

BELFAST CITY COUNCIL

DRAFT MEDIUM TERM FINANCIAL PLAN 2024/25 TO 2027/28

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Medium Term Financial Strategy 2024/25 to 2027/28

1.0 Introduction

The Council has faced a sustained period of financial pressures in recent years. Brexit, the Covid pandemic and global instability have all contributed leading to the cost of living crisis, highlighting the vulnerability of Council finances to external, uncontrollable pressures. In 2023/24 the unprecedented level of uncontrollable costs resulted in the Council agreeing to a 2 year funding strategy to meet budget demands, emphasizing the need for better forward financial planning to ensure the financial sustainability of the Council.

Financial planning sits at the heart of strong and robust public financial management. The ability to look strategically beyond the current financial year is essential to support the Council's overall resilience and longer term financial sustainability while providing the framework against which the Council's annual budget is produced.

Given the economic uncertainty both globally, nationally, locally and the widespread pressures on Council spending from growth in demand for services, it is more important than ever that the Council has a thorough understanding of the financial outlook to enable more effective planning for the future.

1.1 Purpose of the MTFP

The purpose of this Medium-Term Financial Plan (MTFP) is to provide Members and Chief Officers with an appreciation of the financial challenges and resources constraints facing the Council over the next four years so that spending decisions can be taken on an informed basis. Going forward the MTFP will link the Council's vision and priorities, as set out in the 4-year Corporate Plan with estimated financial resources. ([put in link to Corporate Plan](#)) The MTFP will bring together all known factors affecting the Council's financial position and its financial sustainability into one place. This should balance the financial implications of objectives, ambitions and policies against the constraint in resources.

The MTFP does not constitute a formal budget. It provides the financial parameters within which budget and service planning should take place to

ensure the Council sets an annual balanced budget. In accordance with the Local Government Finance Act (Northern Ireland) 2011, the final decisions on the overall budget and district rate increase are for full Council ratification following the appropriate consultations with Chief Officers and Committees of the Council. The financial challenges, assumptions and priorities facing the Council will be updated on an annual basis and refreshed with each new Council.

The MPFP is the pivotal link for translating the Council's ambitions and constraints into deliverable options for the future.

1.2 Objectives of the MTFP

The key objectives of the Council's MTFP are:

- To ensure that the Council sets a balanced, sustainable budget year by year, so that forecast spending does not exceed forecast resources available to it;
- To plan for a level of district rate income that is fair and affordable for ratepayers and has the financial capacity to deliver the Council's policies and objectives;
- To redirect resources over time to support and resource the priorities of the Corporate Plan
- To maintain sufficient reserves and balances to ensure that the Council's long term financial position remains sound.

1.3 Principles of the MTFP

Although the statutory local authority budget setting process continues to be on an annual basis, the CIPFA Financial Management Code recommends that a longer-term perspective is essential if the Council is to demonstrate its financial sustainability.

CIPFA is not at present being prescriptive about the time period of this long-term financial strategy. Different authorities will face different levels of political and financial stability which may have become embedded in different management cultures. However, CIPFA would promote ambition and stress the need for a financial strategy that matches the requirement for a strategic approach to service

planning. The underlying key demand cost drivers, especially those linked to the age profile of the community, can be foreseen at least in broad terms for a decade and more ahead.

The Belfast Agenda and Corporate Plan have set out the Council's ambitions, outcomes and priorities for Belfast. The MTFP is the pivotal link for translating the Council's ambitions and constraints into deliverable options for the future. These can only be delivered through a sound understanding of the organisations longer term financial sustainability, enabling decisions to be made that balance the resource implications of plans against the financial constraints.

The governing principles which provide the basis for the Medium-Term Financial Strategy for 2024/25 to 2027/28 are that:

- The Council's resources will be directed to achieving the overall objectives and key priorities as agreed by the Council and outlined in the Corporate Plan
- The Council will estimate both income and expenditure required for the delivery of services and the gap between income and expenditure will form the baseline against which income generation, savings options and further efficiencies must be implemented.
- The Council will seek in the first instance to balance its revenue budget over the period of the MTFP without reliance on the use of reserves, maintaining departmental spending within approved budgets.
- The Council will continue to focus on delivering value for money - managing service delivery more efficiently, streamlining processes and systems, getting better value from commissioning and procurement, while seeking to minimise the impact of budget savings on priority services.
- The Council will continue to explore opportunities for working in collaboration and partnership in support of the overall objective and key priorities in the Corporate Plan. This may include different service delivery models and sourcing and securing external funding.
- The Council makes decisions on evidence-based information. Chief Officers must take the necessary steps to improve the accuracy and quality of data throughout the Council to ensure that budget and other decisions are taken on a sound financial basis.

