

Report of:	Andy Preston - Mayor and Executive Member for Adult Social Care and Public Protection Ian Wright - Director of Finance
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Submitted to:	Executive -14 February 2022
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Subject:	Revenue Budget, Council Tax, Medium Term Financial Plan, and Capital Strategy 2022/23
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Summary

Proposed decision(s)

That the Executive endorses the proposed budget strategy for 2022/23 as set out in paragraphs 30 to 70.

Having taken into account the matters set out in Section 32 of the Local Government Finance Act 1992 and the items set out within the report, that the Executive endorses the budget requirement for 2022/23 to be set at £118,328,934 as detailed in Appendix 1.

That the Executive endorses the actual amount of Council Tax (Band D) for areas without parish precepts (excluding Fire and Police) be set at £1,809.67. This represents a total increase of 2.99%. This comprises of a 0% increase in general Council Tax, and an additional precept of 2.99% for Adult Social Care (which includes 1% relating to 2022/23, and 1.99% of unused remaining allowable allocation from 2021/22), which has been continued by the Government to contribute towards the shortfall of funding for adult social care.

That the Executive endorses the actual amount of Council Tax (Band D) for areas with parish precepts (excluding Fire and Police) be set at :-

Nunthorpe Parish	£ 1,819.10
Stainton and Thornton Parish	£ 1,818.98

That the Executive endorses the amounts of Council Tax for each category of dwelling be set in accordance with table 4 of Appendix 3 within the report.

That the Executive notes the refreshed Medium Term Financial Plan position for 2022-25 set out in this report in paragraphs 92 to 144.

That the Executive endorses the updated Investment Strategy for the period to 2024/25 as outlined in paragraphs 145 to 150 and detailed in Appendix 4.

That the Executive endorses the Capital Strategy Report (Prudential indicators, Investment Strategy and Minimum Revenue Provision) 2022/23 as outlined in paragraphs 151 to 162 and detailed in Appendix 5, and endorses the Authorised Limit for external borrowing of £356 million for the Council for 2022/23 as set out in paragraph 161.

Report for:	Key decision:	Confidential:	Is the report urgent?
Decision	Yes – over the financial threshold (£150,000) and affects more than two wards	No	No

Contribution to delivery of the 2021-24 Strategic Plan

People	Place	Business
The setting of the Revenue Budget, Council Tax, Capital Strategy for 2022/23 and the revision of the Council’s Medium Term Financial Plan for 2022-25 plays a central role in ensuring that the Strategic Plan is delivered effectively.		

Ward(s) affected

Expenditure outlined in the revenue and capital budgets will positively impact on all wards in Middlesbrough.

What is the purpose of this report?

1. This report presents the recommended Revenue Budget of £118,328,934, Council Tax increase of 2.99% (paragraphs 71 to 91), and Capital Strategy Report for 2022/23 (paragraphs 151 to 162). Attached to the report are a number of appendices, which are listed at the end of the report.
2. Following on from the previous report presented to Council on 24 November 2021, this report also provides a refreshed Medium Term Financial Plan (MTFP) for the period 2022/23 to 2024/25 to reflect the 2022/23 Local Government Finance Settlement (paragraphs 17 to 29).
3. The Medium Term Financial Plan update in this report is integrated with the £207.3 million Investment Strategy for Middlesbrough for the period from 2021/22 to 2024/25, supported by £102.4 million of the Council's own resources. The updated Investment Strategy is shown in Appendix 4.
4. This budget continues to support the Mayor's commitment to invest in Middlesbrough and transform service delivery for residents. It is intended that through this strategy the Council can achieve the challenging financial targets faced in the Medium Term Financial Plan period whilst ensuring that there is a minimum impact on the level of service delivered to the public.

Why does this report require a Member decision?

5. Full Council is required under legislation to set a revenue budget and agree the level of Council Tax and Prudential Indicators for 2022/23. The Executive have a key role in proposing to Full Council the revenue budget, level of Council Tax and Prudential Indicators.

Report Background

Refreshing the Strategic Plan for the 2022-25 period

6. Full Council approved a Strategic Plan for the period 2021-24 on 24 February 2021. That plan set out a number of revised strategic priorities for the Council in light of the impacts of Covid-19 on local communities and on the way the Council will do business in the future. Following publication of several key White Papers over the past year, specifically in respect of adult social care reform and 'Levelling Up', the Council is currently reviewing whether it is necessary to further revise its strategic priorities and additional actions it may need to take in response to the changing delivery landscape and local needs and ambitions, including those identified in the Let's Talk 2022/23 budget consultation. Should any significant changes to strategic priorities be considered necessary, these will be proposed to Council on 30 March 2022, with public consultation on changes to be undertaken thereafter. The proposed revised Strategic Plan for 2022-25 will then be presented to Council on 1 June 2022 for consideration.

Consultation

7. The Medium Term Financial Plan sets out the financial envelope that is necessary to achieve those aims and the savings necessary for living within those financial plans (budget savings).
8. The Council noted a report from the Elected Mayor on 24 November 2021 which provided an update in respect of the Council's Medium Term Financial Plan position for the period to 2024/25, reflecting and supporting delivery of the Strategic Plan.
9. The Elected Mayor set out at the Council meeting on 24 November 2021 the proposed budget and a proposed total Council Tax increase of 2.99% for 2022/23. In order to protect front line delivery the budget proposed included no additional budget savings in 2022/23. There was a desire to minimise the effect of Council Tax increases to residents, whilst also taking account of the fact that the Government are likely to assume that the Council will increase its Council Tax by this amount in their calculation of the Council's Core Spending Power, which is a measure of how much the Government believes the Council can raise from Council Tax and that it has available to spend.
10. The duty to consult, where proposals affect individuals or groups of individuals, arises both in statute and through common law. As stated in the report to Council in November 2021 there were no additional budget savings proposals for 2022/23, and therefore the budget consultation was only regarding the proposed budget and Council Tax increase for 2022/23.
11. Consultation in respect of the proposed budget and Council Tax increase for 2022/23 commenced on 25 November 2021 and concluded on 23 January 2022, with appropriate impact assessments undertaken considering responses to the consultation.
12. The budget consultation was undertaken this year as part of an "annual conversation, with local communities and Council's stakeholders. This built on the success of last year's "Let's Talk" annual conversation.
13. The aim was to encourage as many people as possible to take part in the annual budget consultation.
14. The consultation this year included the following :
 - a general public survey on the Council's website, with hard copies available upon request;
 - a general consultation email address;
 - consultation with the Council's Overview and Scrutiny Board;
 - consultation with the local business sector, including a specific consultation meeting with the local Chamber of Commerce on 19 January 2022; and
 - involvement of elected members in the overall process.
15. The consultation resulted in 488 responses to the Council's consultation. Analysis of the budget consultation responses shows:

- 33.81% of respondents who answered the question were in favour of a Council Tax increase of 2.99%. 65.78% were against, and two individuals did not answer the question
 - The survey asked those who disagreed with the budget proposal to provide alternative suggestions they thought should be considered. 244 comments were received. Comments and alternative suggestions related to member and officer remuneration, concerns about the impact of inflation and affordability, business rates and perceived waste within service delivery and various high profile projects.
16. Responses to the budget consultation survey were analysed to assess whether there were any concerns about impacts from proposals that varied by protected characteristic, which could give an indication of an unintended impact or a concern that there would be a disproportionate adverse impact on individuals or groups because they held one or more protected characteristics. This analysis is set out in the Equality and Diversity section in paragraphs 176 to 180 of this report. An overall impact assessment that has been completed as part of this process is appended to this report in Appendix 2. It is recognised that the majority of responses were against the proposed Council Tax increase, however the experience over the last year and the ongoing effect of Covid-19 and other risks mean that it is felt that the Council Tax increase cannot be reduced any further without adversely affecting service delivery and the medium term financial stability of the Council.

The Local Government Finance Settlement (LGFS)

17. The Autumn Budget and Spending Review 2021 (SR21), published by the Government on 27 October 2021, set out the Government's spending plans for the lifetime of the parliament.
18. Whilst SR21 provided a number of indications of the level of funding that will be available for local government over the period it did not provide full details of the funding mechanism, or confirm that a multi-year funding settlement would be provided to local authorities. It also did not provide individual funding allocations for each local authority.
19. The full details of the funding mechanism and the allocation to individual local authorities for 2022/23 only was provided as part of the provisional Local Government Finance Settlement which was published on 16 December 2021 and after a period of consultation was confirmed as part of the final settlement published on 7 February 2022.
20. SR21 announced additional funding for local government. These were subsequently included in both the provisional local government settlement of 16 December 2021 and were included in the final settlement published on 7 February 2022.
21. Whilst the additional funding is welcomed, a large proportion of the funding announced will be for one year only (2022/23), and therefore does not assist with tackling recurring funding pressures. This level of uncertainty means that future funding remains one of the most significant risks to the Council.

