

Report of:	Elected Mayor of Middlesbrough Director of Finance
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Submitted to:	Executive
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Date:	8 November 2022
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Title:	Medium Term Financial Plan Update and Budget Savings Proposals 2023/24
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Report for:	Decision
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Status:	Public
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Strategic priority:	All
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Key decision:	Yes
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Why:	Decision(s) will incur expenditure or savings above £150,000 and have a significant impact in two or more wards
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Urgent:	No
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Why:	
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Executive summary

The report provides an update to Executive of the Council's Medium Term Financial Plan (MTFP) for the period to 2025/26, and the current estimated budget gap for 2023/24. It also sets out the proposed budget savings and other proposals, and proposed Council Tax increase for 2023/24, and notes that following Council on 30 November 2022 the proposals will be, where required, subject to public consultation.

The report requests that the Executive:

- Notes the updated Medium Term Financial Plan position for 2023/24 to 2025/26, and the potential budget gap of £10m to £20m in 2023/24, with £15m being the mid-case assessment
- Endorses the following measures to contribute towards the potential budget gap in 2023/24, and notes that this report will be presented to Full Council on 30

November 2022, with consultation to commence, where required, on 1 December 2022 and ending on 23 January 2023:

- the proposed budget savings and other proposals for the 2023/24 budget. These total £14.2m in the full year, of which £5.4m are deemed to potentially affect service delivery levels and will be subject to public consultation (as detailed in Appendix 2)
- the proposed total Council Tax increase of 2.99% for 2023/24 (comprising of a 1.99% increase in general Council Tax and a 1% Adult Social Care Precept), pending any future Government announcements regarding referendum limits

Purpose

1. This report provides an update to Executive of the Council's Medium Term Financial Plan (MTFP) for the period to 2025/26, and the current estimated budget gap for 2023/24.
2. The report sets out the proposed budget savings and other proposals, and proposed Council Tax increase for 2023/24, and notes that following Council on 30 November 2022 the proposals will be, where required, subject to public consultation.

Background and relevant information

Strategic Plan for the 2022-24 period

3. Full Council approved a Strategic Plan for the period 2021-24 on 24 February 2021, setting out nine strategic priorities for this period in the light of Covid-19 and other external factors, following consultation with local communities.
4. On 30 March 2022, Council was advised that an annual refresh for the Strategic Plan 2021-24 would not be brought forward and that as such the current plan would remain in place for the coming financial year.
5. The "Refreshing the Strategic Plan workplan for the 2022-24 period" report to Executive on 5 April 2022 approved revisions to the Strategic Plan workplan for the 2022-2024 period, to demonstrate progress towards and achievement of Council approved Strategic Plan outcomes.

Medium Term Financial Plan

6. The Council maintains a Medium Term Financial Plan (MTFP) that sets out the financial envelope that is necessary to achieve those aims and the savings necessary for living within those financial plans (budget savings). The MTFP:
 - 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 for the MTFP period;
 - 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.
7. The Medium Term Financial Plan to the end of 2024/25 was included as part of the Revenue Budget, Council Tax, Medium Term Financial Plan and Capital Strategy 2022/23 report presented to Council on 23 February 2022.
8. Since the report to Council in February 2022, there have been a number of changes which require the Council's MTFP to be updated. As reported previously in the 2022/23 Quarter One Projected Outturn report to Executive on 6 September 2022, and in the 2022/23 Quarter Two Projected Outturn report to this Executive, there are a number of factors which have the potential to significantly impact on the Council's financial position both in 2022/23 and in future years. These factors were largely unknown at the start of 2022/23 and are national issues which are being experienced by all local authorities. The current economic climate is providing a very high level of

uncertainty for all local authorities. These can be summarised as follows, with further details being provided in paragraphs 15 to 52 below:

