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| Report of: | The Mayor Director of Finance |
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| Submitted to: | Executive |
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| Date: | 14 February 2023 |
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| Title: | Revenue Budget, Council Tax, Medium Term Financial Plan, and Capital Strategy 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: | Not Applicable |
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Executive summary

This report presents the recommended Revenue Budget of £126,353,562, Council Tax increase of 3.99%, and Capital Strategy Report for 2023/24. Attached to the report are a number of appendices, which are listed at the end of the report.

Following on from the previous report presented to Council on 30 November 2022, this report also provides a refreshed Medium Term Financial Plan (MTFP) for the period 2023/24 to 2025/26 to reflect the 2023/24 Local Government Finance Settlement (paragraphs 20 to 28), and provides an updated Investment Strategy for the period 2022/23 to 2025/26.

The report requests that the Executive:

- endorses the proposed budget strategy for 2023/24 as set out in paragraphs 13 to 85

- endorses the proposed budget savings (Appendices 1 and 2), and other proposals for the 2023/24 budget
- 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 2023/24 to be set at £126,353,562 as detailed in Appendix 3
- endorses the actual amount of Council Tax (Band D) for areas without parish precepts (excluding Fire and Police) be set at £1,881.86. This represents a total increase of 3.99%. This comprises of a 1.99% increase in general Council Tax, and an additional precept of 2% for Adult Social Care which has been continued by the Government to contribute towards the shortfall of funding for adult social care.
- endorses the actual amount of Council Tax (Band D) for areas with parish precepts (excluding Fire and Police) be set at :-

| | |
|--------------------------------|-----------|
| • Nunthorpe Parish | £1,891.57 |
| • Stainton and Thornton Parish | £1,891.17 |
- endorses the amounts of Council Tax for each category of dwelling be set in accordance with table 4 of Appendix 5 within the report.
- notes the Flexible Use of Capital Receipts Strategy 2023/24 amounting to an estimated £3m in 2023/24, detailed in Appendix 6, and that subject to approval of the Strategy by Council on 27 February 2023, this will be implemented for 2023/24
- notes the refreshed Medium Term Financial Plan position for 2023/24 to 2025/26 set out in this report in paragraphs 107 to 155
- endorses the updated Investment Strategy for the period to 2025/26 as outlined in paragraphs 156 to 161 and detailed in Appendix 7
- endorses the Capital Strategy Report (Prudential indicators, Investment Strategy and Minimum Revenue Provision) 2023/24 as outlined in paragraphs 162 to 172 and detailed in Appendix 8, and endorses the Authorised Limit for external borrowing of £328m for the Council for 2023/24 as set out in paragraph 172

Purpose

1. This report presents the recommended Revenue Budget of £126,353,562, Council Tax increase of 3.99% (paragraphs 86 to 106), and Capital Strategy Report for 2023/24 (paragraphs 162 to 172). 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 30 November 2022, this report also provides a refreshed Medium Term Financial Plan (MTFP) for the period 2023/24 to 2025/26 to reflect the 2023/24 Local Government Finance Settlement (paragraphs 107 to 155).
3. The Medium Term Financial Plan update in this report is integrated with the £231m Investment Strategy for Middlesbrough for the period from 2022/23 to 2025/26, supported by £114m of the Council's own resources. The updated Investment Strategy is shown in Appendix 7.
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 as minimum impact as possible on the level of service delivered to the public.

Background and relevant information

Strategic Plan for the 2022-24 period

5. 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.
6. 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 2022/23. 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.
7. Following the Council elections in May 2023 the Strategic Plan will be refreshed in line with the Elected Mayor's priorities.

Budget Gap 2023/24 reported to Council 30 November 2022

8. 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).
9. The Council noted a report from the Elected Mayor on 30 November 2022 which provided an update in respect of the Council's Medium Term Financial Plan position, reflecting and supporting delivery of the Strategic Plan, and the potential budget gap for 2023/24.

10. Following the thorough review of all the factors affecting the Council's financial position, it was estimated in the report to Council in November 2022 that there would be a budget gap of between £10m and £20m for 2023/24, with a mid-case assessment of £15m. The £15m gap reported to Council in November 2022 can be broken down into the following major components :

| | £m | |
|----------------------------|-------------|--|
| Pay | 6.7 | Effect of unbudgeted pay award 2022/23 above that assumed, and assumed 5% 2023/24 pay award |
| Inflation | 2.3 | Contractual and energy |
| Children's Social Care | 7.2 | Increased demand for services |
| Adult Social Care | 2.7 | National Living Wage impact on commissioned services |
| Reduction in contingencies | (1.4) | Removal of one-off 2022/23 contingencies, leaving insurance contingency of £1m and a contingency of £1.3m for Future Uncertainty |
| Growth in local income | (6.0) | 1.99% council tax increase, additional council taxbase uplift ,business rates inflation, and collection fund deficit |
| Other | 3.5 | Includes other service demand pressures, and assumed grant funding adjustments |
| | 15.0 | |

11. The following measures were detailed in the report to Council of 30 November 2022 to contribute towards the potential budget gap in 2023/24:
- proposed budget savings and other proposals for the 2023/24 budget, totalling £14.2m in the full year (£12.2m in 2023/24 due to time required for implementation) , of which £4.6m were deemed to potentially affect service delivery levels and were subject to public consultation
 - 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), subject to potential further review in light of the revised referendum limits announced in the Government's Autumn Spending Review of 17 November 2022
12. The table below provides a summary of the proposals detailed in the report to Council in November 2022, which totalled £12.2m in 2023/24, with a full year effect of £14.2m, to meet the current estimated budget gap for 2023/24. As mentioned in the report to Council in November 2022 it was intended at that stage that the impact of transition to implement the full year effect of the savings of approximately £2m in 2023/24 would be funded on a one-off basis in 2023/24 as they would continue to provide a recurring saving:

| Proposals to meet budget gap reported in November 2022 Council report | Effect in 2023/24 £m |
|---|-----------------------------|
| Proposed budget savings not subject to public consultation (Appendix 1) | 4.2 |
| Proposed budget savings subject to public consultation (Appendix 2) | 3.2 |
| 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 | 12.2 |

Proposed Revenue Budget 2023/2024

Summary overview of the current 2023/24 budget position

13. Since November 2022 whilst there have been a number of changes to the budget gap for 2023/24, including revisions to spending pressures, and the Local Government Finance Settlement and other funding changes, the budget gap for 2023/24 has remained roughly the same in value. The table below summarises the changes to the budget gap from that reported to Council in November 2022 with further detail being provided in the paragraphs below :

| | £m | |
|---|-----------|-------------|
| Gap reported November 2022 | | 15.0 |
| <u>Changes</u> | | |
| Pensions - increase in employers contributions following triennial valuation reprofiling (0% now required in 23/24) | (0.4) | |
| Unmitigated Children's Care demand additional investment | 9.8 | |
| Insurance contingency - reduction from £1m to £0.5m following review | (0.5) | |
| Treasury Management - MRP policy change ongoing saving from 2023/24 | (2.0) | |
| Crown purchase - revenue costs including capital financing | 0.2 | |
| | | 7.1 |
| New cost pressures total | | 22.1 |
| <u>Local Government Settlement and other funding changes excluding Council Tax</u> | | |
| Services Grant - reduction offset by removal of £1m NI employers contributions increase budget no longer required | 0.4 | |
| Social Care Grant - additional grant above that assumed | (4.6) | |
| New Homes Bonus - additional grant above that assumed | (0.7) | |
| Business Rates Multiplier increased (by CPI 10.1%) - increase above that assumed | (1.2) | |
| Increased Business Rates income following NNDR1 finalisation | (1.3) | |
| Revenue Support Grant increased (by CPI 10.1%) - increase above that assumed | (0.8) | |
| Effect of increased National Living Wage on potential Adult Social Care provider fees | 1.0 | |
| | | (7.2) |
| UPDATED CURRENT BUDGET GAP | | 14.9 |

14. The following table below provides a summary of the proposals to meet the current updated budget gap for 2023/24, and shows that a balanced budget for 2023/24 can be achieved. Further details are provided in the relevant paragraphs below.

| Proposals to meet current updated budget gap | Effect in 2023/24 £m |
|---|-----------------------------|
| Proposed budget savings not subject to public consultation (Appendix 1) | 4.4 |
| Proposed budget savings subject to public consultation (Appendix 2) | 2.1 |
| Proposed Children's Services cost reductions as part of Children's Financial Improvement Plan | 2.9 |
| 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 | 1.3 |
| TOTAL | 14.9 |

Consultation

15. The duty to consult, where proposals affect individuals or groups of individuals, arises both in statute and through common law.
16. Consultation in respect of the proposed budget and Council Tax increase for 2023/24 commenced on 1 December 2022 and concluded on 23 January 2023, with appropriate impact assessments undertaken considering responses to the consultation.
17. The budget consultation was undertaken this year as part of an "annual conversation, with local communities and Council's stakeholders. 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 on proposals and the outcome of the consultation
 - consultation with the local business sector, including a specific consultation meeting with the local Chamber of Commerce on 30 January 2023; and
 - involvement of elected members in the overall process
18. The consultation resulted in 573 responses to the Council's consultation survey. 11 of those responses were on behalf of an organisation. In addition, a petition was received in relation to the "Reduction in Council funding for Youth Services proposal" (CC05), and a letter was received from a Trade Union. Analysis of the budget consultation survey responses shows the following main points:
- 42.76% of respondents who answered the question were in favour of a Council Tax increase of 2.99%. 54.97% were against, and 13 individuals did not answer the question.