22. Even though there was additional funding announced for 2022/23, Government funding for local government as a whole has fallen substantially since 2010. Since changes were made to the Local Government Finance System in 2013/14 Middlesbrough Council has suffered a significant reduction in Government funding, with a reduction of £41.3 million (51%) from £81.2 million received in 2013/2014 to £39.9 million in 2022/23.
23. It should also be noted that a large proportion of the additional funding available to local government (over 85 per cent) is expected to come from increases in council tax made by local authorities.
24. The main areas of additional funding are detailed in the following bullet points:
 - The introduction of a one-off Services Grant worth £822 million nationally in 2022/23. This new grant has been distributed through the existing formula for assessed relative need across the sector, using 2013/14 shares of Settlement Funding Assessment. The new grant is intended to provide funding to all tiers of local government in recognition of the vital services, including social care, delivered at every level of local government. It includes funding for local government costs for the increase in employer National Insurance Contributions. The grant will not be ring-fenced. The Government intends this to be a one-off grant for 2022/23 and to work closely with local government on how to best use this funding from 2023/24 onwards. This funding would be excluded from any proposed baseline for transitional support as a result of any potential future system changes. Middlesbrough Council's allocation for 2022/23 is £3.172m, which is decrease of £0.878m from the estimated £4.050m initially assumed in the MTFP Update report to Council in November 2021.
 - Existing 2021/22 Social Care funding comprising Social Care Grant of £6.339m, relating to both Adults and Children's Care, is continued for 2022/23. In addition to this additional Social Care Grant of £2.204m for 2022/23, relating to both Adults and Children's Care, was also announced. This means that Middlesbrough will receive £8.543m of Social Care Grant in 2022/23.
 - The Government outlined at SR21 that £3.6 billion will go directly to local government over the SR21 period to implement the cap on personal care costs and changes to the means test within adult social care as part of the adult social care reform outlined in the Health and Social Care White Paper. This funding will also help local authorities better sustain their local care markets by moving towards a fairer cost of care. As part of this funding the Government announced in the LGFS that in 2022/23 this will be the Market Sustainability & Fair Cost of Care Fund worth £162 million nationally and £512,000 to Middlesbrough in 2022/23. The methodology used for distributing the funding in 2022/23 is the existing adult social care relative needs formula. The 2022/23 funding is designed to ensure local authorities can prepare their markets for reform and move towards paying providers a fair cost of care, as appropriate to local circumstances, and therefore currently it has been assumed in the updated MTFP that all income received from this additional funding will be fully utilised to cover the increased costs arising from this. The LGFS did not announce any details of the method of allocation to individual authorities of the overall funding for future years.

- That the improved Better Care Fund (iBCF) for Adult Social Care will increase by inflation, which is set at the level of Consumer Price Inflation at September 2021 which was 3.1%. The inflationary increases to this grant creates additional income to the Council of £254,000 in 2022/23, and it has been assumed in the 2022/23 budget that this will be fully offset by increased costs.
- Revenue Support Grant (RSG) will increase by inflation for 2022/23, which is set at the level of Consumer Price Inflation at September 2021 which was 3.1%. The inflationary increases to this grant creates additional income to the Council of £377,000 in 2022/23.
- SR21 announced and the LGFS confirmed, that as well as legacy payments from previous years continuing to be received, there would also be new 2022/23 allocations of New Homes Bonus Grant, however there would be no legacy payments in future years for the new 2022/23 allocations. New Homes Bonus is funded by a top slice from Settlement Funding, this means that authorities lose Settlement Funding but stand to gain from the New Homes Bonus they earn. The Government intends to consult on a new housing growth incentive beyond 2022/23. Estimates of New Homes Bonus to be received by the Council in the MTFP period have been revised to reflect this announcement, with additional income to the Council of £773,000 in 2022/23.
- The continuation of Lower Tier Services Grant (LTSG) introduced in 2021/22 for 2022/23, worth £111 million nationally in 2022/23. The aim is to support lower-tier services including homelessness, planning, recycling, refuse collection and leisure services. Middlesbrough's allocation for 2022/23 is approximately £300,000. The LGFS did not indicate if this would continue in future years beyond 2022/23, and therefore currently in the updated MTFP it is assumed that this will be a one-off grant only in 2022/23.
- SR21 stated that it was the Government's intention to maintain the total Public Health Grant in real terms. Whilst the LGFS did not provide any details of the Public Health Grant allocations, these were subsequently announced separately for 2022/23 only on 7 February 2022. Middlesbrough will receive £17,730,663 grant in 2022/23, a 2.81% increase on the amount received in 2021/22. This is below the current rate of inflation, and also slightly below the level of inflation used to calculate the RSG increase. Also additional responsibilities have been added in, including Covid-19 functions (test, track and trace, outbreak planning, and other public health Covid-19 spend). The public health grant is ringfenced for use on public health functions. It is therefore assumed that the increase in funding of approximately £484,000 will be fully spent on public health activities.
- The Government also confirmed within the Local Government Finance Settlement that there would be no further Government funding in 2022/23 to local authorities for the financial effects of the Covid-19 pandemic.

25. Under the current business rates retention system Middlesbrough receives a top-up payment, as the assessed cost of providing services in the Borough is greater than the share of business rates retained locally. The top-up payment has been frozen in 2022/23 and therefore the payment to Middlesbrough has remained the same as in 2021/22 at £27.299 million.

26. The LGFS announced additional Section 31 Business Rates grant of £1.368 million, which compensates for the under indexation of the Business Rates multiplier over previous years and for the freezing of the small business multiplier in 2021/22 and 2022/23 on the top up payment mentioned above. It is proposed that due to the risk to the Council's finances that the future economic climate caused by Covid-19 continues to adversely affect Council Tax and Business Rates collection rates and the corresponding income received by the Council over the MTFP period, and that this is not compensated for by additional Government grant funding, this has been placed in a contingency budget for the potential effects of this in the future. This will be closely monitored and updates will be provided in future reports.
27. An estimate has been made of retained business rates income in 2022/23 of £15.468 million. This figure represents a decrease of £2.125 million on 2021/22. This reduction is due to the Retail, Hospitality and Leisure Relief granted by the Government to business in 2022/23 only. The Council has been compensated for this, including the effects of the freezing of the small business multiplier in 2022/23, by receipt of additional Section 31 Business Rates Grant of £3.439 million in 2022/23 only. Note that this is in addition to the Section 31 grant outlined above in paragraph 26, making a total increase in Section 31 Business Rates Grant of £4.807 million in 2022/23.
28. As part of the business rates system rate payers are entitled to submit an appeal against the valuation of their business, if successful this appeal will be backdated to the date of valuations. The cost of repaying appeals, including backdating, is met by the Council in proportion with its share of Business Rates. As a result of the valuations being new, it is difficult to forecast what level of appeals will be received in relation to the new bills from business ratepayers and also to understand what proportion of such appeals might be successful. Performance against this estimate will be closely monitored over the course of 2022/23.
29. Whilst not strictly part of the LGFS, in the documentation it was confirmed that as mentioned in SR21 the Troubled Families Programme (now called Supporting Families Programme) which was planned to cease at the end of March 2022, would continue until 2024/25. The grant funding has helped to support key preventative and early help services for children and families within Children's Services. The MTFP had previously included a provision of £486,000 per annum from 2022/23 to continue essential services following the planned removal of the grant from 2022/23, however the announcement of the continuation of funding has now enabled this provision to be removed from the MTFP. The LGFS announced that allocations for individual local authorities for 2022/23 would be announced separately at a later date.

Proposed Revenue Budget 2022/2023

Budget Principles

30. In preparing the 2022/23 revenue budget and Medium Term Financial Plan, the following principles, consistent with budget strategies in previous years and statements made by Executive have been adopted:

- to maximise the efficient, effective and economic use of resources, in conjunction with partners where appropriate;
- to minimise the effect of Council Tax increases on residents whilst maintaining service provision;
- to make services fully accountable for their own budgets and spending, including additional pressures. Calls on the Medium Term Financial Plan should only be made when local and directorate resources are exhausted and all requests are required to be approved by the Council's Leadership Management Team;
- to maintain appropriate medium term budget planning and monitoring processes, ensuring known commitments are provided for and budgets are set in real terms with the effect on service delivery clearly identified;
- services will receive, in full, the impact of contractual inflationary increases (including pay awards). No inflation will be provided for general supplies and services, which are expected to be met from efficiency savings. However, it should be noted that due to rising inflation rates additional inflation contingencies, which will be held centrally, have been provided for in the 2022/23 budget setting;
- to support budgetary investment in economic growth to drive increase in income through Council Tax and Business Rates;
- on termination of a specific grant, a business case for any continued funding will be prepared, which will need to be assessed against other pressures on the Medium Term Financial Plan;
- all specific reserves require approval by the Director of Finance, where specific reserves exist these will be reviewed regularly by the Director of Finance as part of the Medium Term Financial Plan refresh to ensure that they are still required; uncommitted funds may need to be used to fund pressures elsewhere;
- any revenue budget where there has been a significant underspend for two or more years will be reviewed with a view to reallocating funds;
- the Investment Strategy will be reviewed regularly to ensure an ongoing need for allocated funding with a view to reallocating funds which are not required;
- any new schemes for approval within the Investment Strategy must be firstly approved by the Council's Leadership Management Team; and
- a consistent framework for budgeting for staff costs will be implemented.

