and vision.

3. The Capital Plan

An estimated Capital Expenditure Programme for the next five financial years has been developed in consultation with the Estimates Working Group, however this requires further work in terms of prioritisation and definition of certain projects. This will be further examined through the Council's Transformation Working Group and formal plans presented to Council for approval.

This is summarised in the Capital Plan for 2020-2025, which is detailed in **(Appendix 1A)** is subject to confirmation of long-term funding arrangements, the completion of a number of Corporate Strategies and full Option Appraisal.

In considering the affordability of its Capital Plans the Council is required to consider all of the resources currently available of it and those estimated to be available in the future, together with the totality of its capital plans and income and expenditure forecasts. Long term affordability and the impact of funding raised through rates requires further analysis.

The Capital Plan will be subject to regular management review and the major elements of the capital plan will also be subject to review by the Elected Member Capital Oversight Group. The plan also includes a revised programme for 2019/20.

Table 1 below summaries the Capital Plan spend for the 6-year period 2019/20 to 2024/25. The 2020/21 Capital Plan will be reviewed monthly, progress will be reported quarterly, and the plan will be updated as part of the 2021/22 Estimates Process. The capital plan indicates investment of £85m (£68m net of grant) over the next 6 years.

	2019/20	2020/21	2021-25 (4 years)	Total
	£m	£m	£m	£m
Projects subject to external funding (deemed priority)	5.20	9.10	10.60	24.90
Council funded projects	2.50	2.40	49.30	54.20
General allocation to support in year works planned	1.50	1.30	3.30	6.10
Total	9.20	12.80	63.20	85.20

4. Minimum Revenue Provision (MRP) Policy

In order to account for the repayment of the Council's borrowing, irrespective of when the timing of loan receipts and payments might take place, the Council is required Under Regulation 6 of the Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011, to make an annual prudent provision for the repayment of borrowing through a charge to its General Fund referred to as Minimum Revenue Provision (MRP). The Council's MRP policy, which is based on the asset life method for borrowing, is detailed in **Appendix 1B**.

5. Treasury Management Policy

The Treasury Management Policy (incorporating Treasury Management practices) sets out the expected treasury management activities and treasury management practices for 2020/21 and is linked to the Community Plan 2030 and the Council's Corporate, Capital and Improvement

Plans. The policy is detailed in **Appendix 1C** and includes the Council's borrowing and investment strategies.

6. Prudential and Treasury Indicators

The Prudential Code (2017 edition) is produced by CIPFA as a professional Code of Practice to support local authorities in taking capital decisions. The Council has also adopted the CIPFA Code of Practice for Treasury Management in the Public sector and all Treasury Management activities are carried out in accordance with the Code. Both Codes sets out indicators to be used which promote transparency and which should be used to assist in robust budget forecasting, to manage Council spend, borrowing and investment decisions. The indicators are designed to support and record decision making in a manner that is publicly accountable, they are not designed to be comparative performance indicators. To demonstrate that the Council has fulfilled the objectives of these Codes a suite of Prudential and Treasury Management Indicators have been developed and these are detailed in **Appendix 1D**.

7. The Council's Affordable Borrowing Limit

The Prudential Indicators includes a Capital Financing Requirement for 2020/21 of £10.50m and a recommended affordable borrowing limit of £6.30m. The indicators propose that 100% of the Council's debt remains at fixed interest rates.

8. Capital Strategy

The Prudential Code (2017 edition) requires that authorities have a Capital Strategy in place that sets out the long-term context in which capital expenditure and investment decisions are made and which gives due consideration to both risk and reward and impact on the achievement of priority outcomes. The Capital Strategy which is detailed in **Appendix 1E** gives a high-level overview of how capital expenditure, capital financing and treasury management activity contributes to the provision of Council services along with an overview of how associated risk is managed and the implications for future financial sustainability. It refers to the Council's Minimum Revenue Provision Policy, the Treasury Management Policy and Treasury Management Strategy and the Council's Prudential and Treasury Management Indicators.

It is notable that in the latter years of delivery of current services and an expansive capital programme financing demands will increase significantly. (see table below)

	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget
Financing costs (£m)	2.00	1.60	1.60	1.60	2.30	4.00
Proportion of net revenue stream	4.40%	3.30%	3.50%	3.50%	5.10%	8.70%

Work is underway within the Council to review and develop the governance arrangements and decision-making process around capital planning which will identify and prioritise projects to be included in the future Capital Plans taking account of Council and service priorities and financing costs. This will incorporate a review of the Council's Options Appraisal and Procurement Policies and will consider the Terms of Reference of the Elected Member Capital Oversight Group.