- Government funding uncertainty
 - Children's Social Care
 - Additional hyper-inflation and the cost of living crisis
 - Uncertainty around the level of the Local Government pay award
 - Economic uncertainty, in particular increasing interest rates
9. In light of the projected overspend for 2022/23 reported at Quarter One, Executive on 18 October 2022 approved a Financial Recovery Plan 2022/23 which was intended to reduce the projected outturn for 2022/23. This included certain discretionary expenditure being curtailed, the early implementation of fees and charges increases, additional controls around vacancy and agency staff, the setting up of a Children's Focus Group, and the implementation of the approved Flexible Use of Capital Receipts Strategy. The achievement of the Financial Recovery Plan 2022/23 is a risk impacting the 2023/24 budget, and Directors are working on delivering the Financial Recovery Plan and seeking further discretionary spend savings in 2022/23 in order to try to achieve a balanced budget in 2022/23 and minimise the risk on the 2023/24 budget.
 10. The MTFP was initially revised in July 2022 and since then a number of meetings have been held with Executive during the summer, and a meeting was also held with the Group Leaders of all the political parties on 13 October 2022 to provide elected members with an overview of the MTFP and to brief them as to current MTFP gap and options available to fund the 2023/24 budget gap.
 11. This report provides an update report to Executive, and then to Full Council on 30 November 2022, as part of the usual annual budget setting process. The report details the anticipated changes to the Council's financial position in the period to 2025/26 since the budget report to Full Council in February 2022, along with the main assumptions and risks contained within the updated MTFP.
 12. Following the thorough review of all the factors affecting the Council's financial position, it is currently estimated that there will be a budget gap of between £10m and £20m for 2023/24, with a mid-case assessment of £15m. In previous years a more accurate estimate would be provided at this stage, however this year it is only currently possible at this stage to provide a very wide range of estimates for the potential budget gap for 2023/24 due to the high level of uncertainty that exists regarding a number of the factors as mentioned above. Further updates will be provided of any major changes to the estimated budget gap during the period until the budget report is presented to Full Council in February 2023.
 13. It should be noted that the financial position faced by the Council is not unique to Middlesbrough, and a number of other local authorities have announced that they are currently facing budget pressures and similar levels of budget gaps in 2023/24.
 14. No estimates of the potential budget gap in 2024/25 and 2025/26 have been provided at this stage as part of this update, due to the high level of financial uncertainty surrounding future local government funding, and at this stage no additional budget savings are proposed to cover any potential budget gap in 2024/25 and 2025/26 until further information is received and estimates are more robust. The estimates and the

potential requirement for any further budget savings in 2024/25 and 2025/26 will be reviewed again in the budget report to Full Council in February 2023.

Budget Assumptions

15. The budget report to Full Council in February 2022 detailed the key assumptions made in the MTFP, and this report shows the major changes since February 2022, with the following paragraphs providing details.

Government funding

16. 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.
17. 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 amount of funding for local government each year will be confirmed and the allocation to individual local authorities will be announced as part of the Local Government Finance Settlement each year, which for 2023/24 is expected to be provisionally published in late December 2022 (no date has yet been announced) and confirmed in February 2023. This level of uncertainty means that future funding still remains one of the most significant risks to the Council.
18. SR21 announced additional funding for local government and additional funding was received for 2022/23 as part of the Local Government Financial Settlement for 2022/23, however this was largely one-off for 2022/23 only and was not recurring. This was announced at a time of a stable economy and the economic circumstances have now changed.
19. Also, since the February 2022 budget report there have been numerous changes in senior positions within the Government leading to a continuing state of flux within the Government and a lack of any meaningful Government announcements regarding funding for local government both in the short term and in the future. At the time of writing, we are awaiting a statement on the Government's Medium Term Fiscal Review.
20. These factors and the level of uncertainty that exists remains one of the most significant risks to the Council.
21. Currently the following other assumptions regarding government funding have been made in the updated MTFP:
 - That there will be no increase or decrease to the current levels of Revenue Support Grant (RSG) and Business Rates Top Up Grant in 2023/24 and future years, apart from the application of inflationary increases
 - That currently there are no major changes to other grant assumptions outlined in the report to Full Council in February 2022.

22. The estimates of government funding will be revised when further information is available from the provisional Local Government Finance Settlement, which is expected in late December 2022, and this may mean changes are required to the Council's budget for 2023/24. These will be further updated in the 2023/24 budget report to Full Council in February 2023 upon receipt of the final confirmed Local Government Finance Settlement for 2023/24.
23. The Government have announced that 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 will now not take place within the period of the current Spending Review. Also, very few further details of the Government's "levelling-up" agenda have been provided to date. 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.
24. Notwithstanding the high levels of uncertainty regarding future Government funding, the Council's budgetary assumptions are based on the most up to date reliable information.