Budget Assumptions

31. The following budget assumptions have been applied:

Pay awards

32. No agreement has yet been reached between the National Employers and the NJC Trade Unions as to the pay award for 2021/22 for Local Government Services employees effective from 1 April 2021. The National Employers have made a full and final offer of 1.75% for 2021/22. The current assumptions in the MTFP are for a 2% pay award each year in both 2021/22 and 2022/23 and future years of the MTFP. Based on current information these assumptions are still valid, and have therefore not been changed. As well as the uncertainty caused by the delay in finalising the 2021/22 pay award, there is also a high level of uncertainty around local government pay awards in future years, and therefore the assumptions made in the MTFP for future years will be constantly reviewed. It should be noted that each 1%

increase in pay equates to approximately £900,000 additional cost per annum. Approximately £1.8 million has currently been provided in a central pay and prices contingency budget for the potential effect of the pay award in 2022/23. This is in addition to the £1.8 million held in the central pay and prices contingency budget for the outstanding 2021/22 pay award.

Additional employers National Insurance contributions

33. As mentioned in the MTFP Update report to Council in November 2021 the Council will have to pay from 2022/23 increased National Insurance contributions for its own staff, and also any potential costs relating to this from its suppliers. It has been estimated that the cost of the increased National Insurance contributions for Council employed staff will be approximately £1m per annum. Due to the uncertainty regarding the pay awards and the potential knock on effect, this will initially be held centrally and allocated to Directorates in the first quarter of 2022/23.

Living Wage

34. Provision of £1.7m has been made in 2022/23 for the impact of the increase in the National Living Wage on the costs of adult social care services commissioned by the Council. This accounts for the Government announcement in SR21 that it remains committed to raising the National Living Wage in order so that it reaches two-thirds of median earnings, and that the National Living Wage will increase from £8.91 to £9.50 an hour effective from 1 April 2022 (a 6.6% increase).

Inflation

35. As extensively reported nationally there are currently hyper-inflationary increases in the cost of energy, and this is likely to exist in the medium term. The extent to these increases is not yet fully known, but in light of this and using estimates based on latest available information, provision of £371,000 per annum has been made in the updated MTFP from 2022/23 for the potential effects of this.
36. Contractual inflation at a total cost of approximately £1.5 million has been assumed for 2022/23. No provision has been made for inflation for supplies and services, and it is expected that any inflationary pressures in this area will be met from efficiency savings. However, as detailed in paragraph 38 a contingency budget for the potential effects of this has been included for 2022/23, due to the potential inability of service directorates to achieve this in 2022/23 due to the current high levels of inflation.
37. Income from fees and charges has been assumed to generally increase on average by 1% in 2022/23, with the exception of the following :
- building cleaning provided to external bodies (including schools) - 5%
 - catering services provided to external bodies (including schools) - 2%
 - legal fees - 2%

This will produce an estimated total income of approximately £0.4 million in 2022/23. There is no increase assumed in 2022/23 for car parking charges, statutory charges, and for budgets where income targets are currently not being achieved. In light of the

ongoing effects of Covid-19, all income will be closely monitored for performance against income targets and reviewed as necessary.

Additional inflation contingencies

38. Inflation is nationally running at high levels across a wide range of areas and therefore specific analysis has been made of the potential effects of additional inflation costs for Middlesbrough from 2022/23. Additional inflation contingencies totalling approximately £4.6m of recurring funding have been provided for, based on the estimated potential effect in the following areas :
- Pay award - £900,000 contingency to provide for potential pay award up to a maximum of overall of 3% (as mentioned in paragraph 32 the budget currently provides for 2%)
 - Energy - contingency of a further £459,000 (this is in addition to £371,000 already provided for as detailed in paragraph 35)
 - General supplies and services – £459,000 (see also paragraph 36)
 - Vehicle fuel – £51,000
 - Food (including school catering and children’s homes) – £105,000
 - Agency staff costs – £245,000
 - Increased Adult Social Care Costs over that already provided for in budget - £1,604,000
 - Increased Children’s Care costs over that already provided for in budget - £545,000
 - Potential non-achievement of inflation applied to income budgets due to economic climate - £276,000
39. It should be noted that in the MTFP Update report to Council in November 2021, an amount of £1m per annum was provided for increased costs charged by suppliers, including for the effect of the increase in National Insurance contributions and other potential inflationary increases from suppliers. This has now been removed and replaced by the above.
40. Due to the continuing uncertainty around this and the ongoing effects it is proposed that this is held centrally as a contingency budget, and will be allocated when appropriate to Directorates if required. In the opinion of the Director of Finance, based on current information available, this provision should be sufficient to cover inflation pressures in 2022/23.

Spending pressures –Children’s Social Care

41. As reported previously Children’s Social Care, remains the biggest area of financial concern for the Council. The Council has an Ofsted Improvement Plan in place, and the financial situation is being closely monitored jointly by the Service and Finance, and a three year plan has been drawn up to ascertain the estimated outturn position for the current and future financial years and therefore the potential MTFP impact.
42. The report to Council in November 2021 detailed additional funding totalling over £3.3m which has been provided in the MTFP to Childrens Services from 2024/25 to support this. In order to enable some initial permanency of staff supporting the

improvement journey £300,000 of this funding has been provided earlier from 2022/23.

Covid-19 ongoing pressures

43. As detailed in the report to Council in November 2021, there are a number of income generating areas for the Council, such as parking, cultural and leisure facilities that could potentially see budget pressures as a result of the continuing effect of Covid-19 and the recovery both in 2021/22 and beyond. Provision has been in the MTFP for the effects of these as outlined in the following paragraphs.
44. From 2022/23, £230,000 per annum has been provided for the potential lost income from the cultural events and activities provided at the Town Hall, which has also been compounded by the potential effect on income due to the Globe Theatre opening nearby in Stockton.
45. Provision has been made for reduced car parking income in the future due to the effects of increased home working following lockdown and the reductions in people using the retail provision in the town centre. The pressure can be covered in 2022/23 from grant income received from the Tees Valley Combined Authority (TVCA) for the provision of 3 hour free parking across the Tees Valley, however from 2023/24 there is a requirement for additional annual budget provision of £677,000 and a further £87,000 in 2024/25.
46. As detailed in the MTFP Update report to Council in November, whilst it is not planned to provide any further subsidy support beyond 2021/22 relating to the Covid-19 ongoing impacts on SLM's (the Council's provider of leisure facilities) income, provision has been made in the MTFP from 2022/23 to reflect the fact that it may be difficult for SLM to achieve a profit in the medium term and therefore fully pay the "profit share" due under the contract. An incremental approach to SLM achieving their contracted "profit share" by 2025/26 has been provided for in the MTFP.
47. Detailed discussions are currently taking place with SLM on an open book basis in order to reduce as far as possible the financial pressure to the Council in both 2021/22 and in future years, and updates will be provided in future reports.
48. As mentioned in the report to Council in November there is potential ongoing future "Covid scarring", in particular within the Care Sector. Additional provision totalling £2,334,000 has been made for this in 2022/23 only. It should be noted that previously it was intended to leave £856,000 in the MTFP from 2023/24 onwards for this, however due to the additional Government funding for Social Care announced in the LGFS it has now been determined that this can fully be removed from the MTFP from 2023/24 onwards.

Other Spending pressures

49. The MTFP report to Council in November 2021 detailed a number of ongoing spending pressures / service demand pressures which are likely to continue in the future and for which funding has been provided in 2022/23 and ongoing :

- £150,000 for Bereavement Services to reflect reduced income due to Stockton crematorium opening
- £120,000 for the Integrated Transport Unit budget, where there are increased numbers of children qualifying for home to school transport. In addition, there is a predicted increase in external contract prices caused by a shortage of drivers which is increasing wages, and also due to the increase in fuel prices
- £160,000 for ongoing increased costs in the Coroners Service due to a rise in the number of cases, and an increase in pathology and post-mortem costs
- £41,000 for an additional post within Education and Partnerships to develop and expand the Fifty Futures Programme
- £76,000 for additional posts within the Freedom of Information (FOI) team to deal with an increase in the number and complexity of FOI requests received by the Council
- £50,000 per annum for 3 years for Community Environmental Initiatives as approved by Executive on 5 October 2021
- £100,000 additional per annum in both 2022/23 and 2023/24 for the potential additional costs arising from the Insurance Review
- £484,000 has been provided within the Education and Partnerships budget for the funding of Inclusion/Specialist Support Services to young people (this was previously funded from the Dedicated Schools Grant (DSG) which the Council receives). However, this is fully mitigated by increased Education contributions of £750,000 funded from DSG towards the cost of external residential agency placements.

50. The report to Council in November 2021 outlined an anticipated pressure estimated to be £500,000 per annum as a result of the need to secure an alternative contractor to process kerbside recycling material following the previous contractor entering into administration, and at that time this was assumed in the updated MTFP. Following the end of the tender process for a new contractor and evaluation of the results of the tender exercise it has been determined that this will no longer be required, and also in addition the existing revenue budget can be reduced by £180,000 making a total saving of £680,000 achieved as a result of the tender exercise.
51. Provision of £169,000 per annum has been made from 2022/23 to the Waste Collection budget for increased demand in cleansing (including in back alleys).

Additional income

52. As reported to Council in November 2021 additional rental income above the current budget is estimated to be received from developments that the Council has made in the town. Additional annual income of £330,000 in 2022/23 is predicted due to the continued success of Tees Advanced Manufacturing Park (TeesAMP). In addition, additional unbudgeted income of £200,000 per annum from Captain Cook Square is assumed from 2022/23. Both these developments, along with the Centre Square Buildings 1 and 2 development, have provided additional income to the Council, after deducting capital financing costs, which has negated the need for the Council to make budget reductions to front line services.