9. Revenue Income and Expenditure Financial Plan

A detailed plan of Revenue Income and Expenditure has been developed for 2020/21 following a process which took account of the key risks facing the Council and highlighted rising costs particularly in relation to staff and overhead costs but also highlighted some efficiency savings and areas where additional income can be generated.

The Estimates have been established in the absence of any certainty around Central Government Funding as the Department for Communities (DfC) do not know their budget for Rates Support Grant for allocation to Councils and other central government funding of direct service grants will not be known until after the prescribed date of 15th February (date on or before which Councils must strike a Rate). Further uncertainty exists in relation to the current economic climate and the unknown outcome of the Brexit process.

The Revenue Estimates for 2020/21 forms the basis of Forecast of Revenue Income and Expenditure for the 3-year period to 2023/24. These forecasts are based on the following assumptions:-

- Staff costs include an overall annual increase of 2.75% (pay and pension costs);
- Income across service areas increased by 2% per annum;
- Utilities and Fuel increased by 5% per annum;
- Insurance, rates and other overheads increased by 3% per annum;
- Other programme/service expenditure in line with 2020/21 proposals;
- Capital Expenditure in accordance with outline plans;
- Reserve transfers/movement at similar level to 2020/21; and
- Central government grants remain static.

Future Income and Expenditure forecasts must also take account of the following:-

- The Council's spending priorities linked to the Corporate Plan 2020-24 and the Fermanagh and Omagh Community Plan 2030;
- The Council's Rates Base;
- Optimum level of Reserves and utilisation of Funds; and
- Development of further governance arrangements around the formation and delivery of the Council's Capital Investment Plans and associated financing to include the use of Reserves and consideration of the Council's affordable external borrowing limit.

Service Area	2021/22 Forecast (£)	2022/23 Forecast (£)	2023/24 Forecast (£)
Environment & Place	16,355,000	16,655,000	16,962,000
Community, Health & Leisure	8,645,000	8,875,000	9,117,000
Corporate Services & Governance	6,115,000	6,225,000	6,341,000
Regeneration & Planning	3,105,000	3,175,000	3,248,000
Corporate Management	2,665,000	2,710,000	2,758,000
Total Net Budget	36,885,000	37,640,000	38,426,000
% increase in net expenditure	2.05%	2.05%	2.09%
Transfers to Reserves	600,000	600,000	600,000
Financing of Capital Expenditure	2,300,000	2,300,000	2,800,000
Total expenditure to be funded by central government grant & district rates	39,785,000	40,540,000	41,826,000
% increase in total expenditure	1.62%	1.90%	3.17%
Estimated Central Government Support	-2,980,000	-2,980,000	-2,980,000
Estimated to be raised from Rates Base	36,805,000	37,560,000	38,846,000

The four-year Revenue Forecast will support the Council in its decision making if it is in a position that it needs to deal with unexpected financial pressures that may arise suddenly together with the identification of risks facing the organisation and an assessment of their likelihood and consequence. The Estimates Working Group also highlighted the need for developing sustainable budgets that will meet Council priorities.

Further work is required in the medium term to determine efficiency targets and to realign budgets to meet the actions from the Council's Corporate Plans and to specify actions to be taken should an unforeseen financial constraint or pressure emerge.

10. Summary

The Estimated Revenue Income and Expenditure for 2020/21 and the Capital Plan for 2020-2025 have been developed following consultation with the Estimates Working Group. These have been used as the basis for the Medium-Term Financial Plan which includes a series of forecasts to project the Council's financial position in a longer timeframe.

In compliance with the Finance Act (Northern Ireland) 2011 and associated guidance a Capital Strategy, a set of Prudential Indicators, a Minimum Revenue Provision Policy, a Treasury Management Policy and Treasury Management Strategy have been developed.

Further development work, which will include sensitivity and risk analysis and a review of governance arrangements will be undertaken in 2020/21. To support this development work consideration may also be given to a review of the Terms of Reference of the Elected Member Capital Oversight Group and the continued support of the Council's Transformation Working Group.