- The public were asked whether they would support a proposal to increase Council Tax further than the proposed 2.99%. 80.45% said no in response to that question. 98 (17%) respondents supported the idea, and 14 did not answer the question
 - The survey asked those who disagreed with the budget proposal to provide alternative suggestions they thought should be considered. 296 comments were received. Most comments related to the impact of the cost of living crisis on wider costs, service levels, senior management costs and concerns that Council Tax levels were already expensive.
19. 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 Human Rights, Equality and Data Protection section (paragraphs 178 to 185) of this report. This includes a set of impact assessments for proposals that were subject to public consultation and an overall impact assessment (Appendix 4).

The Local Government Finance Settlement (LGFS) and other Government funding announcements

20. The Autumn Statement 2022 (AS22), published by the Government on 17 November 2022, set out the Government's spending plans for the lifetime of the parliament. Whilst AS22 provided a number of indications of the level of funding that would 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.
21. A Local Government Finance Policy Statement 2023/24 to 2024/25 was published by Department for Levelling Up, Housing & Communities (DLUHC) on 12 December 2022 which set out the Government's intentions for the local government finance settlement for the next 2 years.
22. The full details of the funding mechanism and the allocation to individual local authorities for 2023/24 were then provided as part of the provisional Local Government Finance Settlement which was published on 19 December 2022 and after a period of consultation was confirmed as part of the final settlement published on XX February 2023 (TBD).
23. Whilst some information was provided for 2024/25 none was provided for 2025/26 onwards and it was also confirmed that there would not be a Funding Review in the lifetime of this parliament, and therefore there is still a large level of uncertainty of future government funding beyond 2024/25 and this remains a significant risk to the Council in the medium to longer term.
24. Even though there was additional funding announced for 2023/24, 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 £37.7 million (46%) from £81.2 million received in 2013/2014 to £43.5 million in 2023/24.

25. Details of the LGFS and other government funding announcements are provided in the following bullet points:

- A headline 9.2% increase in local government core spending power nationally in 2023/24. There was an increase of 10.8% in core spending power for Middlesbrough Council. However, it should be noted a large proportion of the additional funding available to Middlesbrough includes a number of grants which will have grant conditions meaning that they will be ringfenced for use for specific purposes in adult social care (as detailed below). It also assumes that the Council increases the Council Tax by the maximum permitted increase of up to 5% and also assumes some growth in the council tax base
- Council Tax – LGFS confirmed that Councils can increase Council Tax up to maximum of 3% plus 2% Adult Social Care Precept (a total of up to 5%) without the requirement for a referendum for the next 3 years from 2023/24 to 2025/26 (in the report to Council in November 2022 it had been assumed that Council Tax would increase by 1.99% plus 1% ASC precept)
- Council Tax Support Fund – an additional £100m has been provided nationally to support most vulnerable households. The allocation to Middlesbrough Council is £474,000. Details of the proposed scheme to distribute this are included in a separate report to this Executive.
- Household Support Fund - £1bn provided nationally to extend over 2023/24 to deliver support to households to help with the cost of essentials. The allocations to local authorities have not yet been announced and local authorities will be able to decide how to allocate the additional funding.
- Revenue Support Grant (RSG) will increase by inflation for 2023/24, which is set at the level of Consumer Price Inflation at September 2022 which was 10.1%. Also, some existing grants have been rolled into the RSG from 2023/24 onwards (£303,000 of Council Tax Support Admin Subsidy Grant and £1,000 Family Annex Grant) and £3,000 of new funding has been provided for Natasha's Law - food safety and enforcement. Excluding the effect of these the inflationary increases to this grant has created additional income to the Council of £1,277,000 in 2023/24 from that received in 2022/23.
- Business Rates – revaluation will take place in 2023 and local authorities will be fully compensated. Also, the Business Rates multiplier will be frozen in 2023/24, and local authorities will be compensated for this up to CPI (10.1%) – see paragraphs 26 to 28 for further details.
- The Services Grant introduced in 2022/23 will continue in 2023/24, but will reduce from £822m nationally to £464m in 2023/24, mainly due to the fact that the increase in Employer National Insurance contributions was reversed from November 2022, and also to fund an increase in funding to the Supporting Families Programme. The grant has again been distributed through the existing formula for assessed relative need across the sector, using 2013/14 shares of Settlement Funding Assessment. Middlesbrough Council's allocation for 2023/24

is £1.788m, which is decrease from the £3.172m received in 2023/24. However, the reduction of £1.384m is offset by the removal of the £1m per annum budget created in 2022/23 from the Services Grant for the planned increase in Employer National Insurance contributions.

- New Homes Bonus – it was announced that there will be a new round of payments in 2023/24, and the method for calculating the New Homes Bonus will not change from 2022/23, however there would be no legacy payments in future years for the new 2023/24 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. Estimates of New Homes Bonus to be received by the Council have been revised to reflect this announcement, with income to the Council from the New Homes Bonus being £1.102m in 2023/24. The Government did not provide in the LGFS any clarity on the future of the New Homes Bonus, and this does not enable Councils to plan their budgets for this beyond next year and into the medium term, and therefore this is risk to the Council in the future.
- Existing 2021/22 and 2022/23 Social Care funding comprising Social Care Grant of £8.543m, relating to both Adults and Children's Care, is continued for 2023/24. In addition to this additional Social Care Grant of £4.646m for 2023/24, relating to both Adults and Children's Care, was also announced. This was funded mainly from delaying Adult Social Care charging reform until October 2025. This means that Middlesbrough will receive a total £13.189m of Social Care Grant in 2023/24. It should be noted that the existing Independent Living Fund grant has been rolled into the Adult Social Care Grant from 2023/24 onwards – this totals £1.828m for Middlesbrough and therefore the total Social Care Grant to be received in 2023/24 is £15.017m including this.
- A new Adult Social Care Discharge Grant for 2023/24. Funding will be required to be pooled as part of the Better Care Fund, and will be distributed using the existing Improved Better Care Fund grant shares, with conditions attached to its use meaning it is ringfenced for a specific purpose. £300m is available nationally in 2023/24, with Middlesbrough being allocated £1.212m of grant funding for 2023/24. Announcements were also made of the likely level of funding in 2024/25 and it is estimated that Middlesbrough will receive £2.020m in 2024/25.
- £562m nationally in Adult Social Care Market Sustainability and Improvement Funding. This is made up of new grant funding of £400m to address issues such as discharge delays, social care waiting times, low fee rates, and workforce pressures, and £162m in Fair Cost of Care funding to support the progress local authorities and providers have already made this year on fees and cost of care exercises. This has been distributed using the existing ASC Relative Needs Formula, and will be reporting requirements regarding performance and use of funding. The amount to be received by the Council in 2023/24 is £1.775m. Announcements were also made of the likely level of funding in 2024/25 and it is estimated that Middlesbrough will receive £2.669m in 2024/25.
- The Dedicated Schools Grant (DSG) statutory override which instructs Councils to account for the DSG negative balance in a separate reserve and not to fund it by using its General Fund was planned to end on 31 March 2023, however this has been extended to 31 March 2026. This was a major risk to the Council as it could

have meant that the Council would have had to fund this deficit itself (current balance is £5.1m) and whilst it is still a risk to the Council the risk has been mitigated significantly in the medium term.

- Additional £1.9bn nationally was provided for schools and high needs funding for 2023/24 - £1.45bn in schools block funding and £400m of high needs funding. This has led to an 9.1% overall increase for Middlesbrough, including £4m additional high needs funding. The schools block funding is passported straight to schools.
- LGFS announced that there would be no increase to the Adult Social Care Better Care Fund (iBCF) allocations or to the method of distribution for 2023/24.
- The LGFS did not provide any details of the Public Health Grant allocations, and at the time of writing this report no announcements of the level of funding for 2023/24 have been made. In the absence of any information it is currently assumed that Middlesbrough will receive in 2023/24 the same amount of £17,730,663 grant as received in 2022/23. Any increase in the Public Health Grant will be fully spent on public health activities.

26. 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. Whilst as mentioned above the multiplier has been frozen the payment to Middlesbrough for 2023/24 has increased from the £27.299m received in 2022/23 to £29.347m in 2023/24, due to compensation being received for the effect of the business rates revaluation taking place in 2023.
27. The LGFS announced Section 31 Business Rates grant of £4.999m (an increase of £2.209m over that received in 2022/23), 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, 2022/23 and 2023/24 on the top up payment mentioned above.
28. An estimate has been made of retained business rates income in 2023/24 of £16.399m. Whilst this is an increase on that for 2022/23 it is a reduction from that in previous years prior to Covid-19 due to extension of the Retail, Hospitality and Leisure Relief granted by the Government to business in 2023/24. The Council has been compensated for this, including the effects of the freezing of the small business multiplier in 2023/24, by receipt of additional Section 31 Business Rates Grant of £6.895 million in 2023/24 only. Note that this is in addition to the Section 31 grant outlined above in paragraph 30, making a total amount of Section 31 Business Rates Grant of £11.894m in 2023/24, an increase of £2.936m from that received in 2022/23.