Additional Investment

53. Revenue funding of £200,000 has been provided for 2022/23 only to provide additional support for the provision of events in the town. This will help with the recovery of Middlesbrough following the Covid-19 pandemic.
54. A budget of £495,000 per annum has been provided for investment in services provided to residents. It is proposed that this will be spent on delivering the priorities of the current and to be refreshed strategic plan, such as tackling antisocial behaviour, enhanced youth provision, and enforcement action against eyesore sites. This budget will initially be held centrally, and will be allocated to service directorates throughout 2022/23.
55. A total of £949,000 has been provided from 2022/23 for the impact on the Capital Financing budget of the Council's Investment Strategy. This includes additional revenue funding for capital financing costs associated with projects recently approved by Executive, including additional Fountains Court Refurbishment and Fit Out (£165,000 per annum from 2022/23), Flexible Use of Capital Receipts Strategy (£208,000 per annum from 2022/23), and Built Assets Capital Investment (£81,000 per annum in 2022/23, a further £74,000 in 2023/24 and a further £37,000 in 2024/25). Full details were provided in the relevant Executive reports.
56. The total provided also includes provision in respect of the following potential projects which subject to approval by Executive will be added to the Council's agreed Investment Strategy in future years :
 - Highways Maintenance Programme - £200,000 per annum in each of the years 2022/23, 2023/24 and 2024/25 (total of £600,000 over the 3 years)
 - Transporter Bridge structural improvements - £80,000 per annum from 2022/23
57. The Capital Financing budget will be closely monitored during 2022/23 with updates being provided via the quarterly budget monitoring reports, and any required changes being reflected in future refreshes of the MTFP.

Budget Savings

58. As reported in the MTFP Update Report to Council in November 2021 in light of the recovery from Covid-19 and the potential effect on staff the £180,000 saving related to "reducing staff mileage rates across the Council" has been removed from the MTFP from 2022/23.
59. It should also be noted that, as mentioned in the November 2021 report, it is expected that the full amount of savings relating to Digital will be achieved from 1 April 2022 as per the original intended methods.
60. As stated in the report to Council in November 2021 no additional budget savings were required for 2022/23, due to the proposal to increase Council Tax by 2.99% in 2022/23 in order to protect front line service delivery.

Adequacy of Financial Reserves

61. The Council is required to maintain an appropriate level of reserves and balances. Whilst current guidance is not prescriptive, all Local Authorities are required, when reviewing their Medium Term Financial Plan to consider the establishment and maintenance of reserves.
62. Proper consideration has to be given to: -
- working balances to help cushion the impact of uneven cash flows and to avoid unnecessary temporary borrowing;
 - general fund reserves to provide a contingency for the impact of unexpected events or emergencies; and
 - specific earmarked reserves to meet known or predicted liabilities.
63. The Director of Finance has reviewed the proposed level of balances held in the General Fund Reserve and advised that he considers it is appropriate to increase the minimum level from the current level of £11 million to £12 million in 2022/23 (and future years). This advice is based on an assessment of financial risks against criteria set out by the Chartered Institute of Public Finance and Accountancy and the extent to which specific provisions are available to meet known and expected liabilities.
64. The main high level factors affecting this assessment are increasing inflation, uncertainty around the level of pay awards, the continued potential for increased demand and costs in Children's and Adults Social Care, and the degree of uncertainty in the financial and economic climate for local government due to a number of factors. The following provides further details of this and the calculation of the £12 million level is made by using the mid-point of the following factors:
- Inflation (including pay awards): to provide for an increase of 1%-2% above that currently provided equating to £1.8m to £3.6m.
 - Further demand-led pressures (mainly Adults and Children's Social Care): to provide for an additional upturn in demand £0.5m to £4m
 - Local Government Finances: uncertainty post-2022 around Government funding and business rates reform equating to £0.5m to £1.5m.
 - General Economic Climate : mainly the potential further effect on Business Rates & Council Tax Income equating to £0.5m to £1m
 - Future Covid-19 outbreaks : further expenditure and income shortfalls and lack of Government funding equating to £0.3m to £2m
 - Potential loss of Services grant (provided for 2022/23 only - but assumed in MTFP will continue in some form) : £0m to £3.2m
 - DSG Deficit balance on Reserve : potential requirement to fund this from 2023/24 equating to £0m to £4.3m
 - Adult Social Care reforms (Health and Social Care White Paper): costs of implementing the cap on personal care costs and changes to the means test within adult social care and moving to a fair cost of care being greater than funding provided by Government equating to £0m to £1m

65. The current estimated level of the General Fund Reserve at the end of 31 March 2022 is £11.2 million as reported in the Revenue and Capital Budget – Projected Outturn position as at Quarter Three 2021/22 report to this Executive.
66. The level of balance in all reserves available to the Council may be affected by any change in the current projected overspend for 2021/22. The total projected overspend for 2021/22 of £5.046 million as at the end of Quarter Three is detailed in a separate report to this Executive. As stated in that report the level of overspend reported as at Quarter Three (including the estimated costs of the Covid-19 pandemic) can be covered on a one-off basis by the Council's overall reserves in 2021/22, but if this continues it is a significant risk to the Council's financial position in the longer term.
67. The appropriate level of reserves for 2022/23 onwards will need reconsidering in light of financial performance in 2022/23, the ongoing effect of Covid-19, and the outcome of any local government finance reforms announced.
68. The Council intends to allocate an additional £0.2 million in 2022/23 to its Change Fund in order to support transformational activity. It is estimated that only a negligible amount will be remaining within the Change Fund by the end of 2022, in light of the need to invest in projects in the meantime.
69. Appendix 6 attached to this report provides a statement from the Council's Section 151 Officer (the Director of Finance) under Section 25 of the Local Government Act 2003. Within the statement, the Director of Finance has confirmed that the budget calculations for 2022/23 are robust in that;
- proper medium term budget planning and monitoring processes are in place and maintained which ensure that known commitments are provided for and budgets are set in real terms with the effect on service delivery clearly identified;
 - appropriate provisions are made within the budget for pay and inflation;
 - a prudent view of the net costs of the Council's overall cash flow and prudential borrowing is taken;
 - an analysis of financial risks affecting the budget are completed; and
 - appropriate consideration is given to the level of Council Tax and external funding available to the Council.
70. It is the opinion of the Director of Finance that medium term uncertainty is the key risk to the Council's future finances, this is because of the lack of information on the impact of Local Government Finance Reform in 2023/24 and of Social Care Reform over the next decade. In the interests of prudent budget planning the Director of Finance considers that a Council Tax increase of 2.99% is key to ensuring that the Council will have sufficient funds to meet its obligations in the medium term should the impact of external factors be more negative than currently assumed.

Determination of Council Tax

71. A number of factors have been considered in respect of the level of Council Tax increase including our current level of Council Tax, minimising the effect of Council Tax increases to residents, the current levels of inflation, pressures from caring for

our vulnerable people, the level of any budget reductions required, and the medium to long term implications of the Local Government Finance Settlement 2022/23.

72. In the Local Government Finance Settlement, the Government confirmed that Councils would be able to increase the core element of Council Tax by up to 2% in 2022/23 without the requirement to hold a referendum.
73. The Local Government Finance Settlement also confirmed the continuation of the Adult Social Care Precept at 1% for 2022/23. It also confirmed that Councils who did not use their full allowable Adult Social Care Precept of 3.00% announced in the 2021/22 LGFS, which was allowed to be split over 2021/22 and 2022/23, could apply any remaining amount to the 2022/23 Council Tax increase. The Adult Social Care Precept has allowed Councils with Adult Social Care responsibility to increase their Council Tax by a set amount to help pay for the increased costs of Adult Social Care. Increasing the Council Tax for the Adult Social Care Precept by 1% in 2022/23, will generate approximately £600,000 of resources in 2022/23 to support our most vulnerable adults through a series of preventative and early help initiatives. Middlesbrough Council only increased Council Tax for the Adult Social Care Precept by 0.76% in 2021/22, and therefore there is still potentially 2.24% of the allowable Adult Social Care Precept of 3.00% announced in the 2021/22 LGFS which could be applied to the 2022/23 Council Tax increase.
74. Local authorities can therefore potentially increase their Council Tax by a total of up to 3% in 2022/23, plus their remaining allocation of Adult Social Care Precept from 2021/22, without the requirement for a referendum.
75. In determining the level of Council Tax increase, consideration should be given in relation to the impact on the local Council Tax payer. In essence the Government's proposal is to pass on the liability to the local taxpayer, rather than a national distribution of resources to meet what is an agreed national priority. Authorities such as Middlesbrough with a significant proportion of vulnerable Council Tax payers and a lower Council Tax Base as a result of lower property values are disadvantaged by this approach, as each percentage increase in Council Tax will raise less than more affluent areas with a greater proportion of higher banded properties.
76. In the report to Council on 24 November 2021 the recommendation was that the Council adopts a 1.99% increase in the core general Council Tax for 2022/23, and also an increase of 1% for the Adult Social Care Precept, meaning a total proposed Council Tax increase of 2.99% in 2022/23. The total proposed Council Tax increase of 2.99% in 2022/23 still remains the recommended increase, but it is now proposed that the full amount of the increase will be due to the Adult Social Care Precept using the 1% allowed in 2022/23 as part of the 2022/23 LGFS and also using 1.99% of the remaining 2.24% Adult Social Precept announced in the 2021/22 LGFS. This is lower than the Government expectations as announced in SR21 and the LGFS, and in line with the long term requirement to properly fund services in the Adult Social Care sector.
77. Executive Members have made this decision in order to ensure that no additional budget savings are required to be made in setting the budget for 2022/23.