- The Council will maintain general and reserves balances in line with CIPFA recommendations. Reserve forecasts will be reported quarterly to Committees and will be reviewed annually as part of setting the annual rate setting process.

1.4 RESPONSIBILITY FOR DELIVERY OF THE MTFP

The key to the successful implementation of the MTFP is the ability to provide clear, evidenced based information to decision makers on the actions that are needed to ensure long-term financial sustainability. Therefore, ownership of the MTFP by Members and CMT is essential for embedding a sound financial management culture throughout Belfast City Council.

2.0 Factors Influencing the MTFP

2.1 External and Internal Factors

Cost of Living

The Council's financial position is impacted by the wider national and international economic context. The cost-of-living crisis started in 2021 when prices for many essential goods increased faster than household incomes, resulting in a fall in real income. Global factors including the wars in Russia/Ukraine and the Middle East resulted in the energy crisis and supply chain disruption, leading to increased costs in many services. The cost-of-living crisis has impacted on the costs of service delivery and ratepayers ability to pay rates.

One of the main risks in developing and managing the capital programme is that insufficient resources are available to resource the impact of inflationary pressures such as the cost of materials. Current high inflation is impacting on the cost of delivering capital projects and these pressures need to be managed appropriately to limit the revenue impact associated with requiring increased borrowing to fund these costs.

Energy Costs

The Council did not increase its energy related budgets in 2023/24 or 2024/25 because of the on-going volatility in the energy market. In addition, the Bank of England projected decreasing energy costs in the medium term. Current base

budgets for energy are inadequate to cover current utility costs and are being funded from specified reserves. Work is ongoing with the Council's Energy Management consultants to manage the financial risks around energy costs over the medium term.

Inflation

The February 2024 Bank of England Monetary Report reports that inflation in the UK has fallen from a peak of 11% in 2022 to 4% in December 2023. Although still above the 2% target, the Bank of England is clear that the inflation target of 2% applies at all times, reflecting the primacy of price stability in the UK monetary policy framework. The framework recognises that there will be occasions when inflation will depart from the target because of shocks and disturbances. However, the Bank of England's monetary policy will ensure that CPI inflation returns to the 2% target sustainably in the medium term. Therefore, for the period of the Council's MTFP, the outlook for inflation is at or below 2%.

Interest Rates

The Bank of England Base rate is currently at 5.25%, its highest level since 2008. Interest rates impact the Council's borrowing and investments and the impact of interest rates over the medium term is managed through the Treasury Management and Prudential Code Strategies.

National Pay Awards

Pay awards are agreed nationally and paid for by the Council. The settlement for 2024/25 is yet to be agreed. Employee costs account for almost 60% of the Councils revenue budget and therefore the pay awards are a significant factor in medium term planning.

NI Executive

The lack of a functioning Executive for five of the last seven years has put pressure on Northern Ireland's finances. A combination of weak budget management due to the inability to make decisions, inflation and pay pressures have contributed to

Executive Department overspends, leading to the reduction or cessation of financial support to the Council.

The recently restored Executive has been asked to publish a fiscal sustainability plan and it is anticipated that such a plan, when implemented, may result in additional financial support for local government. However, with the overspends and pressures in the Executive there is a risk that support for local government may not be forthcoming, putting pressure on the Council to address funding gaps.

Alternative Delivery Models

The Council uses a number of alternative delivery models to help deliver value for money services. These include:

- BWUH Ltd
- GLL
- Innovation Factory
- Partnerships incl BRCD
- Belfast Visitor and Convention Bureau
- Independently Managed Facilities

Reducing the rate burden while improving and transforming service delivery were the drivers for establishing alternative delivery models. The performance of these models should be included in the financial reports to Committee to ensure they continue to support the Council in delivering cost effective services.

In addition, exit strategies need to be developed for services where external funding, included in recurring budgets, will cease in the medium term.

District Rate Increases/Rate Income

BCC relies on rate income to fund almost 80% of its services. Rate base vulnerability is a corporate risk from a financial planning perspective. The changing landscape in the city centre because of the decline in retail and office accommodation may impact negatively on rate income as the city transitions through its regeneration plans.

The Executive have acknowledged that the rating system in Northern Ireland needs to be modernised. Northern Ireland businesses pay the highest business rates in the UK. The Council has a duty to provide value for money services so that rate increases are kept to a minimum.