Budget Principles

29. In preparing the 2023/24 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 maintain financial resilience of the Council over the medium term

- to ensure resources are aligned to strategic need and priorities
- to recognise that budgets are delegated to Directors for day to day management. Budgets will be adjusted for pay award and exceptional inflation over that already provided. Directors have agreed their budget allocation and are committed to spending money wisely
- 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. It should be noted that due to rising inflation rates additional inflation has been provided for in a number of areas in the 2023/24 budget setting.
- 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;
- the reserves strategy sets out the nature and purpose of reserves and the accountable officer. Approval is required by the Director of Finance for use of strategic reserves. A comprehensive review of the reserves strategy following the outturn position for 2022/23 will be undertaken
- 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. including the requirement for vacancy and agency control

Budget Assumptions

30. The following budget assumptions have been applied:

Pay awards

31. It was mentioned in the Quarter Three 2022/23 budget monitoring report to this Executive, that the National Employers offer of an increase of £1,925 on all NJC pay points 1 and above effective from 1 April 2022 has now eventually been agreed and will be implemented. This equates to approximately an average 6.2% pay award costing approximately £5.5m per annum and this will mean that there will be a recurring additional £2m required in future years of the MTFP.
32. The current assumption for 2023/24 is for an average 5% pay award and approximately £4.5m has currently been provided in a central pay and prices

contingency budget for the potential effect of the pay award in 2023/24. In light of the agreed 2022/23 pay award and the potential underlying inflation that exists in the economy, along with a number of pay disputes in the public sector, the assumption for the 2023/24 pay award has been revised upwards from that previously provided. 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. When the pay award for 2023/24 has been agreed this will be transferred to service directorate budgets. It should be noted that each 1% increase in pay equates to approximately £900,000 additional cost per annum.

Additional Employers National Insurance contributions

33. In the budget for 2022/23 a recurring budget of £1m per annum was set aside for the fact that it was planned that the Council would have to pay from 2022/23 increased Employer National Insurance contributions for its own staff. As mentioned above in the LGFS update paragraph this budget can be removed as the increase in Employer National Insurance contributions was reversed from 1 November 2022. This saving however is offset by a reduction in the Services Grant in 2023/24 of £1.384m, as the Government has recovered this funding from local government, as it had provided additional funding for this in the form of the Services Grant.

Inflation

34. 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 quarterly budget monitoring reports to Executive during 2022/23, 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 quarterly budget monitoring Executive reports. 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, with £0.9m of this being used for the increased 2022/23 pay award, leaving a remaining recurring budget of £3.7m per annum.
35. Following a review, the £3.7m per annum of remaining recurring funding from the additional inflation contingency set aside as part of the budget setting 2022/23 has been increased by a further approximate £1.0m due to increased pressures identified during 2022/23. The £4.7m has now been allocated as follows to Directorates budgets from the separate central contingency budget on a permanent basis as part of the 2023/24 budget setting, based on the split of projected expenditure per Directorate against this for 2022/23 adjusted for any known 2023/24 effects:

| | 2023/24 £m |
|--|-----------------------|
| Regeneration & Culture | 1.955 |
| Environment & Community Services | 0.000 |
| Education & Partnerships | 0.289 |
| Children's Care | 0.826 |
| Adult Social Care & Health Integration | 1.604 |
| Public Health | 0.000 |
| Finance | 0.040 |
| Legal & Governance Services | 0.000 |
| Central Accounts | (3.744) |
| Total - agrees to 23/24 uplift | 0.970 |

36. In addition, in light of the current continuing high level of inflation, there has been a need to review the amount of inflation provided and an additional £1m per annum has been included from 2023/24 to cover the potential effects of the additional inflation in energy and utility costs in 2023/24. This will be allocated to the Environment and Community Services Directorate. There will be a need to closely monitor this, and further updates will be provided in future budget monitoring reports.
37. Contractual inflation at a total cost of approximately £1.8m has been provided for in 2023/24. 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. It should however be noted that the areas that require increased inflation have been provided with this as part of contractual and additional inflation.

| | 2023/24 £m |
|--|-----------------------|
| Regeneration & Culture | 0.034 |
| Environment & Community Services | 0.009 |
| Education & Partnerships | 0.029 |
| Children's Care | 0.711 |
| Adult Social Care & Health Integration | 1.022 |
| Public Health | 0.000 |
| Finance | 0.001 |
| Legal & Governance Services | 0.029 |
| Central Accounts | 0.000 |
| Total | 1.835 |

38. In addition, to the allocations mentioned above a pay and prices contingency totalling approximately £0.7m per annum is also held centrally to guard against unexpected demand or price pressures that may arise during the year. This is required due to the uncertainty around levels of inflation and future local government pay awards.

39. 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 was estimated for 2023/24 this was reviewed as mentioned in the report to Council in November 2022. All income will be closely monitored for performance against income targets and reviewed as necessary.

National Living Wage

40. Provision of £3.7m has been made in 2023/24 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 AS22 so that it reaches two-thirds of median earnings, and that the National Living Wage will increase from £9.50 to £10.42 an hour effective from 1 April 2023 (a 9.68% increase). The amount provided is an increase of approximately £1m from that previously provided and included in the estimated budget gap reported to Council in November 2022.

Spending pressures –Children’s Social Care

41. 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.
42. The Council has an Ofsted Improvement Plan in place, and the financial situation is being closely monitored jointly by the Service and Finance.
43. In the report to Council in November 2022 it was noted that the £5.2m of temporary funding provided to Children’s Care in 2022/23 had 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 from 2023/24 had been provided for this in the revised MTFP presented to Council in November 2022.
44. Following further review and an exercise to baseline current activity and costs an additional £9.8m has been provided to Children’s Care 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. This should mean that the Service is on a firm financial footing with an appropriate budget which can be managed within.
45. This has meant that a total of approximately £17m of permanent investment has been made in Children’s Care from 2023/24. Further details of this are provided in the separate Children’s Services Financial Improvement Plan report to this Executive.
46. Also included in the Children’s Services Financial Improvement Plan are a number of proposed cost reductions which are proposed to provide reductions in the Children’s expenditure of approximately £2.8m in 2023/24, an additional £1.8m after the removal of £1m of previous proposed budget savings as detailed in paragraph 67. The separate report to this Executive provides details of these proposed cost reductions.

47. Whilst the Local Government Finance Settlement for 2023/24 and previous years have 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.
48. Further Children's Social Care demand increases, any delays to the implementation of the Children's Financial 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. If required mitigation will be provided in the form of in-year spending controls during 2023/24.

Adult Social Care

49. £500,000 per annum has been provided for Adult Social Care in 2023/24 and a further £50,000 per annum from 2024/25, 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.

Other Spending pressures

50. The Revenue Budget, Council Tax, MTFP and Capital Strategy 2022/23 report to Council in February 2023 and the MTFP Update report to Council in November 2022 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 2023/24 and ongoing. These have been reviewed and updated as follows :
- £640,000 per annum 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 as mentioned above in paragraph 35
 - £500,000 per annum due to a requirement to build up Reserves of up to £7m for Insurance in order to cover claims that will potentially arise in the future as indicated by the recent Insurance actuarial review (this is a reduction of £500,000 on that previously assumed in November 2022 due to a review of the provision required)
 - £677,000 from 2023/24 and a further £87,000 in 2024/25 for additional annual budget provision 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
 - £35,000 for increased demand for services for Business Intelligence support and unbudgeted Corporate License and Membership Fees within Strategy, Information & Governance
 - £35,000 for increased annual contribution to the Election Reserve in order to cover the cost of Local and Mayoral Elections (including anticipated increased expenditure as a result of the Elections Bill)

- £54,000 for increased cost in external audit fees due to scale fee increases received for external audits of the Council's accounts. This pressure is after grant income of £46,000 being predicted to be received relating to the Redmond Review. External audit fees are planned to increase further in the future, mainly due to the increased complexity of the audits required, and this is a national issue for local authorities

51. It should be noted that the spending pressure of £400,000 per annum for 2023/24 to 2025/26 (equating to a 0.5% increase per annum) relating to an anticipated increase in Employers Pension contributions following the recent triennial actuarial review has now been removed for 2023/24 as it has now been reprofiled to be paid later in 2025/26. The effect is now that a 0% increase will be applied in 2023/24, 0.5% in 2024/25, and 1% in 2025/26, which is a change from the previous 0.5% increase in each year from 2023/24 to 2025/26.

Reduced Spending pressures

52. As reported in the Quarter One 2022/23 budget monitoring report there is a recurring budget saving of £471,000 on payments to bus operators for concessionary travel scheme following a change in the model of calculation and reduced patronage.

Additional income from Commercial Developments

53. 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 total additional income of approximately £1.9m, which is made up of approximately £0.7m of additional income above budget already assumed previously, and further estimated additional income of approximately £1.2m in 2023/24 to help meet the budget gap in 2023/24, as detailed in the report to Council in November 2022. 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.

54. There is however a need to provide £231,000 in 2023/24 only for costs relating to the House of Fraser which the Council acquired in July 2020. These costs relate to business rates and maintenance costs which the Council have to incur pending developments to the building. This estimated cost assumes that tenants will occupy the building from January 2024, therefore negating the Council's responsibility in the future. Future occupation of the building by tenants will mean that the Council will receive income in the form of rents and business rates.

55. A shortfall on rent income from other commercial properties that the Council owns is predicted, due to not being able to review leases due to lease terms, and also the state of some of the properties. £300,000 per annum has been provided from 2023/24 relating to this, however a long term plan is to be developed for reducing costs and increasing income.

56. Costs of approximately £200,000 per annum relating to revenue costs (capital financing costs, business rates, insurance, security, utilities, and maintenance) associated with the Council's acquisition of a major town centre building of strategic

significance, the Crown building, as approved by Executive on 24 January 2023 have been included from 2023/24. These costs will be incurred each year that the asset is held.