78. This has meant that the effect of the above means that it is proposed and assumed that for 2022/23 Council Tax will increase by 2.99% on the Middlesbrough Council only element of the Council Tax (excluding Fire and Police and Parish precepts).
79. Since 2013/14 the Council's Housing Growth Strategy has delivered an increase in the Council Tax Base of 5,057 Band D Equivalent properties, an increase in Middlesbrough Council's Tax Base of approximately 16.8% The cumulative effect is approximately £9.1 million per annum and reduces the need to make further annual savings within Council services by this amount.
80. The Council is required to set a budget for 2022/23. The budget will determine the level of resources to be made available to services and forms part of the determination of the Council Tax to be levied in 2022/23.
81. The Budget requirement for 2022/23 is estimated to be £118.329 million as detailed in Appendix 1.
82. The basic (Band D) Council Tax for Middlesbrough as a whole is calculated as follows:

	£	£
Budget Requirement		118,328,934
Less:		
Revenue Support Grant	12,597,873	
Top up Payment	27,299,015	
Local Share of NNDR	15,467,703	
		55,364,591
Net Requirements		62,964,343
Estimated Collection Fund Deficit 2021/22		818,769
	(a)	63,783,112
Taxbase	(b)	35,228
Basic Council Tax	(a) / (b)	1,810.58

The basic amount is now relevant only for statistical purposes, but must still be calculated by law. It represents the average tax paid across the Council area, including parish precepts.

83. The calculation of the actual Council Tax (Band D) for parish and non-parish areas (Middlesbrough Council only element) is as follows:-

a) Areas other than Nunthorpe and Stainton & Thornton:-

	£	£
Basic Amount as above:		1,810.58
Less : Parish Precepts	31,994	
Divided by Tax Base	35,228	
Equals		0.91
Band D Tax		1,809.67

b) Nunthorpe:-

	£	£
Add: Parish Precept	20,450	
Divided by Tax Base	2,168	
Equals		9.43
Band D Tax		1,819.10

c) Stainton & Thornton:-

	£	£
Add: Parish Precept	11,544	
Divided by Tax Base	1,240	
Equals		9.31
Band D Tax		1,818.98

84. The tables at paragraph 83 relate only to Middlesbrough Council's element of the Council Tax and excludes Cleveland Police and Crime Commissioner and Cleveland Fire Authority precepts.
85. The level of Council Tax associated with the budget requirement represents a total increase of 2.99% in the level of Council Tax for areas without parish precepts (excluding Fire and Police precepts). This comprises of a 0% increase in general Council Tax, and an additional 2.99% increase in the Adult Social Care Precept (this includes the 1% allowed in 2022/23 as part of the 2022/23 LGFS, and also 1.99% of the remaining 2.24% Adult Social Precept announced in the 2021/22 LGFS).
86. Tax levels for all bands are set in varying proportions to the band D level, and are set out in table 1 of Appendix 3.
87. The effect of the proposed Council Tax increase of 2.99% in 2022/23 on the Middlesbrough Council only element of the Council Tax (excluding Fire, Police and Parish precepts) for Band A and Band D properties is shown in the table below:

Band	2.99% increase	
	Annual (£)	Weekly (£)
A	35.04	0.67
D	52.56	1.01

88. Cleveland Fire Authority has set a precept for Middlesbrough of £2,883,764 (subject to formal approval).The Council Tax levels for 2022/23 are set out in table 2 of Appendix 3.
89. Cleveland Police and Crime Commissioner has set a precept of £9,713,416 and Council Tax levels for 2022/23 are set out in table 3 of Appendix 3.
90. The total tax to be levied for each band (including Middlesbrough Council, Cleveland Fire Authority, Cleveland Police and Crime Commissioner, and Parishes) is set out in table 4 of Appendix 3.
91. The overall impact on the band D Council Tax is as follows:-

Middlesbrough Council	2.99%
Cleveland Fire Authority	1.90%
Cleveland Police and Crime Commissioner	3.76%
Overall Increase	3.05%

Medium-Term Financial Plan to 2025

92. Full Council approved a Strategic Plan for the period 2021-24 on 24 February 2021. That plan set out a number of revised strategic priorities for the Council in light of the impacts of Covid-19 on local communities and on the way the Council will do business in the future. As detailed in paragraph 6 this is currently being reviewed.
93. The Council maintains a Medium-Term Financial Plan (MTFP) that:
- accurately analyses the current financial climate and the medium-term horizon, including the range of spending pressures facing the Council;
 - addresses the budget savings requirements; and
 - focuses investment on growing the town's economic base to improve local prosperity, and secure a robust and independent income stream to fund the Council's services.
94. The Council noted a report from the Elected Mayor on 24 November 2021 which provided an update in respect of the Council's Medium Term Financial Plan position for the period to 2024/25. The table below summarises the changes that have been to the MTFP since the report in November 2021, incorporating the announcements made in the LGFS.

	2022/23 £ms	2023/24 (Indicative) £ms	2024/25 (Indicative) £ms	Total £ms
MTFP Position as at November 2021	0.000	1.786	4.615	6.401
<i>Changes:</i>				
Changes to Government Funding	(8.069)	3.377	(1.140)	(5.832)
Changes to profile of additional Children's Services funding	0.300	0.000	(0.300)	0.000
Creation of Contingencies (Additional Inflation and Council Tax/ Business Rates Income)	4.997	(1.368)	0.000	3.629
Savings on Kerbside Recycling Contract	(0.680)	0.000	0.000	(0.680)
Creation of Funding available for Service Investment	0.495	0.000	0.000	0.495
Waste Collection - Increased demand - cleansing (including back alleys)	0.169	0.000	0.000	0.169
Local Funding changes	2.017	(3.452)	0.303	(1.132)
Changes to planned use of Reserves and effect in following year	0.858	0.413	(1.150)	0.121
Other changes	(0.087)	(0.756)	0.000	(0.843)
Revised MTFP Position	0.000	0.000	2.328	2.328

95. The following table summarises the anticipated changes to the Council's financial position in the period of the current medium term financial plan to 2024/25:

	2022/23 £ms	2023/24 (Indicative) £ms	2024/25 (Indicative) £ms	Total £ms
Use of reserves and balances in previous year	(0.695)	(0.858)	(1.211)	(2.764)
Pay & Inflation	8.958	2.966	2.140	14.064
Service Demand Pressures	5.560	(1.311)	4.326	8.575
Capital Financing	0.949	0.494	0.237	1.680
Additional Income	(0.530)	0.000	0.000	(0.530)
Government funding changes	(13.641)	3.459	(0.276)	(10.458)
Local funding increases	(1.459)	(5.961)	(2.888)	(10.308)
Budget gap	(0.858)	(1.211)	2.328	0.259
Removal of previously planned budget saving - Staff Mileage Rate Reduction	0.180	0.000	0.000	0.180
Additional budget saving - Kerbside Recycling contract	(0.180)	0.000	0.000	(0.180)
Transfer to / (from) reserves	0.858	1.211	0.000	2.069
In-year budget position	0.000	0.000	2.328	2.328

96. The above table demonstrates that the Council has considered the issues strategically and has a deliverable plan to ensure the Council's financial

sustainability, and also ensures that reserves are maintained at appropriate levels. However, it should be noted that there is less certainty in the indicative figures for 2023/24 and 2024/25 than there is for the 2022/23 figures, due mainly to ongoing uncertainty regarding the future funding model for local government. The approximate £2.3 million budget gap in 2024/25 is only indicative and at this stage no additional budget savings are proposed to cover the budget gap in 2024/25. This will be reviewed in light of the continuing effects of Covid-19, Local Government Funding Reform, and other information received, and the budget gap for 2024/25 will be updated in future MTFP updates over the next year.

97. During 2022/23, it is intended that a full and proper efficiency review is undertaken across all Directorates and Services within the Council. This review will be led by Finance and undertaken in conjunction with the Directors, and a timetable will be drawn up for this. The aim of the review is to ensure that the Council is operating as efficiently as possible, and the review will seek to identify potential future additional budget savings for consideration at a future date.
98. Through the Council's Investment Strategy the MTFP focuses on investment and efficiency, and creating growth in Council Tax, Business Rates and income from commercial activity, and aims to minimise service-level and job reductions over this period.
99. The following assumptions have been applied in refreshing the Council's MTFP:

National Context

100. Long-term financial sustainability and financial resilience have become one of the key components of external audit work in future years. CIPFA has produced a Financial Management Code (FM Code), and also a financial resilience index for local authorities. The initial self-assessment of compliance with the FM Code, the associated actions arising to ensure full compliance, and the next steps, and the results of analysis of the CIPFA Financial Resilience Index 2021 were presented to Executive on 13 July 2021 and also to Corporate Affairs and Audit Committee (CAAC) on 22 July 2021. Close attention will be paid to both of these, and further updates will be provided in the future to Executive and CAAC.
101. According to figures from the National Audit Office that were produced a couple of years ago, the impact on spending power has been felt most acutely in local authorities such as Middlesbrough with relatively high levels of deprivation. The National Audit figures showed that Middlesbrough has faced a 36% decrease in overall spending power since 2010, the national average is 29%, and some authorities have seen lower reductions, for example Wokingham has reduced by only 16%. The decrease in Middlesbrough Council's overall spending power would be higher than 36% if the Council had not achieved significant Housing Growth and increased Council Tax.
102. As mentioned previously the Covid-19 pandemic has had a significant impact on the financial position on all local authorities, including Middlesbrough, and will continue to have a significant financial effect on the Council in future years. This report details additional budget provision for areas which will potentially be affected in the future. There remains a risk that future Covid outbreaks have a financial effect on the

Council in future years and that adequate Government funding will not be provided to cover the effect of these. This creates a level of uncertainty.