Local funding increases – Council Tax and Business Rates

25. The Revenue Budget, Council Tax, Medium Term Financial Plan and Capital Strategy 2022/23 report to Full Council on 23 February 2022 assumed that the Council would apply a 1.99% increase per year in the core general element of Council Tax in both 2023/24 and 2024/25.
26. In SR21 the Government indicated that the Adult Social Care Precept, which was allowed in previous years, will apply again in 2022/23, 2023/24 and 2024/25 (at a maximum increase of 1% per year). This in previous years 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.
27. Therefore, following discussions with Executive regarding the Council Tax increase for 2023/24, Executive Members have indicated that their current recommendation is that the Council adopts a 1.99% increase in the core general Council Tax for 2023/24, and also an increase of 1% for the Adult Social Care Precept, meaning a total proposed Council Tax increase of 2.99% for 2023/24. This is an increase from the previous assumption of a 1.99% increase, but is in line with Government expectations as announced in SR21.
28. Executive Members have made this decision in order to reduce the additional budget savings that are required to be made in setting the budget for 2023/24. Also, it reflects 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.
29. It should be noted that each 1% increase in Council Tax produces estimated additional income to the Council of approximately £650,000 per annum.

30. The effect of the proposed total Council Tax increase to 2.99% in 2023/24 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	36.07	0.69
D	54.11	1.04

31. In SR21 the Government announced that the referendum threshold for increases in Council Tax is expected to remain at 2% per year for 2022/23, 2023/24 and 2024/25. In addition, local authorities with social care responsibilities are expected to be able to increase the Adult Social Care precept by up to 1% per year over this period. The Department for Levelling Up, Housing and Communities (DLUHC) will set out full details of the Council Tax referendum principles and proposed approach to allocating grant funding through the Local Government Finance Settlement for 2023/24. The proposed 2.99% total increase in Council Tax in 2023/24 is within the current referendum limits set by the Government. Any change to the referendum limits may mean that the level of proposed Council Tax increase for 2023/24 will be revised following review by Executive.
32. There is estimated to be an increase in Council Tax income in 2023/24 and 2024/25 due to a predicted increase in the Council's Tax Base resulting from projected Housing Growth over the period. The estimates are currently being reviewed from those contained in the previous MTFP, following further analysis and information received as part of the Council Tax Base return submitted to Government in October 2022. These estimates will continue to be reviewed on a regular basis in light of the potential effect of delays to house building, currently mainly due to nutrient neutrality issues and lack of available resources in materials and labour, and will be updated as part of the budget report to Full Council in February 2023 when further information is available.
33. No growth, and only an amount for inflation, has been assumed in the Local Share of Business Rates estimated to be received by the Council in 2023/24 and 2024/25.

Pay awards

34. As mentioned in the Quarter One report and the Quarter Two report to this Executive, no agreement has yet been reached between the National Employers and the NJC Trade Unions as to the pay award for 2022/23 for Local Government Services employees effective from 1 April 2022. It is however likely that the National Employers offer of an increase of £1,925 on all NJC pay points 1 and above effective from 1 April 2022 will be eventually agreed and implemented. This equates to approximately an average 6.5% pay award costing approximately £6.5m per annum and this will mean that there will be a recurring additional £2m required in future years of the MTFP.
35. The current assumptions in the MTFP are for a 3% pay award each year in 2023/24 and 2024/25 and 2% in 2025/26. In light of the likely 2022/23 pay award and the potential underlying inflation that exists in the economy, the assumption for the 2023/24 pay award has been revised upwards. 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.

36. The Council set aside recurring funding for the effect of having to pay from 2022/23 increased National Insurance contributions for its own staff. Whilst the Government announced that this increase would be reversed from 1 November 2022 the Government is likely to recover this funding from local government, as it provided additional funding for this in the form of a grant.

Inflation

37. One of the major areas of increased expenditure during the latter part of 2021/22 and which has continued in 2022/23 was the level of inflation that existed in the economy, As shown in the Quarter One report and the Quarter Two report to this Executive several Directorates have been substantially affected by the hyper-inflationary increases that existed in areas such as fuel, energy, utilities, food, and also increased costs from providers for services such as Waste Disposal, transport provision for children and adults, and Adults and Children's Care providers due to the inflationary increases they have suffered. Further detail is provided within the Directorate variances section of the Executive report. An additional inflation contingency of approximately £4.6m recurring funding was built into the updated Medium Term Financial Plan (MTFP) presented to Full Council in February 2022 and this is held centrally. In light of the current continuing high level of inflation, there has been a need to review the amount and an additional £2m per annum has been included from 2023/24 to cover the potential effects of the additional inflation. There will be a need to closely monitor this, and further updates will be provided in future budget monitoring reports and the MTFP will be amended accordingly as appropriate and adjusted in the budget report in February 2023.
38. Contractual inflation has been provided for in the MTFP period, with approximately £1.6m being provided for in 2023/24. The level of contractual inflation will be reviewed again in the budget report to Full Council in February 2023.
39. Previously no provision has been made for inflation for general supplies and services, and it was previously expected that any inflationary pressures in this area would be met by Directorates from efficiency savings. This assumption is currently being reviewed as it is becoming increasingly difficult for this approach to be continued.
40. In the budget report to Full Council in February 2022 income from fees and charges had been assumed to increase on average by approximately 1% per annum over the MTFP period. However due to the budget gap that currently exists for 2023/24 this has been reviewed as mentioned in paragraph 55. All income will be closely monitored for performance against income targets and reviewed as necessary.

