

Appendix 1 - S151 Officer Section 25 Report

The robustness of the 2024/25 budget and adequacy of reserves

1 Purpose of the report

- 1.1 This is an important report which provides the context within which the entire suite of the 2024/25 budget and MTFP and Treasury Management Strategy Reports on this agenda must be considered when making decisions in relation to setting the annual budget and council tax.
- 1.2 The report advises members of the Council of the Director of Finance's (s151 Officer) report on the robustness of estimates made for the purposes of the budget calculations and the adequacy of proposed financial reserves as required by statute.

2 Legal Framework

- 2.1 Section 25 of The Local Government Act 2003 (the Act) includes the following statutory duty in respect of the budget report to Council:

'the Chief Financial Officer (CFO) of the authority must report to it on the following matters:

- a) the robustness of the estimates made for the purpose of the calculations;*
- and*
- b) the adequacy of the proposed financial reserves.'*

- 2.2 The Act also requires the Authority to which the report is made to have regard to the report when taking decisions about the budget and setting the council tax. The Chief Finance Officer is as defined in Section 151 of the Local Government Act 1972 and is fulfilled by the Director of Finance.
- 2.3 Section 26 of the Local Government Act 2003 places an onus on the CFO (The Director of Finance and s151 Officer) to ensure the Council has established a minimum level of reserves to be retained to cover any unforeseen demands that could not be reasonably defined within finalising the proposed budget. For the purpose of the Act 'reserves' include the 'General Fund Balance.
- 2.4 This report has been prepared by the CFO to fulfil this duty and gives the required advice relating to the 2024/25 financial year. This includes a consideration of the budget proposals as a whole and the key financial risks facing the Council.
- 2.5 In accordance with s31A of the Local Government Finance Act 1992, the Council is required to have regard to this report when making decisions on agreeing the budget and setting the council tax for the financial year 2024/25.

3 Chief Finance Officer Overall Opinion

- 3.1 The Council's financial position is critical, given its inability to set a balanced revenue budget for 2024/25 without recourse to Exceptional Financial Support (EFS), for which a decision from Department for Levelling Up, Housing and Communities (DLUHC) is expected during the week commencing 26 February 2024. The Council will be required to accept the terms of any agreed amount of EFS to then progress to consider and set a balanced budget at its meeting on 8 March 2024 in order to avoid a s114 Notice being issued under s114(3) of the Local Government Act 2988 in relation to the 2024/25 budget. The implications of issuing a s114 notice are set out in the summary report and Appendix 2 – 2024/25 Revenue Budget and MTFP
- 3.2 The Council has been unable to fully mitigate its financial pressures during 2023/24 in relation to adults and children's social care, SEND transport and waste disposal expenditure and as a result the level of revenue reserves required to finance the forecast overspend of £5.544m (at Quarter Three / period 9) will reduce the level of the General Fund Balance and unrestricted usable earmarked reserves to £9.091m which is considered to be inadequate.
- 3.3 The critically low level of revenue reserves advised to the Council at budget setting in March 2023 have been further depleted as a result of the continued expenditure pressures which Service Directors have been unable to control whilst operating under their current arrangements. The forecast level of reserves of £9.091m at 31 March are insufficient and would have resulted in the s151 Officer needing to issue a s114 Notice in 2023/24 if it had not been possible to identify a solution set out in 3.4.
- 3.4 The detailed review of the balance sheet identified the need to review and apply a one off and exceptional adjustment of £8.3m to the Collection Fund Bad Debt provision resulting from the application of the accounting methodology to comply with accounting standard IAS37. This provides a solution to restore unrestricted usable revenue balances to the level of £17.4m at 1 April 2024. Revenue reserves will be replenished by the application of the forecast Collection Fund surplus of c£8.3m on 1 April 2024.
- 3.5 As a result of these actions and a review of the Reserves Policy (Appendix 3), the minimum level of the General Fund Balance will be set at a minimum of 7.5% of the Net Revenue Budget on 1 April 2024 which is £11.1m
- 3.6 The Council must aim to rebuild its unrestricted revenue reserves over the period of the MTFP. The balance on earmarked unrestricted reserves at 1 April 2024 is planned to be £6.3m.
- 3.7 Within unrestricted revenue reserves, the Financial Resilience Reserve (FRR) will operate as a budget smoothing reserve to meet unanticipated financial

pressures subject to recommendation by the s151 Officer to the Executive. The FRR is required to be rebuilt and maintained at between £8m to £10m by 2026/27 to provide sufficient resilience to support the management of risks in the delivery of the revenue budget over the period.