103. The current general economic climate and the impact of rising inflation has been factored into this update of the MTFP. This is however a moving feast and will be closely monitored throughout the MTFP period.

Government funding changes

104. The Autumn Budget and Spending Review 2021 (SR21), published by the Government on 27 October 2021, set out the Government's spending plans for the lifetime of the parliament.
105. Whilst SR21 provided a number of indications of the level of funding that will be available for local government over the period it did not provide full details of the funding mechanism, or confirm that a multi-year funding settlement would be provided to local authorities. It also did not provide individual funding allocations for each local authority. The LGFS confirmed the amount of funding for local government and the allocation to individual local authorities but only for 2022/23 (as detailed in paragraphs 17 to 29), and provided no details of potential allocations for 2023/24 and 2024/25. This level of uncertainty means that future funding still remains one of the most significant risks to the Council.
106. As mentioned in previous MTFP update reports the potential re-set of business rates retention of 75% (from the current 50%) and the introduction of a new "fair funding" formula for local government have been delayed. As part of the LGFS the Government stated that it their current intention that these would be part of the Government's "levelling-up" agenda, and that it planned to start the consultation regarding these as soon as possible and implement the changes from 2023/24. No further details were provided, including any details of the potential financial effect on individual local authorities. The key for Middlesbrough, as with other local authorities, will be the detail of the new systems and in how the new formulae are derived. The extent to which deprivation is recognised as a key cost driver for service need, in particular for adults and children's social care and public health, will be vital. Current indications of the way forward by the Government suggest that there is low risk that Middlesbrough sees further reductions in funding both in real terms and in relation to other local authorities, and there is a potential for Middlesbrough to gain from such an approach. As mentioned in the MTFP Update report to Council in November 2021, based on the current indications the provision of £1.4m from 2022/23 previously included in the MTFP for the potential impacts on Middlesbrough has now been removed from the MTFP. This assumption will remain under review as further information emerges.
107. Notwithstanding these high levels of uncertainty, the Council's budgetary assumptions are based on the most up to date reliable information, and the predicted Government funding changes are set out below. In this report the impact for 2023/24 and 2024/25 has been estimated, but these figures are necessarily less robust than the figures for 2022/23.

Funding Stream	2022/23	2023/24	2024/25
	£ms	(Indicative)	(Indicative)
		£ms	£ms
Revenue Support Grant	12.598	12.850	13.107
Business Rates Top Up	27.299	27.299	27.299
New Homes Bonus	0.855	0.000	0.000
Housing Benefit & Council Tax Subsidy Admin. Grant	0.997	0.997	0.997
Public Health Grant	17.731	17.731	17.731
Improved Better Care Fund	8.645	8.645	8.645
S31 Grant for Business Rates Compensation for Reliefs	8.958	6.402	7.285
Social Care Grant	8.543	8.543	8.543
Market Sustainability & Fair Cost of Care Fund	0.512	0.512	0.512
Lower Tier Services Grant (for 21/22 and 22/23 only)	0.300	0.000	0.000
Services Grant (introduced in 2022/23)	3.172	3.172	3.172
Dedicated Schools Grant (DSG) - Schools Block	121.592	121.592	121.592
Dedicated Schools Grant (DSG) - Central School Services Block	1.042	1.042	1.042
Dedicated Schools Grant (DSG) - High Needs Block	32.684	32.684	32.684
Dedicated Schools Grant (DSG) - Early Years Block	11.829	11.829	11.829
2021/22 Covid Council Tax Support Grant	0.864	0.864	0.000
Total:	257.621	254.162	254.438

108. It should be noted in the above table that as outlined in paragraph 24 details of the Public Health Grant allocations for 2022/23 only were provided on 7 February 2022, and therefore taking a prudent view the level of funding has currently been assumed over the MTFP period to remain the same as that to be received in 2022/23. This creates a level of uncertainty in how much the Council can budget for essential services to help keep people healthy throughout their lives.
109. To provide greater information, the table above now includes details of the Dedicated Schools Grant (DSG) which the Council receives. It should be noted though that the above amounts are subject to change during the year as the Schools Block includes amounts which are passported straight to academies, and also certain elements of the High Needs Block are paid directly to providers. No assumption has currently been made of any increases in DSG for 2023/24 and 2024/25.

Local funding increases

110. Local funding has been assumed to increase during the same period:

Funding Stream	2022/23	2023/24	2024/25
	£ms	(Indicative) £ms	(Indicative) £ms
Council Tax : Core (includes Housing Growth)	56.391	58.960	60.980
Council Tax : Adult Social Care Precept	7.393	7.393	7.393
Local Share of Business Rates	15.468	18.907	18.907
Collection Fund Surplus / (Deficit)	(0.819)	(0.867)	0.000
Total:	78.433	84.393	87.280

111. There is increased uncertainty about the direction of travel towards self-funding for local authorities through Council Tax and Business Rates, and whether it still remains on the Government's agenda. Also there is uncertainty how this will be impacted by the "levelling up" agenda.
112. SR21 proposed and the Local Government Finance Settlement confirmed that Councils can increase the core element of Council Tax by up to 2% in 2022/23 without the requirement to hold a referendum. As detailed in paragraph 76 the Executive now proposes that it will implement a 0% increase in the core element of Council Tax in 2022/23. The current assumption of a 1.99% increase in the core element of Council Tax for both 2023/24 and 2024/25 remains unchanged.
113. As detailed in paragraph 73 the Government announced the continuation of the Adult Social Care Precept and also confirmed that Councils who did not use their full allowable Adult Social Care Precept of 3.00% announced in the 2021/22 LGFS, which was allowed to be split over 2021/22 and 2022/23, could apply any remaining amount to the 2022/23 Council Tax increase. As detailed in paragraph 76 the Executive is proposing that the Adult Social Care Precept will increase by 2.99%, utilising the 1% allowed in 2022/23 as part of the 2022/23 LGFS and also using 1.99% of the remaining 2.24% Adult Social Precept announced in the 2021/22 LGFS. No assumption has currently been made that the Adult Social Care Precept will continue in 2023/24 and 2024/25. It should be noted that each 1% increase in Adult Social Care Precept generates approximately £600,000 of resources to support our most vulnerable adults through a series of preventative and early help initiatives.
114. The effect of the above means that it is currently proposed and assumed in the MTFP that for 2022/23 Council Tax will increase by a total of 2.99%, and then by 1.99% in each of the years 2023/24 and 2024/25.
115. Housing growth assumptions and the growth in the council tax base have been made on a prudent approach taking into account currently available information. These are reviewed regularly throughout the year jointly by Finance and Regeneration officers based on the latest information available, and these will be reflected in future MTFP updates.
116. At this stage for prudence purposes and to reflect the current economic climate for businesses, no inflationary increase or growth in the Local Share of Business Rates in 2023/24 and 2024/25 has been assumed. Note that it is assumed that the effect of the Retail, Hospitality and Leisure Relief granted by the Government to business in

2022/23 only on the Local Share of Business Rates in 2022/23 (as detailed in paragraph 27), does not continue in 2023/24 and 2024/25.

Pay awards

117. No agreement has yet been reached between the National Employers and the NJC Trade Unions as to the pay award for 2021/22 for Local Government Services employees effective from 1 April 2021. The National Employers have made a full and final offer of 1.75% for 2021/22. The current assumptions in the MTFP are for a 2% pay award each year (from 2021/22 to 2024/25), and based on current information these assumptions are still valid and have therefore not been changed. As well as the uncertainty caused by the delay in finalising the 2021/22 pay award, there is also a high level of uncertainty around local government pay awards in future years, and therefore the assumptions made in the MTFP for future years will be constantly reviewed. It should be noted that each 1% increase in pay equates to approximately £900,000 additional cost per annum.

Inflation

118. Contractual inflation at a total cost of approximately £4.5 million has been assumed in the MTFP period.
119. No provision has been made for inflation for supplies and services and it is expected that any inflationary pressures in this area will be met from efficiency savings, however, as detailed in paragraph 38 for 2022/23 a contingency budget for the potential effects of this has been included due to the potential inability of service directorates to achieve this due to the current high levels of inflation.
120. Additional inflation has also been provided in the MTFP for the estimated hyper-inflationary increases in the cost of energy (see paragraph 35) and contingency budgets for the effects of potential additional inflation across a wide range of areas (see paragraph 38).
121. Paragraph 37 provides details of the income from fees and charges in 2022/23. For 2023/24 and 2024/25 approximately £0.4m has been assumed in the MTFP, but in light of the uncertainty regarding inflation this will be reviewed regularly and updates provided in future revisions of the MTFP. There is no increase currently assumed for car parking charges and statutory charges over the MTFP period.