Living Wage

41. 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.

42. 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 the amounts that are allocated in the MTFP to cover the increases in cost expected as a result of this have been revised in line with current available information, and an amount of £2.7m has been allocated for this in 2023/24 and £6m over the MTFP period.
43. 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 the budget report to Full Council in February 2023.
44. The Council previously made a commitment to follow the Living Wage Foundation recommended levels for pay. In light of the Council's current financial position this is now becoming very difficult to sustain. Any changes to the commitment will be brought forward for approval by Full Council in the budget report in February 2023.

Spending pressures –Children's Social Care

45. As extensively reported previously in line with national trends Children's Social Care, remains the biggest area of financial concern for 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.
46. 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 was drawn up in July 2021 for the potential MTFP impact.
47. The approximate £5m temporary funding provided to Children's Care in 2022/23 has been made permanent, and also in light of the current expenditure an additional £2m per annum has been provided for in the revised MTFP from 2023/24. This means that additional support totalling approximately £7m per annum has been provided for this in the revised MTFP from 2023/24 in order to achieve a steady state for the Service and ensure that the improvements currently being made in Children's Social Care are not compromised, and also in order so that the Service is on a firm financial footing with an appropriate budget which can be managed within.
48. It should be noted that whilst this additional funding has been provided for in the MTFP, if Children' Care continue to spend at its current rate then there is likely to be a further overspend of £5m in future years. Work has now commenced to re-establish budget arrangements with a view to reducing expenditure. Arrangements have also been brought in to enhance permanent staff pay, including the use of market supplements, in order to recruit and retain staff and reduce the reliance on agency staff.
49. Whilst the Local Government Finance Settlement in 2021/22 and 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.

50. Further Children's Social Care demand increases and any delays to the implementation of the Council's Ofsted Improvement Plan and any further negative Ofsted judgement 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 and in the budget report to Full Council in February 2023.

Other Spending pressures

51. Provision has been made in the updated MTFP from 2023/24 for the following ongoing spending pressures / service demand pressures which have been identified and are likely to continue in the future:
- £640,000 for the Integrated Transport Unit budget – increased demand due to a greater number of children qualifying for home to school transport, new schools, and an increase in costs to transport children out of the area. This is after providing for the effects of inflation on this budget mentioned above
 - £500,000 for Adult Social Care - relating to Recruitment & Retention measures for staff groups difficult to recruit to where there are established shortages of staff, and increased staffing in the Integrated Support Service due to increased demand
 - £1m per annum due to a requirement to build up Reserves of up to £10m for Insurance in order to cover claims that will potentially arise in the future as indicated by the recent Insurance actuarial review
 - £400,000 per annum for 2023/24 to 2025/26 relating to an anticipated increase in Employers Pension contributions following the recent triennial actuarial review
 - £1.1m to cover increased capital financing costs. This comprises of approximately £500,000 for the impact on the capital financing budget of the Council's current Investment Strategy, £250,000 for the impact of rising interest rate costs, and approximately £350,000 for provision in respect of the potential new and enhanced projects as outlined in paragraph 81 which subject to approval by Executive will be added to the Council's agreed Investment Strategy in the future
52. The following factors have also been considered in assessing the underlying budget gap and the adequacy of reserves:
- Potential requirement to repay Dedicated Schools Grant (DSG) Deficit to the Government - this could be £5m upwards
 - Adult Social Care – Fair Cost of Care Reform
 - Capital financing – increased borrowing requirement due to increasing construction costs
 - Capital Financing – further increases in interest rate costs

Approach to solving the Budget Gap 2023/24

53. Executive Members have held a number of discussions regarding the MTFP and the changes that have occurred and the forecast budget gap of £10m to £20m for 2023/24 (with a mid-case assessment of £15m), which needs to be addressed. There is a legal requirement to set a balanced budget for the Council each year.