3.8 On the basis of the risks and issues set out in this report, in my opinion as Director of Finance (s151 Officer), the budget estimate of £143.190m (after adjusting for EFS) and a council tax requirement of £71.438m to be presented for approval by Council is robust on the basis that:

- a) All Members and Officers will work collaboratively together with an unrelenting focus and priority placed upon:
 - a. controlling costs within cash limited budgets without exception.
 - b. Delivery of all £13.9m of planned new savings for 2024/25 on an ongoing basis
 - c. Identify and develop further transformational savings to enable implementation to secure delivery of a minimum of £7.475m further savings from 2025/26.
 - d. Noting that the failure to deliver planned savings in any financial year will add to the budget gap in the following financial year
 - e. Following extensive training in the new Financial and Contract Procedure Rules, Directors will ensure full staff compliance across their respective service areas.

These control measures will serve to preserve and rebuild the Council's revenue reserves to strengthen the Council's financial resilience over the medium term as required by the external auditor's statutory recommendations and DLUHC requirements in relation to recent revision to the Council's Best Value Notice.

- b) DLUHC agrees to the Council's request for Exceptional Financial Support in the form of a capitalisation direction up to £13.4m for 2024/25 to meet the budget gap of up to £4.7m and contingency sums of £8.7m in respect of potential savings delivery slippage and delays in realisation of capital receipts required to fund transformation thereby supporting the Council's financial recovery plans.
- c) The Council takes all necessary measures to realise the delivery of £24m of planned asset sales in 2024/25 which are critical to fund transformation investment over the MTFP.
- d) That transformation and savings delivery plans are developed at pace and appropriate temporary resources are secured across Service Directorates to ensure delivery in line with programme delivery profiles. Each Director will need to ensure that they secure the necessary resources to deliver within available transformation financial resources given the risks to delivery noted in section 5.3 below.

- e) That sufficient senior and specialist capacity of the Finance Team is secured to be able to service the organisational requirements associated with delivering transformation alongside its normal duties in upholding the s151 officer statutory responsibilities to the required standard. The resources within the substantive team are currently insufficient to deliver at the extent of improvements in financial management required to meet statutory s24 audit recommendations, support the delivery of transformation, and uphold the business-as-usual statutory duties of the s151 officer.

S114 (7) of the Local Government Finance Act 1988 requires that the Council provide the s151 Officer with sufficient resources as the s151 Officer considers necessary to fulfil their statutory duties under the Act.

The Finance Team will therefore be dependent upon a level of temporary professional senior resource over the course of 2024/25, and this will be addressed within the development of the transformation programme delivery and resource plans. The operating model and structure of the Finance Function will be reviewed during the year as part of the financial management improvement plan to ensure that it is adequate to meet the longer term needs of the Council.

- 3.9 The forecast level of Council reserves remains critically low but are adequate to support the budget for 2024/25 having regard to the assessment of current financial and other risks and the implementation of recommended management control measures as set out in this report. Provided these assessed risks do not increase substantially and beyond those that have been reasonably assumed in developing the budget; together with a successful EFS application to cover identified risks as noted, the Council is capable of delivering an increase in its financial resilience over the MTFP period.
- 3.10 The Council must continue to proactively address the areas for improvement set out in the Culture and Governance Improvement Plan and External Auditor's s24 Recommendations Action Plan. In particular, embedding improvements to budget modelling and forecasting within the operational management of services underpinned by effective systems and processes will deliver improved and embedded financial management practices across all directorates.