Living Wage

122. Increases in the National Living Wage, will impact upon organisations – principally adult social care providers – who are contracted to carry out functions on behalf of the Council. Currently increases in the National Living Wage do not have an impact on Council employed staff as the current pay rates paid to Council staff are above the current National Living Wage rates.
123. In SR21 the Government announced that it remains committed to raising the National Living Wage in order so that it reaches two-thirds of median earnings, and that the National Living Wage will increase from £8.91 to £9.50 an hour effective from 1 April 2022 (a 6.6% increase). Following this announcement the amounts that

are allocated in the MTFP to cover the increases in cost expected as a result of this have been revised, and it is currently assumed that the National Living Wage will increase incrementally to £10.50 by the start of 2024/25, and an amount of approximately £4.4m has been allocated for this over the MTFP period.

124. As with future pay awards there is a high level of uncertainty around this and whether the Government will further change the levels of increase for future years, and therefore this will be reviewed again in future updates of the MTFP.

Spending pressures –Children’s Social Care

125. As reported previously Children’s Social Care, remains the biggest area of financial concern for the Council. The Council has an Ofsted Improvement Plan in place, and the financial situation is being closely monitored jointly by the Service and Finance, and a three year plan has been drawn up to ascertain the estimated outturn position for the current and future financial years and therefore the potential MTFP impact.
126. The report to Council in November 2021 detailed additional funding totalling over £3.3m which has been provided in the MTFP to Childrens Services from 2024/25 to support this. As mentioned in paragraph 42, £300,000 has been provided earlier in 2022/23 in order to enable some initial permanency of staff supporting the improvement journey, therefore this means the remaining £3m will be provided from 2024/25.
127. This will mean that the Ofsted Improvement Plan will be properly funded in the medium term. This will be closely monitored in real time and any amendments required to the level of funding provided will be made as appropriate.
128. It should be noted that this will mean that Children’s Social Care will have reduced expenditure from over £9m projected spend in excess of their current budget in 2021/22 to just over £3m in 2024/25, approximately a £6m reduction in expenditure per annum by 2024/25.
129. As reported previously, in line with national trends Children’s Social Care continues to be an area of financial pressure to the Council. The costs of these pressures in respect of increased level of need in relation to children in care and the increase in the cost of providing care is constantly being monitored.
130. Whilst the Local Government Finance Settlement in 2022/23 provided additional funding for Social Care there is still a significant risk of additional increased level of need in relation to children in care and the increased in the cost of providing care and that in the event of this, sufficient additional Government funding is not provided to mitigate this. Along with funding uncertainty, the continued pressure of demands on Children’s Social Care is the most significant financial risk to the Council.
131. Further Children’s Social Care demand increases and any delays to the implementation of the Council’s Ofsted Improvement Plan continue to be a major potential risk to the Council and this is being constantly monitored, and further updates will be provided in future quarterly budget monitoring reports to Executive.

Adult Social Care

132. Whilst the Local Government Finance Settlement in 2022/23 provided additional funding for Social Care there is still a significant risk of additional demand for adult social care services and the increased in the cost of providing care and that in the event of this, sufficient additional Government funding is not provided to mitigate this.
133. In addition, there is a risk that the Council does not receive adequate funding to cover the cost involved over the MTFP period in order to implement the reform as part of the Health and Social Care White Paper, relating to the cap on personal care costs and changes to the means test within adult social care, and moving towards a fairer cost of care. Whilst the funding allocated to Middlesbrough for 2022/23 along with the distribution methodology used for this has been announced, no further details of the distribution methodology has been announced for future years. This along with the fact that the overall funding available to local government for this, as detailed in SR21 and the LGFS, may not be enough, means there is a risk to the Council from the implementation of the reform.

Covid-19 ongoing pressures

134. As detailed in the report to Council in November 2021, there are a number of income generating areas for the Council, such as parking, cultural and leisure facilities that could potentially see budget pressures as a result of the continuing effect of Covid-19 and recovery both in 2022/23 and beyond. Provision has been made in the MTFP for the effects of this as detailed in paragraphs 43 to 48.

Other Spending pressures

135. Paragraph 49 highlights a number of spending pressures for which funding has been provided ongoing from 2022/23.

Additional income

136. As detailed in paragraph 52, additional rental income above the current budget is estimated to be received from developments that the Council has made in the town, namely TAMP, Centre Square and Captain Cook Shopping Centre. These have provided additional income to the Council (after deducting capital financing costs), which has negated the need for the Council to make budget reductions to front line services.
137. The Council purchased the Cleveland Centre Shopping Centre on 7 January 2022 as per the delegated powers of the Director of Finance in line with the report to Executive on 9 November 2021. Currently no additional income (after paying capital financing costs) has been assumed in the MTFP from the purchase due to the need to maintain a sinking fund to ringfence funding to future proof the asset, provide for potential loss of tenants, cover potential maintenance costs, and costs associated with the potential future remodelling of the Centre. Further updates of this will be provided in the quarterly budget monitoring reports to Executive.

Additional Investment

138. Additional revenue funding of £600,000 per annum has been provided from 2023/24 for additional Community Safety and Environmental Enforcement staff. This helps to continue the provision of these services following the end of a grant from the Tees Valley Combined Authority (TVCA), which has helped to provide these services.
139. In addition to total of £949,000 that has been provided in 2022/23 for the impact on the Capital Financing budget as mentioned in paragraph 55, further additional funding totalling £494,000 in 2023/24 and a further £237,000 in 2024/25 has been provided in the MTFP for this.
140. It should be noted that the additional capital financing costs will be ongoing beyond the current MTFP period and these ongoing costs will be built in future MTFP updates.
141. The Capital Financing budget will be closely monitored during 2022/23 with updates being provided via the quarterly budget monitoring reports, with any required changes being reflected in future refreshes of the MTFP.

Use of Reserves and Balances

142. Over the MTFP period the Council plans to maintain the Council's General Fund balance above the minimum level of £12 million, in line with the Council's current recommended General Fund level as set out in paragraphs 63 and 64 of this report.
143. Over the MTFP period, the Council intends to maintain a small Change Fund in order to support transformational activity to deliver its Strategic Plan.

Contingency

144. As mentioned in paragraph 26, provision has been made in the MTFP in 2022/23 only for an amount of approximately £1.4 million for the potential future impact of Covid-19 on Council Tax and Business Rates Bases and the corresponding income received by the Council over the MTFP period. This will be closely monitored and updates will be provided in future reports.

Investment Strategy

145. Full Council approved an Investment Strategy for the period 2021-2024 on 24 February 2021. The Council's Investment Strategy is revised each quarter by Executive via the quarterly budget monitoring reports, in line with its constitutional powers. The latest revision being that as part of Revenue and Capital Budget – Projected Outturn position as at Quarter Three 2021/22 report to this Executive.
146. The following “business as usual” schemes which are essential to the delivery of Council services have been reviewed and it is proposed that the following amounts are added to the Investment Strategy in order to extend these schemes to 2024/25:

Scheme	Amount £
Capitalisation Of Major Schemes Salaries	530,000
Capitalisation of Planning Services Surveys	40,000
Purchase of New Vehicles	1,200,000
Capitalisation of Wheeled Bin Replacement	100,000
Capitalisation of Street Furniture/Dog Fouling & Litter Bins	55,000
Capitalisation of Highways Maintenance	575,000
Property Services Building Investment	340,000
Capitalisation of Street Lighting-Maintenance	468,000
Members Small Schemes	60,000
Property Asset Investment Strategy	1,200,000
Chronically Sick & Disabled Persons Act - All schemes	610,000
Capitalisation of Staying Put Salaries	50,000
ICT - Essential Refresh & Licensing	2,185,000
Derisking Sites	900,000
Total	8,313,000

147. The Built Assets Capital Investment, Fountains Court, Flexible Use of Capital Receipts projects detailed in paragraph 55 have already approved by Executive and these were included in the Quarter Three report to this Executive.
148. As mentioned in paragraph 56 the following proposed projects will potentially be added to the Council's agreed Investment Strategy in future years following the submission to and approval by Executive of separate reports for each project:
- Highways Maintenance Programme - £5m p.a. for 3 years (total £15m)
 - Transporter Bridge structural improvements - £2m in 2022/23 only
149. The updated Investment Strategy is included at Appendix 4 and Executive are requested to endorse the updated Investment Strategy, which will be submitted for approval by Full Council on 23 February 2022.
150. The proposed changes to the Investment Strategy are within the Council's overall borrowing limits and prudential indicators required as part of the Prudential Code (as detailed in paragraphs 151 to 162 below).

Capital Strategy Report (Prudential indicators, Investment Strategy and Minimum Revenue Provision) & Treasury Management Practices

151. The Local Government Act 2003 created a new legal framework for capital investment from April 2004 and Local Authorities are now required by law to follow the CIPFA Prudential Code.
152. The key objectives of the Prudential Code are to ensure, within a clear framework, a local authority's capital programme is affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice.

153. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the indicators that must be used, and the factors that must be taken into account to ensure appropriate treasury management. From 2019/2020 the Code set out that these must be presented in the form of a Capital Strategy Report which links the Council's investment strategy with the financial and budgetary implications of these decisions and the overall level of indebtedness.
154. The Prudential Code also introduced guidance regarding the way in which surplus funds are invested and it is a statutory requirement that an Annual Investment Strategy is approved by Council before the start of each financial year.
155. The government has released guidance relating to how local authorities set aside some of their revenues as provision for debt repayment. This requires authorities to prepare an annual statement of their policy on for determining the Minimum Revenue Provision.
156. The fundamental objective in considering the affordability of the Council's capital plans is to ensure that the total capital investment of the authority remains within sustainable limits and, in particular, to consider its impact on the local authority's revenue budget position. Affordability is ultimately determined by a judgement about available resources and one of the Prudential Indicators (% of capital financing costs against the net revenue budget) addresses this explicitly over the medium term financial planning period.
157. In considering the affordability of its capital plans, the Council must consider all of the resources currently available to it and estimated for the future, together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the following two years. The authority is also required to consider known significant variations beyond this timeframe. This requires the maintenance of three-year revenue forecasts, forward estimates of council tax as well as capital expenditure plans.
158. Appendix 5 sets out the proposed capital strategy report (covering the necessary prudential indicators, together with the investment strategy and minimum revenue provision policy) for Executive to endorse. This report explains the context of the Council's financial plans against the required prudential indicators to assist in drawing conclusions around affordability, sustainability and prudence.
159. There are some large financial commitments in the level of capital expenditure over the next two financial years, particularly in 2022/23. Some of these changes are fully funded by grant and contributions or are invest to save schemes, where income generated from the investment in these assets generates a level of financial return, which at least covers any capital financing costs associated. There are though some significant borrowing commitments in the Investment Strategy being proposed. The prudential indicator which demonstrates affordability (capital financing cost as a % of the revenue budget) is starting to rise and is around 9% of the net revenue budget at the end of the medium term financial plan.
160. A change for Members to note that affects both the level of expenditure in the investment strategy and the prudential indicator totals relates to the inclusion of finance leases. In previous years most leases taken out would have been

categorised as a rental arrangement and a cost against the revenue budget. However, amendments to the reporting standard that covers this area now means that most leases constitute the 'right to use' or purchase of an asset. The appropriate capital expenditure therefore needs to be included in the capital strategy report funded by external debt. Leases that have a major impact on the prudential indicators for the Council are those for the new buildings in Centre Square plus any properties or equipment that is leased by service directorates going forward.

161. The Director of Finance has reviewed these investment plans and prudential indicators, and is satisfied that the Council is acting in line with legal requirements and the resources available when setting its budget. The authorised limit for external borrowing for the 2022/23 budget will be £356 million. This is an increase of £41 million over that used in 2021/22 and reflects the need for extra flexibility on borrowing during 2022/23 to support the Strategic Plan. Many of these priorities require up front capital investment by the Council to create the transformation required to address economic and housing growth.
162. The Chartered Institute of Public Finance & Accountancy has just announced a review of both its Prudential & Treasury Management Codes in response to some concerns on individual local authorities taking advantage of the freedoms given to them under these codes and their budgets and being heavily reliant on commercial investments & income – essentially borrowing to invest. It is expected that these codes will be updated to ensure that these situations do not occur in the future. Section 151 Officers will need to give assurances to both Government and their local authorities that their financial plans do not involve significant exposure to these type of investment for yield projects. The Director of Finance is content that this is not the case for the Council for the 2022/23 financial year and the two subsequent years.

What decision(s) are being asked for?

163. That the Executive endorses the proposed budget strategy for 2022/23 as set out in paragraphs 30 to 70.
164. Having taken into account the matters set out in Section 32 of the Local Government Finance Act 1992 and the items set out within the report, that the Executive endorses the budget requirement for 2022/23 to be set at £118,328,934 as detailed in Appendix 1.
165. That the Executive endorses the actual amount of Council Tax (Band D) for areas without parish precepts (excluding Fire and Police) be set at £1,809.67. This represents a total increase of 2.99%. This comprises of a 0% increase in general Council Tax, and an additional precept of 2.99% for Adult Social Care (which includes 1% relating to 2022/23 and 1.99% of unused remaining allowable allocation from 2021/22), which has been continued by the Government to contribute towards the shortfall of funding for adult social care.

166. That the Executive endorses the actual amount of Council Tax (Band D) for areas with parish precepts (excluding Fire and Police) be set at :-

Nunthorpe Parish	£ 1,819.10
Stainton and Thornton Parish	£ 1,818.98

167. That the Executive endorses the amounts of Council Tax for each category of dwelling be set in accordance with table 4 of Appendix 3 within the report.

168. That the Executive notes the refreshed Medium-Term Financial Plan position for 2022-25 set out in this report in paragraphs 90 to 142.

169. That the Executive endorses the updated Investment Strategy for the period to 2024/25 as outlined in paragraphs 145 to 150 and detailed in Appendix 4.

170. That the Executive endorses the Capital Strategy Report (Prudential indicators, Investment Strategy and Minimum Revenue Provision) 2022/23 as outlined in paragraphs 151 to 162 and detailed in Appendix 5, and endorses the Authorised Limit for external borrowing of £356 million for the Council for 2022/23 as set out in paragraph 161.

Why is this being recommended?

171. To enable the Council to meet its statutory responsibility to set a balanced revenue budget for the financial year 2022/23 and to ensure that a proper framework is in place for the medium term financial management of the Council.

Other potential decisions and why these have not been recommended

172. Not Applicable.

Impact(s) of recommended decision(s)

Legal

173. The Council is required under legislation to set a revenue budget and agree the level of Council Tax and prudential indicators for 2022/23.

Financial

174. This approach set out within the report would allow the Council to meet its legal obligations in relation to budget setting, and meet the challenging financial targets faced in the MTFP period, while ensuring that there is a minimum impact on the level of service delivered to the public.

Policy Framework

175. The revenue and capital budgets form part of the Council's Policy Framework and as such must be agreed by Full Council.

Equality and Diversity

176. The Public Sector Equality Duty (PSED) (as set out in the Equality Act 2010) places a statutory duty on the Council in exercising its functions, to have regard to the need to:
- eliminate discrimination, harassment and victimisation;
 - advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and
 - foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
177. Having due regard to the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:
- remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic;
 - take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it; and
 - encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.
178. The protected characteristics are: age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation. Where proposed decisions may be relevant to one or more of these protected characteristics, the Council is obliged to assess the impact. If there is judged to be an adverse impact on these characteristics that is relevant to the duty above steps are taken to consider whether it can be avoided or mitigated. Where it cannot be avoided or mitigated, a decision can only be taken if it can be justified.
179. As no additional budget savings were proposed for 2022/23, the budget consultation was therefore only regarding the proposed budget and Council Tax increase for 2022/23.
180. An Impact assessment was completed to assess the proposed budget (appended to this report at Appendix 2). It found that there were no concerns that the Council's approach to budget setting could result in a disproportionate adverse impact on groups or individuals because they hold one or more protected characteristics.

Risk

181. The proposed approach will ensure that the Council has adequate governance processes in place (08-054) to ensure it complies with the statutory duties to set a balanced budget (08-055). The MTFP has been reviewed to ensure that the correct assumptions are made to ensure that there is no unforeseen/unmitigated funding gap (08-059) and that a balanced budget can be set for future years.

Actions to be taken to implement the decision(s)

182. If approved by Council on 23 February 2022, the proposals set out in this report will form the basis of the 2022/23 revenue budget of the Council.

Appendices

- Appendix 1: Revenue Budget 2022/23
- Appendix 2: Revenue Budget 2022/23 – Impact Assessment (overall)
- Appendix 3: Council Tax Bands 2022/23
- Appendix 4: Updated Investment Strategy to 2024/25
- Appendix 5: Capital Strategy Report (Prudential indicators, Investment Strategy and Minimum Revenue Provision) 2022/23
- Appendix 6: Section 25 Local Government Act 2003 – Section 151 Officer Statement

Background papers

24/02/21	Council	Strategic Plan 2021-2024
24/02/21	Council	Revenue Budget, Council Tax, Medium Term Financial Plan and Capital Strategy 2021/22
15/6/21	Executive	Revenue and Capital Budget – Year-End Projected Outturn 2020/21
13/7/21	Executive	Middlesbrough Council Long-Term Financial Sustainability
5/8/21	Corporate Affairs and Audit Committee	Middlesbrough Council Long-Term Financial Sustainability
7/9/21	Executive	Revenue and Capital Budget – Projected Outturn position as at Quarter One 2021/22
20/10/21	Council	Flexible Use of Capital Receipts Strategy
9/11/21	Executive	Revenue and Capital Budget – Projected Outturn position as at Quarter Two 2021/22
9/11/21	Executive	Medium Term Financial Plan Update
24/11/21	Council	Medium Term Financial Plan Update
14/2/22	Executive	Revenue and Capital Budget – Projected Outturn position as at Quarter Three 2021/22

Contact: Andrew Humble, Head of Financial Planning & Support

Email: andrew_humble@middlesbrough.gov.uk