54. This has led to a requirement to examine a number of areas including potential additional budget savings and/or changes to the assumptions relating to the Council Tax increase in 2023/24, in order to enable a balanced budget to be set in 2023/24.
55. To mitigate the budget gap in 2023/24, the following areas were explored including:
- Applying the Adult Social Care Precept at 1% p.a., which will increase total Council Tax assumed to 2.99% p.a. (maximum currently allowed)
 - Recurrent savings from the 2022/23 discretionary spend review (as per the Financial Recovery Plan 2022/23)
 - Revisiting previously proposed (but not taken up) service savings proposals
 - Review of non-statutory services currently provided
 - Review of statutory services currently over-provided
 - Review of the Capital Investment Strategy to produce revenue capital financing costs savings
 - Review of expected income from Commercial Developments made by the Council
 - Increasing fees & charges (including the continuation of those early implemented in the Financial Recovery Plan 2022/23, and new proposals)
 - Accountancy technical adjustments (mainly Flexible Use of Capital Receipts) – one year effect only
56. As mentioned, in paragraph 27 Executive are currently proposing an increase in the Council Tax from the 1.99% increase assumed in the previous MTFP to a 2.99% total increase for 2023/24 (which includes 1% Adult Social Care precept for 2023/24). This is in line with Government expectations as announced in the Spending Review on 27 October 2021 (see paragraph 31 for further details). Further detail on the proposed increase in Council Tax is provided in paragraphs 25 to 31. These proposals are brought forward for consideration by this Executive and then noting by Full Council on 30 November 2022, after which public consultation on the budget and the proposed total Council Tax increase of 2.99% for 2023/24 will commence.
57. The following paragraphs show the proposed budget savings for 2023/24 and other options for reducing the budget gap in 2023/24.
58. The above approach demonstrates that the Council has considered the issues strategically and has a deliverable plan to ensure the Council's financial sustainability. However, it should be noted that due to the uncertainty around future Government funding and other factors this is a constantly moving situation, and this means that the financial position and Council Tax increase and the potential need for additional budget savings are subject to change. The reports to Executive and Full Council in February 2023 will provide a further update of the MTFP incorporating any further information which has become available, including the impact of the Local Government Finance Settlement which is expected to be provisionally received in late December 2022 and then finalised in February 2023.

Proposed Budget Savings

59. As mentioned in paragraph 12 the refreshed MTFP identifies that there is a budget gap in the region of £10m to £20m with a mid-case assessment of £15m, and

therefore as well as the proposed increase in Council Tax, budget savings or other proposals will be required in order to balance the 2023/24 budget.

60. Executive have proposed additional budget savings proposals with a full year effect totalling £9.4m towards the budget gap in 2023/24. The budget savings proposals include proposed increases in fees and charges (including both the continuation of those implemented early in November 2002 as part of the Financial Recovery Plan 2022/23, and new proposed increases), and also proposed capital financing savings arising from a review of the Council's current Investment Strategy. These have been categorised using the same categories as in previous years as set out below:

Appendix	Description
1	<p><u>Budget Savings proposals that are considered to have minimal or no effect on front line service delivery levels -</u></p> <p>These proposals require no, or no further public consultation or impact assessment prior to consideration by Full Council as part of the 2023/24 revenue budget for implementation in 2023/24. Some internal consultation may be required prior to implementation if the proposals have a significant impact on employees, and this will be undertaken by management as appropriate.</p>
2	<p><u>Budget Savings proposals considered to potentially affect front line service delivery levels -</u></p> <p>These proposals will form part of the 2023/24 revenue budget, and will be subject to the impact assessment process and consultation either prior to consideration by Full Council as part of the 2023/24 revenue budget, or during 2023/24 for implementation in that year.</p>

61. It should be noted that there may be some movement between appendices. If it becomes clear that this is necessary, further work will be undertaken as appropriate.
62. Some proposed savings may not be fully achievable in 2023/24 and only a part year saving may be achieved in 2023/24, due to consultation requirements for staff, and any consultation required over and above the standard budget consultation because of nature of the proposals and the groups impacted, as per previous guidance on legitimate expectation and statutory basis. These such savings are however assumed to be fully achieved from 2024/25. The figures included in the appendices show the amount that will be saved in 2023/24 and then the additional amount that will be saved in 2024/25 to reflect the full year effect of these such savings. The impact of transition to implement the full year effect of the savings is approximately £2m in 2023/24 and this will be funded on a one-off basis in 2023/24 as it will continue to provide a recurring saving.
63. Following consultation, if any of the proposed budget savings are deemed to not be achievable then alternative budget savings will have to be found in order to meet the gap in the budget.