Additional Investment

57. The MTFP provided additional revenue funding of £600,000 per annum from 2023/24 for additional Community Safety and Environmental Enforcement staff, following the end of a grant from the Tees Valley Combined Authority (TVCA). There is however a budget saving relating to reducing expenditure on Neighbourhood Safety (ECS12), which reduces the effect of this investment.

Capital Financing (including change to Minimum Revenue Provision (MRP) Policy)

58. A total of £1.1m has been provided in 2023/24 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 which have been deemed as essential replacement or repairs to Council assets as outlined in paragraph 158, which subject to approval by Council on 27 February 2023, as part of the budget report, will be added to the Council's agreed Investment Strategy.
59. Provision has been made in the MTFP to fund up to £4.5m of capital investment (£2m in 2023/24 and £2.5m in 2024/25) in Children's Services in order to achieve the development of the residential model, as detailed in the separate Children's Services Financial Improvement Plan report to this Executive.
60. The Council approved a revised Minimum Revenue Provision (MRP) Policy in January 2023 (included in the Capital Strategy Appendix 7 to this report), which sets out a change to the profile in the repayment of debt, harmonising the treatment for both supported and unsupported borrowing. Government guidance sets out several options to enable prudent provision and the Council has adopted the annuity basis over the life of an asset. It is not possible to backdate this policy for prior years and it will be only future charges that are influenced by the policy.
61. The impact of this change will be to improve the management of the revenue budget and to smooth the total cost of capital financing over many years. Costs are lowest in the early years and steadily increase over time. The Budget 2023/24 provides for a baselining of MRP on an annuity basis at Year 10 as a prudent provision and this will produce cost reductions in capital financing costs of approximately £2m per annum over the MTFP period. Also in doing so, this creates headroom in the capital financing budget to be ringfenced for future capital investment, or financing risk in an Investment Reserve, equating to an estimated £500,000 in 2023/24.
62. The Capital Financing budget will be closely monitored during 2023/24 with updates being provided via the quarterly budget monitoring reports, and any required changes being reflected in future refreshes of the MTFP.

Contingency

63. A contingency budget of £1.3m per annum recurring from 2023/24 has been provided for future uncertainty mainly regarding the economic climate, inflation, and potential additional demand/spending pressures within services. This will be held centrally and closely monitored, and updates will be provided in future reports of any use of the contingency.

Budget Savings

64. As mentioned in paragraph 10 the refreshed MTFP submitted to Council on 30 November 2022 identified that there was 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 would be required in order to balance the budget in 2023/24.
65. The budget savings proposed for 2023/24 were detailed in the report to Council on 30 November 2022, with a full year effect totalling £9.4m and a £7.4m part effect in 2023/24 due to the required staff consultation and implementation periods. The savings proposed were categorised in two appendices with the savings in Appendix 2, totalling £4.6m full year effect and £3.3m part year effect, being deemed to potentially affect service delivery levels and therefore being subject to public consultation.
66. Following the budget consultation period and further review, a number of changes have been made to the budget savings previously proposed. The changes are summarised in the paragraphs below :
67. Removal of Children's Service Budget Savings Proposals and replacement with cost reductions in the Children's Services Financial Improvement Plan

As mentioned in paragraph 46 the following four Children's Care budget savings proposals totalling £1.684m full year effect and £982,000 part year effect in 2023/24 have been removed, due to alternative cost reductions totalling £4.722m full year effect and £2.854m part year effect in 2023/24 being proposed as part of the Children's Services Financial Improvement Plan :

- CC13 – reduction in specialist staffing compliment providing services to children and young people
 - CC02 – redesigning part of Gleneagles Residential Home to provide long-term residential care for children
 - CC03 – stop providing dedicated Family Group Conferencing and incorporate into social work teams
 - CC12 – reduce direct provision of and financial support to families to provide non-residential short breaks for children and young people with disabilities
68. Removal of Other Budget Savings Proposals

As mentioned in paragraph 18 a petition was received as part of the budget consultation process, relating to budget savings proposal CC05 – Reduction in Council funding for Youth Services. Following review and taking account of the response to the consultation the Mayor is proposing that this saving is removed, with

a reduction in savings proposed of £100,000 full year effect and £83,000 part year effect in 2023/24.

69. Savings re-profiled, however saving amount overall remains unchanged

Following the consultation period, a number of proposals as follows have been re-profiled across financial years meaning a total of £142,000 being brought forward from 2024/25 to 2023/24 (i.e. the saving being fully achieved in 2023/24).

- CC07, CC10, EP03, EP04

70. Savings being delivered by an alternative approach

Following the consultation period and further quality assurance work on the saving proposals, an alternative approach has been put forward for the following budget savings proposals, however the saving amount remains the same for each proposal, with the exception of CC09 where there is a small reduction in the saving of £10,000 (with £1,000 part year effect in 2023/24):

| Ref | Original Saving Approach | Revised Saving Approach |
|--------------|--|---|
| CC04 | End Safe Families Contract | Re-purpose Safe Families Contract |
| CC09 | Cease the Young Carers contract to support children and young people with caring responsibilities | Council contribution for Young Carers contract to support children and young people with caring responsibilities to be replaced with external funding |
| CC11 | Delete Participation posts in Children's Strategic Services | Delete posts in Children's Strategic Services |
| LGS02 | Saving in IT Licensing fee | Reduction in computer maintenance element of ICT supplies and services budget |
| ECS10 | Reduction of 1 supervisor in Highways Services | Reduction of vacant post within Highways Services |
| FIN06 | Cease Welfare Rights service | Council spend for Welfare Rights service to be replaced with alternative external funding |
| EP03 | Reduce Council subsidy for nurseries so that our nurseries are economically viable, which could mean the potential closure of Bright Stars Nursery due to falling demand and other provision in the area | Remove Council subsidy for Bright Stars Nursery (nursery will remain open) |
| RC05 | Culture - use external funding to deliver events such as the Orange Pip Market | Events team to reduce by 1-2 posts, and external funding to be sought to deliver events |

As a result of the alternative approaches identified CC04, CC09, EP03 and FIN06 will move from Appendix 2 of the Council report in November 2022 to Appendix 1 now (attached to this report), as they are now considered to have only a minimal effect on front line service delivery levels.

71. Savings still being delivered the same way however wording and description have changed

Following the consultation period, the wording of a number of proposals have been simplified from that provided in Appendix 1 and 2 of the November 2022 Council report to provide further clarity, however they are still being delivered in the same way.

72. The effect of the recommended budget savings on the budget for 2023/24 is summarised below and detailed in Appendices 1 and 2, and also in the Children's Services Financial Improvement Plan:

- £4.4m in relation to budget savings that required no further consultation (Appendix 1)
- £2.1m in relation to specific budget savings that have been subject to consultation prior to the 2023/24 budget (Appendix 2)
- £2.9m in relation to cost reductions in Children's Services as part of the Children's Services Financial Improvement Plan

73. It should be noted that there will also be additional amounts of savings and cost reductions for the above in 2024/25, to reflect the full year effect as some savings/cost reductions will not be fully achieved in 2023/24 due to time required for implementation, consultation requirements for staff, and any consultation required over and above the standard budget consultation. These are included in the updated MTFP in this report.

Other proposals to meet budget gap

Flexible Use of Capital Receipts

74. In the report to Council in November 2022 it was 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, mainly within Children's Services. In order to satisfy the legislation relating to this, this needs to be subject to approval by Full Council in this budget report and therefore the Strategy for 2023/24 is contained in Appendix 6. 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.

Summary of proposals to meet budget gap

75. The budget savings and costs reductions outlined above, when added to the other budget proposals to meet the budget gap in the form of Flexible Capital Receipts (£3m), additional income from commercial developments (£1.2m), and increased council tax income from increasing the council tax increase to 3.99% (£1.3m), means that the updated budget gap of £14.9m for 2023/24 as shown in paragraph 13 can be met and a balanced budget for 2023/24 set. This is shown in the table in paragraph 14.

Adequacy of Financial Reserves

76. 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.
77. 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.
78. The Director of Finance has reviewed the proposed level of balances held in the General Fund Reserve and advised that she considers that it is appropriate to maintain the minimum level the current level of £12m in 2023/24 (and future years of the MTFP period). 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. The General Fund Reserve is the fund of last resort when all other funds have been exhausted.
79. 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, non-achievement of required budget savings and cost reductions, and the degree of uncertainty in the financial and economic climate for local government due to a number of factors. The table below provides further details of this, and shows that the calculation of the £12m level is made by using the mid-point of the following factors:

| | <u>Low point £m</u> | <u>High point £m</u> | <u>Mid point £m</u> |
|---|-----------------------------|------------------------------|-----------------------------|
| Inflation (including pay awards) : to provide for an increase of 1%-2% for pay & 20%-30% for energy above that currently provided | 2.0 | 3.6 | 2.8 |
| Further demand-led pressures (mainly Adults and Children's Social Care): to provide for a realistic upturn in demand | 0.5 | 4.0 | 2.3 |
| Budget savings & Children's Services cost reductions : provide for non-achievement of 5% to 20% of full year budget savings | 0.6 | 2.5 | 1.6 |
| Local Government Finances : uncertainty post-24/25 around Government funding and business rates reform | 0.5 | 1.5 | 1.0 |
| General Economic Climate - mainly the effect on income including income from commercial developments, fees and charges, and Business Rates & Council Tax | 0.5 | 3.0 | 1.8 |
| DSG Deficit balance on Reserve : potential requirement to fund this from end of 2025/26 (assumed any requirement to repay would be over 3 years) | 0.0 | 2.0 | 1.0 |
| 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 | 0.0 | 1.0 | 0.5 |
| Risk of potential future unknown emergencies not provided for | 0.0 | 2.3 | 1.2 |
| | 4.1 | 19.9 | 12.0 |