4. Current Context and Financial Standing of the Council

2023/24 Financial Position

- 4.1 The Council approved a balanced budget for 2023/24 in February 2023. Whilst the budget was assessed as robust by the former s151 Officer at that time, usable earmarked revenue reserves were noted to be at a critically low level of £2.788m together with a General Fund Balance of £12.041m at 31 March 2023. The need for strict cost control and delivery of savings during 2023/24 was emphasised within the s151 Officer's 2023/24 s25 report.

- 4.2 However, at period 2 (31 May 2023) financial monitoring, the current Interim Director of Finance (151 officer) identified a substantial forecast overspend and implemented immediate monthly monitoring and control measures across the organisation advising the Leadership Team, Elected Mayor and Executive of the potential seriousness of the Council's financial position in early June and calling for prompt management action to address the situation.
- 4.3 On 23 August 2023, the Quarter 1 (Period 3 to 30 June 2023) revenue and capital budget monitoring report forecast an overspend of £11.563m (9.2%) on the approved £126.354m. In view of the critically low revenue reserves position of £14.8m including the General Fund Reserve of £12.041m and unrestricted revenue reserves of £2.788m, it was noted that the Council was at risk of a s114 Notice being issued during 2023/24. In July 2023, the s151 Officer introduced a range of management and control measures to restrict expenditure as set out in the Q1 report. These arrangements have continued through the course of the 2023/24 financial year and will remain in place until further notice.
- 4.4 At Quarter 3 (Period 9 to 31 December 2023), the forecast outturn has been reduced to an overspend of £5.544m (4.4%) as reported to the Executive on 14 February 2024. Throughout the year, cost control measures have been deployed and an assessment made of the pressures in terms of their on-going vs one off nature. A large proportion of management actions taken have been one-off in nature and therefore whilst they have reduced the extent of the in-year overspend, they have not provided solutions to move the Council to a financially sustainable position to enable a balanced budget in 2024/25.
- 4.5 The Council's approach to financial management and control must be revised and strengthened through 2024/25 to establish a firm grip on financial management and embed this in the strategic and operational management of the organisation. This is essential to achieve and sustain financial recovery. The summary forecast outturn at Quarter 3 is set out below.

All Directorates	Original Budget Full Year	Current Budget Full Year	Forecast Outturn	Forecast Variance	Forecast Variance as % of Current Budget	Movement from Quarter Two (Forecast Variance)	
	£m	£m	£m	£m	%	£m	
				Adv / (Fav)		Adv / (Fav)	
Adult Social Care	49.808	51.692	53.050	1.358	2.6	(0.405)	↑
Public Health	(3.280)	(3.095)	(3.095)	0.000	0.0	0.000	↔
Children's Care	54.649	55.692	58.576	2.884	5.2	(0.289)	↑
Education & Partnerships	5.494	5.737	7.180	1.443	25.2	(0.500)	↑
Regeneration	(1.987)	1.010	0.675	(0.335)	(33.2)	0.179	↓
Environment & Communities	20.228	19.533	20.476	0.943	4.8	0.175	↓
Legal & Governance	10.245	10.780	10.834	0.054	0.5	0.050	↓
Chief Executive	0.000	0.234	0.234	(0.000)	(0.1)	0.012	↓
Finance	4.429	5.181	4.846	(0.335)	(6.5)	(0.187)	↑
Total Directorates	139.586	146.764	152.776	6.012	4.1	(0.965)	↑
Central Budgets	(13.232)	(20.411)	(20.878)	(0.467)	2.3	(2.047)	↑
Total Budget	126.354	126.354	131.898	5.544	4.4	(3.012)	↑

4.6 There has been an unrelenting focus by the Leadership and Management Team and Executive Members upon managing and tracking the delivery of approved savings over the course of the year. Where original plans have proved difficult or not possible to deliver within the year, alternative mitigations have been deployed as far as possible by Directors through the development and implementation of Financial Recovery Plans. The Quarter 3 position on savings delivery is summarised below by Directorate.