64. Savings proposals are subject to robust governance and monitoring and full delivery of the amounts included is assumed. If full delivery of the proposed budget savings is not achieved, then alternative or additional savings will be required.
65. As mentioned in paragraph 14 at this stage due to the level of uncertainty that exists the potential budget gap in 2024/25 and 2025/26 has not yet been fully determined and therefore any budget gap in these years may need to be funded from additional budget savings in the future. The requirement for any future years' savings proposals will be outlined in future MTFP update reports and will be subject to full consultation.

Other proposals to meet budget gap

Flexible Use of Capital Receipts

66. It is proposed that a Flexible Use of Capital Receipts Strategy is implemented for 2023/24, as was the case in 2021/22 and 2022/23, to fund transformation costs across the Council. In order to satisfy the legislation relating to this, this will be subject to approval by Full Council in the budget report in February 2023, and also confirmation will be required that the capital receipts are available in 2023/24 and that the transformation expenditure will provide future ongoing savings before the strategy can be implemented. It is currently estimated that the Flexible Use of Capital Receipts Strategy will amount to £3m in 2023/24, however this will be subject to further review and therefore may change.

Additional income from Commercial Developments

67. The income budgets relating to developments that the Council has made in the town have been reviewed in respect of Centre Square Buildings 1 and 2, Tees Advanced Manufacturing Park (TeesAMP), Captain Cook Square Shopping Centre, and the Cleveland Centre Shopping Centre. This review has produced estimated additional income of approximately £1.2m in 2023/24 to help meet the budget gap in 2023/24. These developments 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.

Consultation

68. Consultation in respect of the proposed budget savings for 2023/24 detailed in Appendix 2 and the proposed Council Tax increase for 2023/24 will, following Full Council on 30 November 2022, commence on 1 December 2022 and conclude on 23 January 2023, with appropriate impact assessments undertaken considering responses to the consultation.
69. It is planned that the budget consultation will be undertaken this year as part of an "annual conversation" with local communities and the Council's stakeholders on the direction of travel and future (including spending plans), an approach which is being embedded within the Council's locality working approach. The "annual conversation" will build on the success of the previous years' budget consultations, closely involving elected members in proactively engaging stakeholders in the development of the Council's plans and spending decisions. It will have a clear brand identity and be promoted across social media and other channels, gathering both quantitative and qualitative information that will provide both real insight for the Council and real

influence for respondents. The aim is to encourage more people to take part in the annual budget consultation.

70. It is planned that the consultation will be politically led and will include:
- a general public survey on the Council's website, with hard copies on request
 - a general consultation email address
 - consultation with the Council's Overview and Scrutiny Board
 - consultation with the Council's partners and the local business sector, including a specific consultation meeting with the town's Chamber of Commerce
71. As mentioned in paragraph 62, due to consultation requirements for staff, and any consultation required over and above the standard budget consultation because of nature of the proposals and the groups impacted, as per previous guidance on legitimate expectation and statutory basis, some proposed budget savings may require a longer consultation than the budget consultation period and therefore there will be need to ensure that a consultation plan is developed, along with an appropriate final decision making point for these proposals.
72. The output of the consultation process will then be reported to Executive on 14 February 2023 and then to Full Council on 27 February 2023, which will:
- again refresh the MTFP following the Local Government Finance Settlement, set the 2023/24 budget and any required associated budget savings and targets, and set the Council Tax level for 2023/24;
 - comply with the Public Sector Equality Duty and set out any impacts identified from the proposals for 2023/24 and future years.

Adequacy and use of Financial Reserves

73. The Director of Finance has reviewed the proposed level of balances held in the General Fund Reserve and advised that she considers it is appropriate to currently continue to maintain a minimum of £12m for 2023/24, as the current risk environment does not indicate an improved position. 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.
74. The current estimated level of the General Fund Reserve at the end of 31 March 2023 is approximately £12m as reported in the Revenue and Capital Budget – Projected Outturn position as at Quarter Two 2022/23 report to this Executive.
75. In the budget report to Full Council in February 2022, it was intended to add approximately £1.2m to reserves, however in light of the current financial environment it is intended that a central contingency to meet unexpected cost and price increases is created.
76. This updated MTFP, including the proposed Council Tax increase for 2023/24, should enable the level of the General Fund Reserve to remain above the minimum recommended level for 2023/24.

77. Further work will be carried out on the appropriate level of reserves for 2023/24 onwards following the receipt of the provisional Local Government Finance Settlement in late December 2022 and the latest financial performance in 2022/23, and will be updated in the budget report in February 2023.
78. The Council intends to allocate an additional £500,000 in 2023/24 to its Change Fund in order to support the achievement of the proposed budget savings, including any redundancy payments required to be made to affected staff, and also any other transformation activity required.