80. The current estimated level of the General Fund Reserve at the end of 31 March 2023 is £12.041m as reported in the Revenue and Capital Budget – Projected Outturn position as at Quarter Three 2022/23 report to this Executive.
81. The level of balance in all reserves available to the Council may be affected by any change in the current projected overspend for 2022/23. The total projected overspend for 2022/23 of £3.4m 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 can be covered on a one-off basis by the Social Care Transformation Reserve in 2022/23, but if this continues it is a significant risk to the Council’s financial position in the longer term.
82. The appropriate level of reserves for 2023/24 onwards will need reconsidering in light of financial performance in 2022/23, the ongoing effect of the economic climate, future levels of local government pay awards and inflation, any changes in local government funding, and if any reforms of local government finance are announced.
83. The Council intends to allocate an additional £0.730m per annum from 2023/24 to its Change Fund in order to support transformational activity. This is an increase of £0.5m from that previously provided in order to fund any potential costs arising from the implementation of required budget savings, including potential staff redundancy costs, and transformation required. Also as mentioned in paragraph 50 it intends to allocate an additional £0.5m to an Insurance Reserve, and as mentioned in paragraph 61 £0.5m to an Investment Reserve.
84. The table below provides a summary of the estimated balance on the major Strategic Reserves of the Council at the end of 2022/23 and then the estimated available balance on the Reserves in 2023/24 after the allocation to Reserves as mentioned in the paragraph above.

| | Estimated Year End 2022/23 | Estimated Available 2023/24 |
|--|---|--|
| | £000’s | £000’s |
| General Fund Reserve | 12,041 | 12,041 |
| Earmarked Reserve - Social Care Transformation Reserve | 1,698 | 1,698 |
| Earmarked Reserve - Insurance | 0 | 500 |
| Earmarked Reserve - Change Fund | 0 | 730 |
| Earmarked Reserve - Investment Reserve | 0 | 500 |
| Provisions - Business Rates Appeals | 1,921 | 1,921 |
| Provisions - Insurance | 3,000 | 3,000 |
| TOTAL | 18,660 | 20,390 |

85. A separate report to this Executive provides a statement from the Council's Section 151 Officer (the Director of Finance) under Section 25 of the Local Government Act 2003. The report covers:

- an overview of current financial standing.
- an assessment of the robustness of the 2023/24 budget setting process for both revenue and capital.
- an assessment of key risks that may impact the budget 2023/24.
- an assessment of the overall adequacy of reserves to contain financial risk and ensure the sustainability of the Council over the financial year 2023/24, and
- an indication of future direction of travel for the council beyond 2023/24.

Determination of Council Tax for 2023/24

86. 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 adults and children, the level of any budget reductions required, and the medium to long term implications of the Local Government Finance Settlement 2023/24.
87. In the Local Government Finance Settlement, the Government confirmed that Councils would be able to increase the general (core) element of Council Tax by up to 3% in 2023/24 (and also in 2024/25 and 2025/26) without the requirement to hold a referendum.
88. The Local Government Finance Settlement also confirmed the continuation of the Adult Social Care Precept at 2% for 2023/24. 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.
89. Local authorities can therefore potentially increase their Council Tax by a total of up to 5% in 2023/24 without the requirement for a referendum.
90. 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.
91. In the report to Council on 30 November 2022 the recommendation at that stage was that the Council adopted a 1.99% increase in the 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% in 2023/24. Following consideration of all factors the Elected Mayor currently recommends that the total proposed Council Tax

increase for 2023/24 should now be 3.99%, with 2% of the increase being due to the Adult Social Care Precept and the remaining 1.99% being an increase in the core/general Council Tax. It should be noted that this increase is on the Middlesbrough Council only element of the Council Tax (excluding Fire and Police and Parish precepts).

92. The Elected Mayor has made this decision in order to minimise the effect on council tax payers in Middlesbrough, whilst still trying to maintain as many services as possible within the funding available to the Council. This is lower than the Government expectations of a total 4.99% increase as announced in the LGFS.
93. Since 2013/14 the Council's Housing Growth Strategy has delivered an increase in the Council Tax Base of 5,578 Band D Equivalent properties, an increase in Middlesbrough Council's Tax Base of approximately 18.5% The cumulative effect is approximately £10.5m per annum and reduces the need to make further annual savings within Council services by this amount.
94. The Council is required to set a budget for 2023/24. 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 2023/24.
95. The Budget requirement for 2023/24 is estimated to be £126.354m as detailed in Appendix 3.
96. The basic (Band D) Council Tax for Middlesbrough as a whole is calculated as follows:

| | £ | £ |
|---|------------|-------------|
| Budget Requirement | | 126,353,562 |
| Less: | | |
| Revenue Support Grant | 14,182,308 | |
| Top up Payment | 29,346,817 | |
| Local Share of NNDR | 16,356,230 | |
| | | 59,885,355 |
| Net Requirements | | 66,468,207 |
| Estimated Collection Fund Deficit 2022/23 | | 840,725 |
| | (a) | 67,308,932 |
| Taxbase | (b) | 35,749 |
| Basic Council Tax | (a) / (b) | 1,882.82 |

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.

97. 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: | | 1,882.82 |
| Less : Parish Precepts | 34,311 | |
| Divided by Tax Base | 35,749 | |
| Equals | | 0.96 |
| Band D Tax | | 1,881.86 |

b) Nunthorpe:-

| | £ | £ |
|---------------------|--------|-----------------|
| Add: Parish Precept | 22,032 | |
| Divided by Tax Base | 2,269 | |
| Equals | | 9.71 |
| Band D Tax | | 1,891.57 |

c) Stainton & Thornton:-

| | £ | £ |
|---------------------|--------|-----------------|
| Add: Parish Precept | 12,279 | |
| Divided by Tax Base | 1,319 | |
| Equals | | 9.31 |
| Band D Tax | | 1,891.17 |

98. The tables at paragraph 97 relate only to Middlesbrough Council's element of the Council Tax and excludes Cleveland Police and Crime Commissioner and Cleveland Fire Authority precepts.

99. The level of Council Tax associated with the budget requirement represents a total increase of 3.99% in the level of Council Tax for areas without parish precepts (excluding Fire and Police precepts). This comprises of a 1.99% increase in general Council Tax, and an additional 2% increase in the Adult Social Care Precept.

100. Tax levels for all bands are set in varying proportions to the band D level, and are set out in table 1 of Appendix 5.

101. The effect of the proposed Council Tax increase of 3.99% 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 | 3.99% increase | |
|------|----------------|------------|
| | Annual (£) | Weekly (£) |
| A | 48.12 | 0.93 |
| D | 72.19 | 1.39 |

102. It should be noted that as mentioned in paragraph 25, the Government has provided additional funding in the form of the Council Tax Support Fund and the Household Support Fund which will help to mitigate the effect of the proposed Council Tax increase on the most vulnerable households.
103. Cleveland Fire Authority has set a precept for Middlesbrough of £XXm (to be determined). The Council Tax levels for 2023/24 are set out in table 2 of Appendix 5 (subject to approval).
104. Cleveland Police and Crime Commissioner has set a precept of £10,393,307 (subject to approval) and Council Tax levels for 2023/24 are set out in table 3 of Appendix 5 (subject to approval).
105. 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 5.
106. The overall impact on the band D Council Tax for 2023/24 is as follows: -

| | |
|---|-------|
| Middlesbrough Council | 3.99% |
| Cleveland Fire Authority | 6.11% |
| Cleveland Police and Crime Commissioner | 5.44% |
| Overall Increase | 4.25% |

Medium-Term Financial Plan to 2026

107. As mentioned in paragraphs 5 to 7 the Council has a Strategic Plan for the period 2022-24 which sets out the priorities for the Council for the period.
108. 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.
109. The Council noted a report from the Elected Mayor on 30 November 2022 which provided an update in respect of the Council's Medium Term Financial Plan position, reflecting and supporting delivery of the Strategic Plan, and the potential budget gap for 2023/24. In that report no estimates of the potential budget gap in 2024/25 and 2025/26 were provided at that stage, due to the high level of financial uncertainty surrounding future local government funding, local government pay awards and inflation, and no additional budget savings were proposed to cover any potential budget gap in 2024/25 and 2025/26.
110. As mentioned in the report in November 2022 the financial position for 2024/25 and 2025/26 would be reviewed and included in this report. The following table

summarises the Council's financial position in the period of the current medium term financial plan to 2025/26:

| | 2023/24 £ms | 2024/25 (Indicative) £ms | 2025/26 (Indicative) £ms | Total £ms |
|--|------------------------------|---|---|----------------------------|
| Fall out of non-recurring funding from use of reserves to balance previous year's budget | (0.858) | 0.000 | 0.000 | (0.858) |
| Pay & Inflation | 8.009 | 4.814 | 2.468 | 15.291 |
| Service Demand Pressures - Children's Services | 16.991 | 0.000 | 0.000 | 16.991 |
| Service Demand Pressures - Other Services (includes ASC National Living Wage effect) | 6.210 | 5.734 | 3.547 | 15.491 |
| Corporate Issues (Insurance budget, Pension contributions) | 0.100 | 0.392 | 0.784 | 1.276 |
| Capital Financing (includes MRP saving from 2023/24) | (1.366) | 0.844 | 0.511 | (0.011) |
| Additional Income from Commercial Developments | (0.701) | (0.249) | (0.062) | (1.012) |
| Government funding changes | (11.935) | (4.691) | (1.371) | (17.998) |
| Local funding increases | (4.391) | (4.573) | (3.516) | (12.479) |
| Budget gap | 12.059 | 2.270 | 2.361 | 16.692 |
| | | | | |
| Savings - 23/24 budget process | (6.529) | (1.119) | 0.000 | (7.648) |
| Cost Reductions - Children's Services Financial Improvement Plan | (2.854) | (1.868) | 0.000 | (4.722) |
| Additional Income from Commercial Developments (above that assumed previously) | (1.176) | 0.445 | 0.339 | (0.392) |
| Flexible Use of Capital Receipts | (3.000) | 3.000 | 0.000 | 0.000 |
| | | | | |
| Additional contribution to Change Fund Reserve | 0.500 | 0.000 | 0.000 | 0.500 |
| Contribution to Insurance Reserve | 0.500 | 0.000 | 0.000 | 0.500 |
| Contribution to Investment Reserve | 0.500 | 0.000 | 0.000 | 0.500 |
| | | | | |
| In-year budget position | 0.000 | 2.728 | 2.700 | 5.430 |