Belfast Demographics

Services provided by the Council must respond to the needs of residents. The underlying key demand cost drivers, especially those linked to the demographics of Belfast should be visible in departmental plans, with a clear link to future trends to demonstrate why resources need to be continually realigned to demand. The MTFP needs to consider how current and future financing plans will meet the expectations of those who live, work and visit Belfast.

In Belfast:

15.8% of the working age population have no qualifications

58% of the working population travel to work by car or van

22% of children are in low-income

6 out of the 10 most deprived electoral wards in Northern Ireland are in Belfast

15% of people are 65+years and this is predicted to grow to 20% by 2035

42% of the population are 30 years or younger

97 physical barriers or peace walls remain

2.2 BCC Corporate Plan 2024-2028

The MTFP will be aligned to the Council's Corporate Plan (2024-2028) which sets out our direction for the next four years, showing how the Council will play its part in fulfilling Belfast's huge potential. The plan commits to creating a place where people want to live, work, study, visit and enjoy. This will be achieved through continuing to work with partners across the city and using evidence and experience to make intelligent decisions. There is a strong recognition of the importance of the work of other organisations the council works with in delivering a city of opportunity.

2.3 BCC Supporting Strategies and Plans

The Corporate Plan is supported by a number of key corporate and departmental strategies.

Corporate Strategies include:

- People Strategy
- Digital Strategy
- Inclusive Growth Strategy
- Climate Strategy
- Capital Strategy
- Asset Management Strategy
- Treasury Management Strategy
- Corporate Pricing Framework

Departmental Strategies include:

- Tourism Strategy
 - Cultural Strategy
 - Regeneration Strategy
 - Pitches Strategy
 - Waste Strategy
 - Fleet Replacement Strategy
 - Neighbourhood Tourism Strategy
- Etc.....

Successful delivery of the above strategies will depend on the availability of resources.

3.0 Resources

3.1 Budgets and Reserves 2024/25

Council has approved the revenue estimates for 2024/25. The reserves balances for 2024/25 will be approved by Members in May 2024. Departments are expected to maintain expenditure within the approved cash limits and reserve allocations.

Departments are not permitted to exceed these limits without approval from the

Director of Finance. A summary of the overall position for 2024/25 is shown in Table 1 below.

Table 1: BCC Approved Budget and Reserves 2024/25

Source of Funding	2024/25 Budget/Allocation
Rate Income	
Government Grants	
Fees and Charges	
Other Income	
Expenditure	
Capital Financing	
General Reserves	y/end
Specified Reserves	y/end

3.2 Financial Risks 2024/25

Although the Council has agreed the financing required to support services in 2024/25, the underlying financial environment remains extremely challenging. In addition to the general impact from rising costs and the increasing demand for services, there are a number of key financial risks and uncertainties beyond March 2024, including:

Covid legacy – the impact particularly in terms of delivery models and lost or reduced income needs to be addressed in the MTFP

Interest rate risks – the sustained level of high interest rates increases the cost of borrowing for the Council, impacting on investment plans

Inflation risk –For the past number of years, except for contractual CPI, services have absorbed inflationary increases. Although the Bank of England projects that it will meet its 2% inflation target by the end of 2024, baseline prices have increased, and future inflationary increases will have to be included in uncontrollable costs. Inflation also has a significant impact on the delivery of the Council's capital programme.

Use of Reserves - for 2023/24 and 2024/25, the Council's base budget was supported using reserves. This is not a sustainable strategy over the medium term. The rate setting process for 2025/26 will revisit the use of reserves in supporting recurrent budgets.

Reliance on rate income – the Council relies on rate income to fund almost 80% of its services. The MTFP needs to consider a corporate framework for the scoping, development, implementation and management of a range of income generation and commercial opportunities to mitigate against the reliance on rate income.

Executive Funding – the Council sets its budget for the year ahead each February before support from Executive departments is known. Lack of clarity around the sustainability of Executive funding makes it difficult to plan effectively for service delivery. In addition, funding cuts in year puts pressure on the Council to deliver services when commitments to deliver have been made.

3.3 Forward Planning – 2025/26 – 2027/28

The rate setting process for 2025/26 and subsequent years will begin in August. As well as incorporating growth areas identified in the Corporate Plan, consideration must be given to the financial impact of the following issues over the next 3 years:

Expenditure related pressures

- Nationally agreed pay awards
- Superannuation – updated valuation due 2025/26
- Inflation
- Contractual commitments
- Corporate Plan commitments
- Unbudgeted expenditure 2024/25 - utilities
- Committee commitments made during 2024/25
- Revenue implications of capital investment
- **Budget Gap**

Closing the Gap

- District Rate Increase
- Income generation
- Efficiencies

3.4 Capital Programme