Investment Strategy

79. The Council's Investment Strategy is updated each quarter via the quarterly budget monitoring reports, and in accordance with this the Investment Strategy has been further revised as part of the Revenue and Capital Budget – Projected Outturn position as at Quarter Two 2022/23 report to this Executive.
80. The Investment Strategy will be further updated at Quarter Three, and also a full revision of the Investment Strategy for the MTFP period, including 2025/26, will be included in the budget report to Full Council in February 2023.
81. As mentioned in paragraph 51 provision has been made in 2023/24 in respect of the potential capital financing costs for potential projects which subject to approval by Executive will be added to the Council's agreed Investment Strategy in the future. These relate to new and enhanced capital projects which have been deemed to be essential replacement or repairs to assets:
- Purchase of new replacement vehicles
 - Replacement Traffic Signals
 - Repairs to Bridges and Structures
 - Essential repairs to Newport Bridge
 - Essential repairs to Transporter Bridge
 - Replacement of Street Lighting columns
82. As mentioned in paragraph 60 as part of the proposed budget savings it is proposed that following a review of the Council's Investment Strategy a number of projects are either reduced or removed from the Council's current Investment Strategy in order to produce revenue capital financing savings. These are shown in the proposed budget savings in Appendices 1 and 2 and total £324,000 in 2023/24.

What decision(s) are being recommended?

The report requests that the Executive:

- Notes the updated Medium Term Financial Plan position for 2023/24 to 2025/26, and the potential budget gap of £10m to £20m in 2023/24, with £15m being the mid-case assessment
- Endorses the following measures to contribute towards the potential budget gap in 2023/24, and notes that this report will be presented to Full Council on 30

November, with consultation to commence, where required, on 1 December 2022 and ending on 23 January 2023:

- the proposed budget savings and other proposals for the 2023/24 budget. These total £14.2m in the full year, of which £5.4m are deemed to potentially affect service delivery levels and will be subject to public consultation (as detailed in Appendix 2)
- the proposed total Council Tax increase of 2.99% for 2023/24 (comprising of a 1.99% increase in general Council Tax and a 1% Adult Social Care Precept), pending any future Government announcements regarding referendum limits

Rationale for the recommended decision(s)

83. The Council has a legal obligation in relation to setting a balanced budget and to meet the challenging financial targets faced in the MTFP. The setting of the budget is part of the policy framework and therefore requires Full Council approval.
84. To enable the Council to meet its statutory responsibility to set a balanced revenue budget in 2023/24 and to ensure that a proper framework is in place for the medium term financial management of the Council, which will enable the Council to take a systematic, coherent, and controlled approach to addressing ongoing financial challenges over the medium-term, while attempting to maximise its contribution to the Mayor's priorities for Middlesbrough.

Other potential decision(s) and why these have not been recommended

85. Not applicable.

Impact(s) of the recommended decision(s)

Legal

86. The Council is required under legislation to set a balanced budget for each year. The Medium Term Financial Plan and revenue and capital budgets form part of the Council's policy framework, as set out in its constitution. The approach outlined within the document will enable the Council to operate within the resources available and continue to meet its many statutory duties.
87. Elected members (individually and collectively) have a fiduciary duty to local taxpayers and so duty to facilitate, rather than frustrate, the setting of a lawful budget, and not to do so would bring damaging legal, financial, operational, and reputational consequences for the Council, and precepting authorities such as the police, fire service and local parish councils. It may also give rise to personal liability for individual members for misfeasance in public office, negligence, or breach of statutory duty, should they be found to be purposely failing to set a lawful budget.

Strategic priorities and risks

88. The revision of the Council's Medium Term Financial Plan for 2023/24 to 2025/26 plays a fundamental role in ensuring that the Strategic Plan is delivered effectively.
89. The proposed approach will ensure a positive impact on the strategic risk that the Council fails to achieve a balanced budget. The proposed approach also aligns with legal requirements around consultation and assessing the impact of proposals. It therefore impacts positively on the risks that the Council could fail to achieve good governance or comply with the law.
90. There is a risk that the financial position of the Council will be adversely affected by any non-achievement of the Financial Recovery Plan 2022/23 as detailed in paragraph 9, and any non-achievement of the proposed budget savings and other proposals for 2023/24 outlined in the report.