111. 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. Whilst there is a degree of certainty regarding the 2024/25 figures as some information was provided as part of the Local Government Finance Settlement 2023/24, there is very little information available relating to 2025/26. This has led to a high level of uncertainty regarding the budget in later years of the MTFP period (especially from 2025/26 onwards), due mainly to ongoing uncertainty regarding the future funding model for local government and other factors such as pay and inflation, and also due to the fact that it is the end of the current term of the current Government in December 2024/January 2025. The budget gaps in 2024/25 and 2025/26 are therefore only indicative and will be updated in future MTFP updates over the next year as further information becomes available. At this stage no

additional budget savings are proposed to cover the budget gaps in 2024/25 and 2025/26.

112. As can be seen from the table above the estimated in-year budget position for 2024/25 would have been higher if the full year effect of savings and Children's Services cost reductions proposed as part of the 2023/24 budget setting process were not included. It can also be seen that currently there is no intention to utilise a Flexible Use of Capital Receipts Strategy in 2024/25, and that the use of the Strategy in 2023/24 increases the budget gap in 2024/25 as it only has a one year effect in 2023/24 and does not have an ongoing effect.
113. 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.
114. The following assumptions have been applied in refreshing the Council's MTFP:

National Context

115. 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 5 August 2021. Further details of the Council's Financial Standing, including further updates regarding these, are provided in the separate Budget 2023//24 – Statutory report of the Chief Finance Officer report to this Executive. Close attention will be paid to both of these, and further updates will be provided in the future to Executive and CAAC.
116. The current general economic climate and the impact of inflation and future local government pay awards still being at high levels 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

117. As mentioned in paragraphs 20 to 23 whilst the Autumn Statement 2022 (AS22), the Local Government Finance Policy Statement 2023/24 to 2024/25, and the Local Government Finance Settlement, provided detailed information of government funding for 2023/24, and some information for 2024/25, no detailed information was provided for 2025/26 onwards, and it was also confirmed that there would not be a Funding Review in the lifetime of this parliament. This therefore means that there is still a large level of uncertainty of future government funding beyond 2024/25 and this remains a significant risk to the Council in the medium to longer term.
118. 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 2024/25

and 2025/26 has been estimated, but these figures are necessarily less robust than the figures for 2023/24.

| Funding Stream | 2023/24 | 2024/25 (Indicative) | 2025/26 (Indicative) |
|--|----------------|---------------------------------------|---------------------------------------|
| | £ms | £ms | £ms |
| Revenue Support Grant | 14.182 | 14.891 | 15.338 |
| Adjustment for grants rolled into RSG (Council Tax Admin Subsidy & Family Annex Grant) | (0.304) | (0.304) | (0.304) |
| Business Rates Top Up | 29.347 | 30.814 | 31.739 |
| New Homes Bonus | 1.102 | 0.551 | 0.551 |
| 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 | 11.881 | 11.881 | 11.881 |
| Social Care Grant (includes £1.828m Independent Living Fund Grant rolled in) | 15.017 | 17.245 | 17.245 |
| Adjustment for grants rolled into Social Care Grant (Independent Living Fund) | (1.828) | (1.828) | (1.828) |
| ASC Market Sustainability & Improvement Fund (ringfenced grant) | 1.775 | 2.669 | 2.669 |
| ASC Discharge Fund (ringfenced grant) | 1.212 | 2.020 | 2.020 |
| Lower Tier Services Grant (for 21/22 and 22/23 only) | 0.000 | 0.000 | 0.000 |
| Services Grant (introduced in 2022/23) | 1.788 | 1.788 | 1.788 |
| 2021/22 Covid Council Tax Support Grant (spread over 3 years) | 0.864 | 0.000 | 0.000 |
| Total: | 101.412 | 106.103 | 107.475 |

119. Revenue Support Grant and Business Rates Top Up Grant have been assumed to increase by 5% in 2024/25 and 3% 2025/26. The increase in 2024/25 is broadly based on the CPI increase as at September 2023 (which the Government will base the actual increase on), with the increase for 2025/26 being less robust and based on an estimated increase.
120. It should be noted in the above table that as outlined in paragraph 25 no details of the Public Health Grant allocations for 2023/24 have been provided to date, and therefore taking a prudent view the level of funding has currently been assumed over the MTFP period to remain the same as that received in 2022/23 (£17,730,663). This creates a level of uncertainty in how much the Council can budget for essential services to help keep people healthy throughout their lives.
121. Not included in the table above are details of the Dedicated Schools Grant (DSG) which the Council receives. The following table provides a summary of the amounts to be received and a comparison to that received in 2022/23. 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 2024/25 and 2025/26.

| Funding Stream | 2022/23 £ms | 2023/24 £ms | 2024/25 (Indicative) £ms | 2025/26 (Indicative) £ms |
|---|----------------|----------------|--------------------------------|--------------------------------|
| Dedicated Schools Grant (DSG) - Schools Block | 121.592 | 131.097 | 131.097 | 131.097 |
| Dedicated Schools Grant (DSG) - Central School Services Block | 1.042 | 1.043 | 1.043 | 1.043 |
| Dedicated Schools Grant (DSG) - High Needs Block | 32.684 | 37.636 | 37.636 | 37.636 |
| Dedicated Schools Grant (DSG) - Early Years Block | 11.829 | 12.400 | 12.400 | 12.400 |

Local funding increases

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

| Funding Stream | 2023/24 £ms | 2024/25 (Indicative) £ms | 2025/26 (Indicative) £ms |
|--|----------------|--------------------------------|--------------------------------|
| Council Tax : Core (includes Housing Growth) | 58.622 | 60.171 | 61.749 |
| Council Tax : Adult Social Care Precept | 8.687 | 10.051 | 11.473 |
| Local Share of Business Rates | 16.356 | 17.174 | 17.689 |
| Collection Fund Surplus / (Deficit) | (0.841) | 0.000 | 0.000 |
| Total: | 82.824 | 87.396 | 90.911 |

123. There is a high level of uncertainty in the longer-term future 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 any development of the "levelling up" agenda.
124. The Local Government Finance Settlement confirmed that Councils can increase the general (core) element of Council Tax by up to 3% per annum and by 2% for the Adult Social Care Precept (a total of up to 5% increase per annum) for the next 3 years (2023/24 to 2025/26), without the requirement to hold a referendum. As detailed in paragraph 92 the Elected Mayor now proposes that it will implement a 3.99% total increase in the Council Tax in 2023/24. It is currently assumed that there will be a 2.99% total increase in Council Tax for both 2024/25 and 2025/26 but this will be subject to future review.
125. It should be noted that each 1% increase in Council Tax generates approximately £650,000 of resources.
126. 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.

127. Local Share of Business Rates (Retained Business Rates) has been assumed to increase by 5% in 2024/25 and 3% in 2025/26. The increase in 2024/25 is broadly based on the CPI increase as at September 2023 (which the Government will base the actual increase on), with the increase for 2025/26 being less robust and based on an estimated increase.

Pay awards

128. The current assumptions in the MTFP are for a 5% pay award in 2023/24, 3% in 2024/25, and 2% in 2025/26. In light of the agreed 2022/23 pay award and the potential underlying inflation that exists in the economy, the assumption for the future 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.

Inflation

129. Contractual inflation of approximately £1.8m per annum has been assumed in the MTFP period (as shown in paragraph 37).
130. 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.
131. Additional inflation has been provided from 2023/24 as detailed in paragraphs 35 and 36, and also further additional inflation of £1m from 2024/25 has also been provided in the MTFP for the effects of potential additional inflation across a wide range of areas, including the cost of energy. This will be subject to review, with updates being provided in future budget monitoring reports and MTFP updates.
132. In addition, to the allocations mentioned above a pay and prices contingency totalling approximately £0.7m per annum is also held centrally to guard against unexpected demand or price pressures that may arise during the year. This is required due to the uncertainty around levels of inflation and future local government pay awards.
133. Information regarding income from fees and charges for 2023/24 were provided earlier in the report. For 2024/25 fees and charges are assumed to increase by 5% producing approximately £2.1m of income, and by 3% for 2025/26 producing approximately £1.3m of income, however in light of the uncertainty regarding inflation this will be reviewed regularly, and updates will be provided in future revisions of the MTFP.