Directorate	23/24 RED (£000s)	23/24 AMBER (£000s)	23/24 GREEN (£000s)	23/24 BLUE (£000s)	TOTAL (£000s)
Regeneration	0	0	300	296	596
Environment and Commercial Services	0	0	1,261	782	2,043
Legal and Governance	0	0	120	121	241
Adult Social Care and Health Integration	0	0	416	86	502
Public Health	0	0	0	296	296
Education and Partnerships	0	0	0	313	313
Children's Care	56	0	0	698	754
Central	0	0	0	543	543
Finance	0	0	0	130	130
Fees and Charges	0	0	1,111	0	1,111
Children's Services Financial Improvement Plan	1513	0	174	1167	2,854
TOTAL (000s)	1569	0	3382	4432	9,383
Overall Percentages	17%	0.00%	36.04%	47.23%	

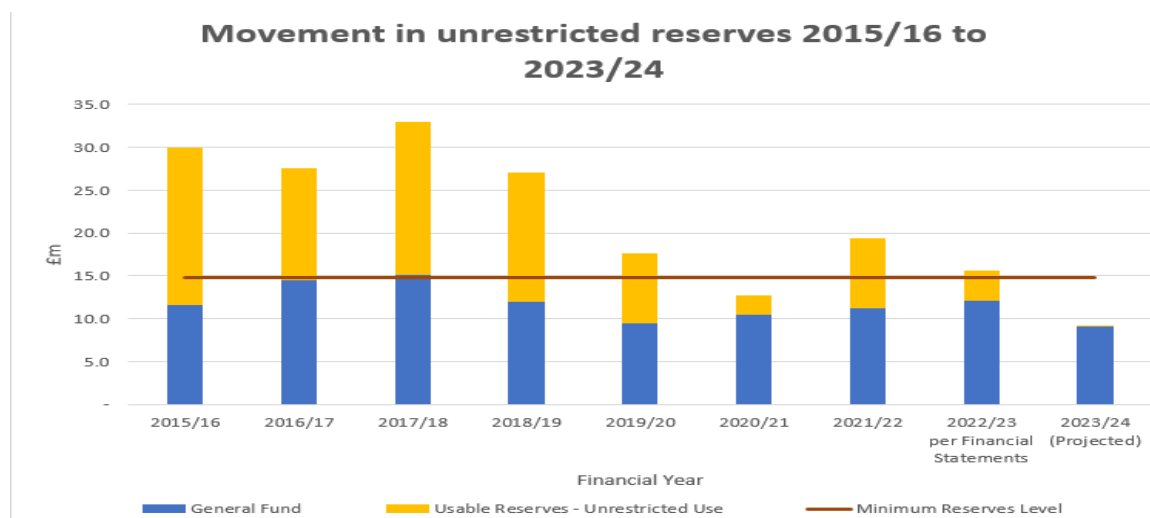
4.7 Undeliverable savings RAG rated red are factored into the 2023/24 forecast overspend of £5.544m and have been revised and replacement savings proposed in the 2024/25 budget. The table below summarises the main variances within the organisation which have proven difficult to mitigate fully due to a combination of:

- The demand led and statutory nature of the services which have experienced increased demand and complexity of need beyond those anticipated.
- Inflationary pressures continuing to impact the supply chain for goods, works and services.
- The nature of current operating models which need to be modernised to realise efficiencies.
- The requirement for more effective demand management to support and enable communities to become more resilient and self-reliant.