Human Rights, Equality and Data Protection

91. As stated in paragraph 60, savings proposals for 2023/24 and beyond have been initially assessed and categorised in Appendices 1 and 2.
92. The Council must ensure that, in line with the Public Sector Equality Duty, that any budget saving proposals, other budget proposals, or proposed Council Tax increases thought to impact on those with protected characteristics are assessed, mitigated where possible and/or justified. As such impact assessments for specific proposals and the proposed Council Tax increase will be completed prior to consideration by the appropriate decision-making body, where required. This will be either prior to the presentation of the 2023/24 budget report to Full Council in February 2023, or during 2023/24 prior to the decision to implement the proposed budget saving being taken.

Financial

93. The reports highlights that there is a current estimated budget gap in 2023/24 of £10m to £20m, with a mid-case assessment of £15m.
94. This report sets out proposed budget savings for 2023/24 in Appendices 1 and 2 totalling a full year effect of £9.4m. It is proposed that budget savings proposals in Appendix 2 will now be the subject of public consultation. As mentioned in paragraph 62 some proposed savings may not be fully achievable in 2023/24 and only a part year saving may be achieved in 2023/24, due to consultation requirements for staff, and any consultation required over and above the standard budget consultation because of nature of the proposals and the groups impacted, as per previous guidance on legitimate expectation and statutory basis. These such savings are however assumed to be fully achieved from 2024/25. The figures included in the appendices show the amount that will be saved in 2023/24 and then the additional amount that will be saved in 2024/25 to reflect the full year effect of these such savings. The impact of transition to implement the full year effect of the savings is approximately £2m in 2023/24 and this will be funded on a one-off basis in 2023/24 as it will continue to provide a recurring saving.

95. Other proposals which will help to meet the current estimated budget gap in 2023/24 have also been developed. These include the proposed implementation of a Flexible Use of Capital Receipts Strategy, estimated to be £3m in 2023/24 (see paragraph 66 for details), and a review of additional income from commercial developments estimated to be worth approximately £1.2m in 2023/24 (see paragraph 67 for details).
96. It is proposed that for 2023/24 Council Tax will increase by a total of 2.99% (comprising of a 1.99% increase in general Council Tax and a 1% Adult Social Care Precept), (see paragraphs 25 to 31 for details). This is an increase from the 1.99% increase previously assumed in the MTFP and will produce a further £650,000 of income per annum to the Council.
97. The table below provides a summary of the proposals, totalling £14.2m, to meet the current estimated budget gap for 2023/24:

	Full year effect £m
Proposed budget savings not subject to public consultation (Appendix 1)	4.0
Proposed budget savings subject to public consultation (Appendix 2)	5.4
Proposed implementation of a Flexible Use of Capital Receipts Strategy for 2023/24	3.0
Additional income from Council Commercial Developments	1.2
Additional income from proposed increase in Council Tax from 1.99% to 2.99% for 2023/24	0.6
TOTAL	14.2

98. The final proposed 2023/24 budget will be presented to Executive on 14 February 2023, and then to Full Council for approval on 27 February 2023.
99. In the event that significant changes to the Council's financial position come to light in the interim then the level of proposed budget savings and proposed Council Tax increase in 2023/24 may need to be revised ahead of the budget report to Full Council on 27 February 2023.

Actions to be taken to implement the recommended decision(s)

Action	Responsible Officer	Deadline
That this report is presented to Full Council on 30 November 2022, and following that consultation on the proposed budget savings and Council Tax increase will commence on 1 December 2022 and conclude on 23 January 2023	Head of Financial Planning & Support	30 November 2022

The output of the consultation process will be reported as part of the Revenue Budget, Council Tax, Medium Term Financial Plan, and Capital Strategy 2023/24 report to Executive on 14 February 2023 and Full Council on 27 February 2023	Head of Financial Planning & Support	27 February 2023
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Appendices

1	Budget savings proposals that are considered to have minimal or no effect on front line service delivery levels
2	Budget Savings proposals considered to potentially affect front line service delivery levels

Background papers

Body	Report title	Date
Council	Revenue Budget, Council Tax, Medium Term Financial Plan and Capital Strategy 2022/23	23/2/22
Executive	Refreshing the Strategic Plan workplan for the 2022-24 period	5/4/22
Executive	Revenue and Capital Budget – Projected Outturn position as at Quarter One 2022/23	6/9/22
Council	Flexible Use of Capital Receipts Strategy 2022/23	7/9/22
Executive	Financial Recovery Plan 2022/23	18/10/22
Executive	Revenue and Capital Budget – Projected Outturn position as at Quarter Two 2022/23	8/11/22

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