National Living Wage

134. 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.
135. As mentioned in paragraph 40, in AS22 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 £9.50 to £10.42 an hour effective from 1 April 2023 (a 9.68% increase at a cost of £3.7m). Following this announcement assumptions of the likely level of the National Living Wage and the potential costs of the effect of the increases in future years have been reviewed. It has been assumed that the National Living Wage will further increase by 8.9% to £11.35 from 1 April 2024 (at a cost of £3.6m) and will further increase by 5% to £11.92 from 1 April 2025 (at a cost of £2.3m). Over the MTFP period from 2023/24 to 2025/26 the effects of National Living Wage increase are predicted to be £9.6m.

136. 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 future years estimates have been reviewed.

Spending pressures –Children’s Social Care

137. As mentioned in paragraph 45 a total of approximately £17m per annum of permanent recurring investment has been made in Children’s Care from 2023/24, with further details of this being provided in the separate Children’s Services Financial Improvement Plan report to this Executive.
138. Also detailed in the Children’s Services Financial Improvement Plan are a number of proposed cost reductions which are proposed to provide reductions in Children’s Services expenditure in both 2023/24 and 2024/25. It is proposed that the Children’s Services Improvement Plan will deliver the following cost reductions:
- 2023/24 – total part year cost reduction of £2.854m, with a net reduction of £1.872m following the deduction of previous unachievable Children’s Services proposed budget savings which have been removed
 - 2024/25 – total further full year cost reduction of £1.868m, with a net reduction of £1.157m following the deduction of previous unachievable Children’s Services proposed budget savings which have been removed
139. Further cost reductions will be sought within Children’s Services in the future as part of a continuing review of expenditure in this area, to ensure that maximum value for money is achieved in providing services.
140. 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.
141. Whilst the Local Government Finance Settlement in 2023/24 and previous years has 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.
142. Further Children’s Social Care demand increases, any delays to the implementation of the Children’s Financial 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.

Adult Social Care

143. Whilst the Local Government Finance Settlement in 2023/24 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.
144. In addition, there is a risk that the Council does not receive adequate funding to cover the potential 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 amount of funding allocated to Middlesbrough for 2023/24 and 2024/25 along with the distribution methodology used for this has been announced, there is still a risk as to the level of fees that are to be requested by providers in the future. This along with the fact that the overall funding available to local government for this, as detailed in AS22 and the LGFS, may not be enough, means there is a risk to the Council from the move towards the implementation of the reform. Also there is uncertainty regarding the continuation of funding for this post 2024/25, currently it has been assumed that the grant provided for this will continue in the MTFP period.
145. Provision of £500,000 per annum from 2024/25 has been made in the MTFP for future potential increases in demand for services within Adult Social Cre. The requirement for this will be reviewed and updates provided in future updates of the MTFP.

Other Spending pressures

146. Paragraph 50 highlights a number of spending pressures for which funding has been provided on an ongoing from 2023/24 and the future effects of these. There are also a number of spending pressures which will arise in the MTFP from 2024/25 and 2025/26 as follows :
 - £84,000 per annum from 2024/25 and a further £128,000 per annum from 2025/26 relating to the potential effects on income the Council receives from housebuilding in the form of growth in council tax income, due to the potential effects of nutrient neutrality
 - £1,025,000 for 2025/26 in Waste Disposal relating to costs associated with the extension of the current contract for a further year until the new Waste Recycling Site is complete, which is currently expected in 2026/27. The costs associated with the operation of the new site are currently being reviewed and updates will be provided in future budget monitoring and MTFP update reports.

Additional income

147. As detailed in paragraph 53, additional rental income above the current budget is estimated to be received in 2023/24 from developments that the Council has made in the town, namely TAMP, Centre Square, Captain Cook Shopping Centre, and the Cleveland Centre 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.
148. It is currently assumed in the MTFP that they may potentially be some reduction in income to be achieved in future years. It is currently assumed that they potentially may be a reduction in income of approximately £200,000 in 2024/25 due mainly to potential rent reviews of some units in the Cleveland Centre Shopping Centre, and a further reduction of £400,000 in 2025/26 due mainly to potential break clauses in the some of the rental contracts of the Centre square buildings. These assumptions are based on a very prudent and pessimistic approach and will be reviewed, and updates will be provided in future MTFP update reports. It should still be noted that even with these potential reductions, the commercial developments have provided additional income to the Council, in excess of the cost, both in previous years and in the future.

Additional Investment

149. In addition a total of approximately £1.1m that has been provided in 2023/24 for the impact on the Capital Financing budget as mentioned in paragraph 58, further additional funding totalling £700,000 in 2024/25 and a further £500,000 in 2025/26 has been provided in the MTFP for the potential impact of potential new schemes, as detailed in paragraph 158.
150. 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.
151. The Capital Financing budget will be closely monitored during 2023/24 with updates being provided via the quarterly budget monitoring reports, with any required changes being reflected in future refreshes of the MTFP.

Reserves and Balances

152. 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 78 and 79 of this report.
153. Over the MTFP period, the Council intends to maintain a Change Fund in order to support transformational activity to deliver the budget savings required and its Strategic Plan, with investment of £0.730m per annum to this being planned.
154. It is not currently planned to use any reserves or balances over the MTFP period to balance the budget.

Contingency

155. As mentioned in paragraph 63, a contingency budget of £1.3m per annum recurring MTFP from 2023/24 has been provided for future uncertainty mainly regarding the economic climate, inflation, and spending pressures. This will be closely monitored, and updates will be provided in future reports.

Investment Strategy

156. Full Council approved an Investment Strategy for the period 2022-2024 on 23 February 2022. 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 2022/23 report to this Executive.
157. As part of the budget savings proposed in the report to Council in November 2022, the Investment Strategy was reviewed to ascertain if schemes could be removed or reduced in value, which would create savings within the Capital Financing budget. The following schemes have therefore been removed or reduced as they are linked to the budget savings proposed

| Removal of / Reduction In Investment | | | | | | |
|---|---|------------------|------------------|------------------|------------------|----------------|
| Directorate | Scheme | 2023/23 £'000 | 2023/24 £'000 | 2024/25 £'000 | 2025/26 £'000 | Total £'000 |
| Environment & Community Services | Highways Infrastructure | - | (4,000) | (3,500) | - | (7,500) |
| Public Health | Health & Wellbeing Hub | - | (679) | - | - | (679) |
| Adult Social Care & Health Integration | Chronically Sick & Disabled Persons Act - All Schemes | (711) | (753) | - | - | (1,464) |
| Total Removal Of / Reduction In Investment | | (711) | (5,432) | (3,500) | - | (9,643) |

- Highways Infrastructure - The reduction of £7,500,000 of funding will impact upon the speed to which identified improvement works will be implemented. The service has re-evaluated the priority list, and this will be presented as a separate report to Executive on 7 March 2023.
 - Health & Wellbeing Hub - The funds provided were for the expansion of the Live Well Centre or the relocation of Public Health. The Directorate has now signed an extension to the lease at the Live Well Centre, with the expansion not going ahead, and as such the funds are no longer required.
 - Chronically Sick & Disabled Persons Act – All Schemes - Whilst the £1,464,000 funds have been removed there is no impact upon the planned works as they will now be funded from Disabled Facilities Grant that has been carried forward from previous years.
158. As mentioned in paragraphs 58 and 59, additional revenue provision has been provided in respect of the following potential new and enhanced projects which have been deemed as essential replacement or repairs to Council assets. These have been included within the revised Investment Strategy at Appendix 7 for endorsement by Executive and then for approval by Council on 27 February 2023. Details are provided in the table below and in the following paragraphs.

| New / Increased Investment | | | | | | |
|---|--|---------|---------------|--------------|--------------|---------------|
| Directorate | Scheme | 2022/23 | 2023/24 | 2024/25 | 2025/26 | Total |
| | | £'000 | £'000 | £'000 | £'000 | £'000 |
| Environment & Community Services | Purchase Of New Vehicles | - | 2,860 | 1,050 | 1,060 | 4,970 |
| Environment & Community Services | Bridges & Structures (Non Local Transport Plan) | - | 2,520 | 2,420 | 2,240 | 7,180 |
| Environment & Community Services | Newport Bridge | - | 1,513 | - | 1,617 | 3,130 |
| Environment & Community Services | Traffic Signals - Non Tees Valley Combined Authority | - | 1,150 | 1,150 | 980 | 3,280 |
| Environment & Community Services | Street Lighting Column Replacement | - | 464 | 464 | 500 | 1,428 |
| Children's Services | Children's Services Financial Improvement Plan | - | 2,000 | 2,500 | - | 4,500 |
| Total New / Increased Investment | | - | 10,507 | 7,584 | 6,397 | 24,488 |

- Purchase Of New Vehicles - The fleet strategy has been revised to take into account increased purchase costs, the need to replace high value vehicles, e.g. refuse vehicles, and an increase in vehicles required to accommodate increased demand within the Integrated Transport Unit.
- Bridges & Structures (Non Local Transport Plan) - The additional funds provided are for essential maintenance works that have been identified following a comprehensive principal inspection programme of all of the bridges and structures.
- Newport Bridge - The Newport and Transporter bridges are the shared responsibility of both Middlesbrough Council and Stockton Council. The Newport Bridge has been subject to a thorough inspection which has identified the need for significant essential repairs and maintenance. The cost of these works is currently projected to be £6,260,000, of which Middlesbrough Council will provide £3,130,000 of capital funding
- A detailed inspection has also been undertaken on the Transporter Bridge. Whilst the anticipated costs of essential repairs and maintenance have not been finalised, they are expected to be significantly higher than those for Newport Bridge. As per the Newport Bridge, the costs will be shared equally between the Councils. Further details will be provided in a future report to Executive. It should be noted that no capital allocation for the works has currently been added to the Investment Strategy, until the final cost estimates are ascertained, and Executive have approved the works. An estimate has been made of the future potential capital financing costs of the work required and these have been included in the revised MTFP.
- Traffic Signals – Non Tees Valley Combined Authority – A high volume of the aged signals require replacing, the renewed signals will be functionable for 25 years. It is possible that TVCA will provide some grant funding but at this juncture it is assumed that the Council will be responsible for the cost of the replacements.
- Street Lighting Column Replacement – A statutory inspection has identified a large number of street lighting columns which require replacing, predominantly due to corrosion.
- Children’s Services Financial Improvement Plan – As detailed in the separate report to this Executive, the Plan includes the acquisition of a number of houses with the intention of housing looked after children. This service is currently being provided by external organisations at significant cost. The strategy of providing in-house care will result in substantial cost

reductions to the revenue budget. The cost reductions have taken account of the potential capital financing costs from the capital investment.