2023/24 Financial Forecast Outturn Quarter 3	£m
Adult Social Care	1.358
Children's Social care	2.884
Education & Partnerships	1.443
Environment and Community Services	0.943
Other variances (Regeneration, Legal and Governance, Finance and Central)	(1.084)
Total	5.544

- 4.8 It is essential that robust measures are taken in 2024/25 to manage demand more effectively, deliver efficiencies and develop longer term transformation to control costs, particularly in the areas of Adult Social Care, Children’s Care, Education and Partnerships (SEND transport), Homelessness and Environment and Communities (Waste Disposal).
- 4.9 The forecast overspending at period 9 will result in earmarked revenue reserves and the General Fund balance being reduced to £9.091m at 31 March 2024 against the minimum balance of £14.829m advised at 31 March 2023.
- 4.10 The reduction in usable unrestricted reserves and the General Fund Balance over the period 2015/16 to 2023/24 is illustrated in **Figure 1** below. The Council must now take firm and unwavering action in 2024/25 in order to control expenditure within its annual income sources without exception in order to protect and rebuild reserves to a sufficient level over the medium term 2024/25 to 2025/26.

Figure 1: Movement in unrestricted reserves 2015/16 to 2023/24

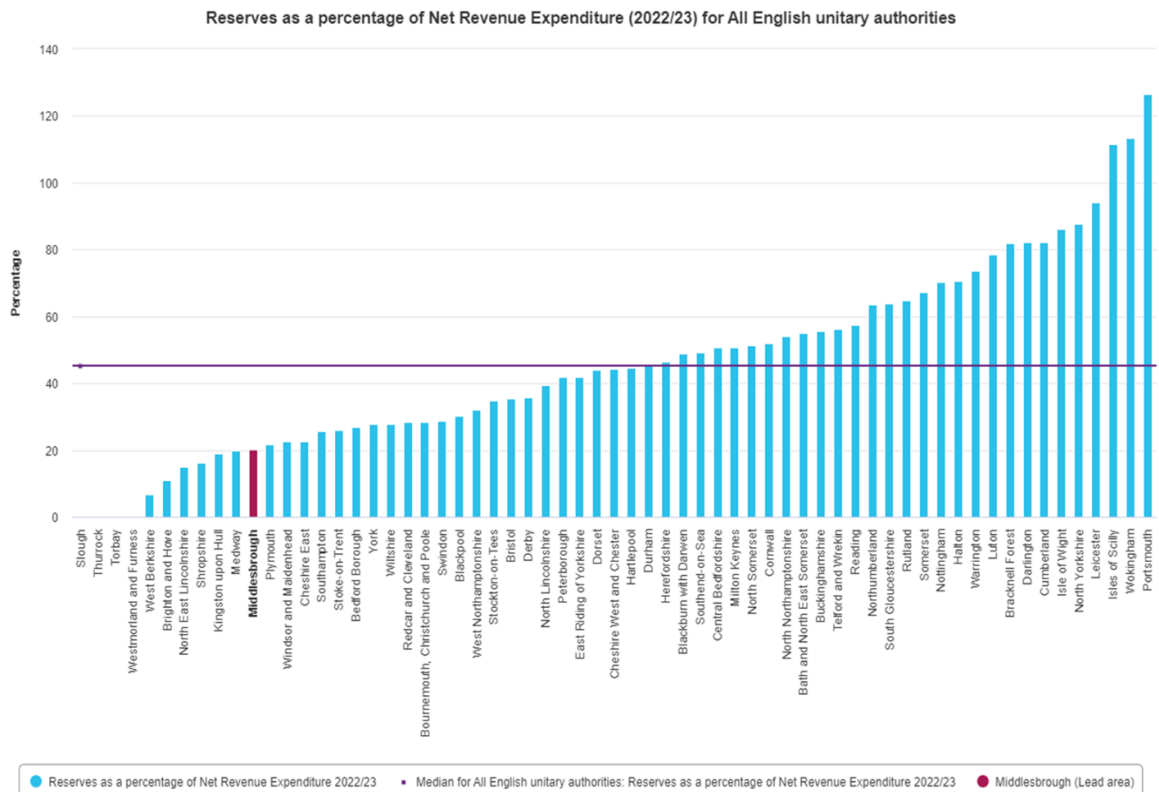


- 4.11 The Director of Finance initiated a detailed review of the balance sheet during the 2023/24 in response to the identified risk to reserves and as a result:
- has identified a number of reclassifications in General Fund Reserves at 31 March 2023.
 - review of the methodology to calculate the bad debt provision in line with International Accounting Standard IAS37 within the Collection Fund has been undertaken. This has identified a favourable adjustment in 2021/22 accounts which remain subject to audit. This adjustment has been reflected in 2022/23 and 2023/24 accounts and has resulted in a cumulative forecast surplus on the Collection Fund at 31 March 2024.
 - The Collection Fund is a legally separate account from the General Fund and surpluses and deficits are taken into account at annual budget setting.