159. 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 2025/26:

| Business As Usual | | |
|--|--|---------------------|
| Directorate | Scheme | Amount £ |
| Regeneration & Culture | Capitalisation Of Major Schemes Salaries | 530,000 |
| Regeneration & Culture | Capitalisation Of Planning Services Surveys | 40,000 |
| Environment & Community Services | Purchase Of New Vehicles | 1,200,000 |
| Environment & Community Services | Capitalisation of Wheeled Bin Replacement | 100,000 |
| Environment & Community Services | Capitalisation of Street Furniture / Dog Fouling & Litter Bins | 55,000 |
| Environment & Community Services | Capitalisation of Highways Maintenance | 575,000 |
| Environment & Community Services | Property Services Building Investment | 340,000 |
| Environment & Community Services | Street Lighting-Maintenance | 468,000 |
| Environment & Community Services | Members Small Schemes | 60,000 |
| Environment & Community Services | Property Asset Investment Strategy | 1,200,000 |
| Adult Social Care & Health Integration | Chronically Sick & Disabled Persons Act - All schemes | 610,000 |
| Adult Social Care & Health Integration | Capitalisation of Staying Put Salaries | 50,000 |
| Legal & Governance Services | ICT Essential Refresh & Licensing | 2,185,000 |
| Finance | Derisking Sites | 500,000 |
| Total Business As Usual | | 7,913,000 |

160. The updated Investment Strategy is included at Appendix 7 and Executive are requested to endorse the updated Investment Strategy, which will be submitted for approval by Full Council on 27 February 2023.
161. 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 162 to 172 below and in Appendix 8.

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

162. 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.
163. 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.
164. 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.

165. 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.
166. 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.
167. 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.
168. 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.
169. Appendix 8 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.
170. There are some large financial commitments in the level of capital expenditure over the next two financial years. 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.
171. 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.
172. 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 2023/24 budget will be £328m. This is a decrease of £28m over that used in 2023/23 and reflects the current environment where debt refinancing opportunities are restricted, and this was previously provided for.

What decision(s) are being recommended?

The report requests that the Executive:

- endorses the proposed budget strategy for 2023/24 as set out in paragraphs 13 to 85
- endorses the proposed budget savings (Appendices 1 and 2), and other proposals for the 2023/24 budget
- 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 2023/24 to be set at £126,353,562 as detailed in Appendix 3
- endorses the actual amount of Council Tax (Band D) for areas without parish precepts (excluding Fire and Police) be set at £1,881.86. This represents a total increase of 3.99%. This comprises of a 1.99% increase in general Council Tax, and an additional precept of 2% for Adult Social Care which has been continued by the Government to contribute towards the shortfall of funding for adult social care.
- endorses the actual amount of Council Tax (Band D) for areas with parish precepts (excluding Fire and Police) be set at :-
 - Nunthorpe Parish £1,891.57
 - Stainton and Thornton Parish £1,891.17
- endorses the amounts of Council Tax for each category of dwelling be set in accordance with table 4 of Appendix 5 within the report.
- notes the Flexible Use of Capital Receipts Strategy 2023/24 amounting to an estimated £3m in 2023/24, detailed in Appendix 6, and that subject to approval of the Strategy by Council on 27 February 2023, this will be implemented for 2023/24
- notes the refreshed Medium Term Financial Plan position for 2023/24 to 2025/26 set out in this report in paragraphs 107 to 155
- endorses the updated Investment Strategy for the period to 2025/26 as outlined in paragraphs 156 to 161 and detailed in Appendix 7
- endorses the Capital Strategy Report (Prudential indicators, Investment Strategy and Minimum Revenue Provision) 2023/24 as outlined in paragraphs 162 to 172 and detailed in Appendix 8, and endorses the Authorised Limit for external borrowing of £328m for the Council for 2023/24 as set out in paragraph 172

Rationale for the recommended decision(s)

173. 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.
174. 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

175. Not applicable.

Impact(s) of the recommended decision(s)

Legal

176. 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.
177. 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

178. 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.
179. 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.
180. 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, and any non-achievement of the proposed budget savings and other proposals for 2023/24 outlined in this report.

Human Rights, Equality and Data Protection

181. 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 those proposals and the overall budget are included within Appendix 4 of this report. The completed impact assessments are appended to this report, along with an overall impact assessment at Appendix 4.
182. 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.
183. 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.
184. 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.
185. As a result of the above, the 15 proposals set out at Appendix 2 have been subject to a screening impact assessment. As a result of that process 10 of those proposals were found to have no concerns that they could have a disproportionate adverse impact on individuals or groups because they hold one or more of the protected characteristics or there were no concerns the proposals could have an adverse impact on human rights or community cohesion.
186. 5 of the proposals proceeded to a level 2 impact assessment to assess, in line with the Public Sector Equality Duty whether they could be avoided or mitigated. As a result of this the overall impact assessment found that the impact of the proposals in relation to the “reduction in the capacity of the NEET team” (CC10) and the “reduction in opening hours of libraries and hubs” (ECS14) had been mitigated.

187. Two of the proposals had impacts that could not be fully mitigated. The impact assessment findings for the two proposals are summarised in the table below:

| Proposal | Impact Assessment |
|---|---|
| ECS05 - Increase rent charges by 10% at Metz Bridge Travellers Site in line with inflation | The impact assessment found the proposal was partially mitigated by the lack of rent increases in recent years however it could not be fully mitigated. The completed impact assessment found that there was a justified adverse impact on the Race protected characteristic in order to ensure the Council is able to maintain a balanced budget and continue to meet its statutory obligations. |
| ECS12 - Reduce Council expenditure on Neighbourhood Safety and seek to maximise grant funding | The impact assessment found that the proposed reduction would have an adverse impact on capacity which would reduce the ability of the service to address anti-social behaviour issues which in turn could have an adverse impact on community cohesion. The impact will be partially mitigated by the securing of additional funding to support wardens in the town centre area but this will not fully mitigate the impact of the proposal. The complete impact assessment found that there was a justified adverse impact on community cohesion in order to ensure the Council is able to maintain a balanced budget and continue to meet its statutory obligations. |

188. As a result of the above, the overall impact assessment has found that the impact of proposals on the protected characteristics of race cannot be fully mitigated. It has also identified an adverse impact on community cohesion, in line with the above individual impact assessments. The complete overall impact assessment included in Appendix 4 found that there was a justified adverse impact from these proposals in order to ensure the Council is able to maintain a balanced budget and continue to meet its statutory obligations.

Financial

189. The approach set out within the report would allow the Council to meet its legal obligations in relation to setting a budget and council tax for 2023/24, and also meet the challenging financial targets the Council will face in the MTFP period, whilst attempting to minimise as far as possible the impact on the level of service delivered to the public.

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

| Action | Responsible Officer | Deadline |
|---|--------------------------------------|------------------|
| That this report is presented to Full Council on 27 February 2023 for approval of the Revenue Budget and Council Tax for 2023/24, the Flexible Use of Capital Receipts Strategy 2023/24, the updated Investment Strategy for the period to 2025/26, and the Capital Strategy 2023/24 and the Authorised Limit for external borrowing. Council will also be requested to note the refreshed MTFP for 2023/24 to 2025/26. | Head of Financial Planning & Support | 27 February 2023 |
| If approved by Council on 27 February 2023, the proposals set out in this report will form the basis of the 2023/24 revenue budget of the Council | Head of Financial Planning & Support | 27 February 2023 |

Appendices

| | |
|-----------|---|
| 1 | Budget savings proposals that are considered to have minimal or no effect on front line service delivery levels |
| 1a | Further detail of fee and charges increases contained in Appendix 1 |
| 2 | Budget Savings proposals considered to potentially affect front line service delivery levels |
| 3 | Revenue Budget 2023/24 |
| 4 | Revenue Budget 2023/24 – Impact Assessments |
| 5 | Council Tax Bands 2023/24 |
| 6 | Flexible Use of Capital Receipts Strategy 2023/24 |
| 7 | Updated Investment Strategy to 2025/26 |
| 8 | Capital Strategy Report (Prudential indicators, Investment Strategy and Minimum Revenue Provision) 2023/24 |

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 |
| Council | Medium Term Financial Plan Update and Budget Savings Proposals 2023/24 | 30/11/22 |
| Executive | Revenue and Capital Budget – Projected Outturn position as at Quarter Three 2022/23 | 14/2/23 |
| Executive | Budget 2023-24 – Statutory report of the Chief Finance Officer | 14/2/23 |
| Executive | Children's Services Financial Improvement Plan | 14/2/23 |

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