Therefore, a cumulative surplus of c£8.3m is available to the General Fund from 1 April 2024. This surplus must be used to replenish revenue reserves to an acceptable minimum and will not be available to balance the 2024/25 budget.

- 4.12 The combined actions of reducing overspending and revising the Collection Fund Bad Debt provision have served to enable the Council to avoid a s114 Notice during 2023/24.
- 4.13 However, the Council still has a very low level of financial resilience as a result of the weaknesses in its financial management practices over a number of years. The need to exercise financial grip on operational expenditure and achieve transformation of its service delivery models and financial management practices at pace through 2024/25 is critical to stabilise the financial position.
- 4.14 The Council has one of the lowest levels of total reserves as a proportion of its net revenue expenditure when compared to all unitary councils in England as illustrated in Figure 2 below:

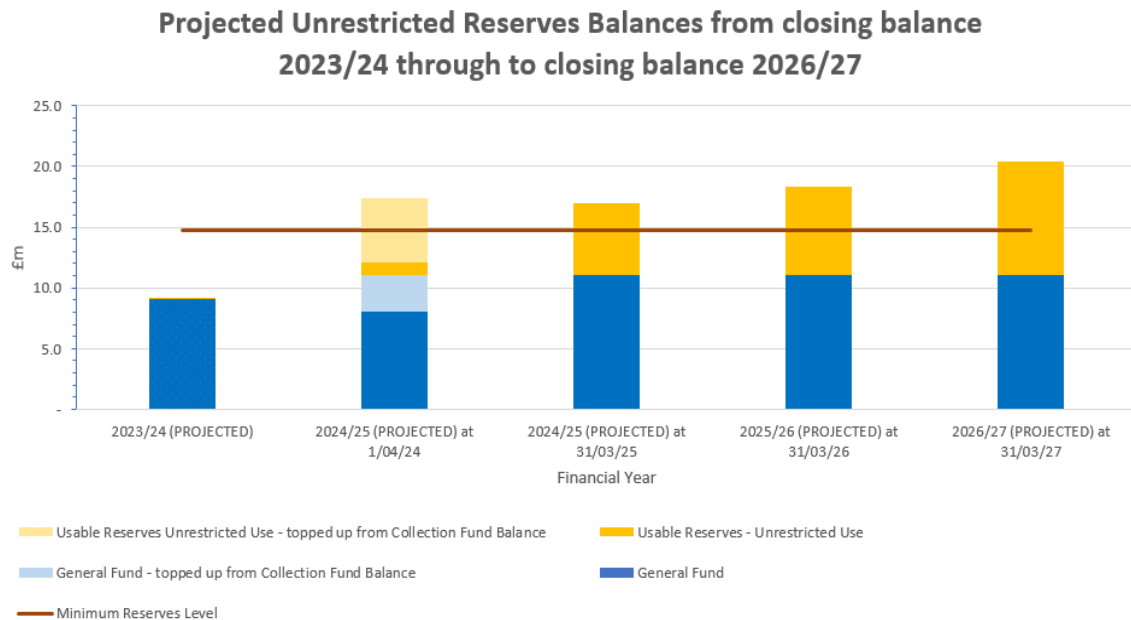
Figure 2: Reserves as a percentage of Net Revenue Expenditure 2022/23 for all English Unitary Authorities



Source: LG Inform

4.15 The Financial Reserves Policy at Appendix 4 sets out the plans to rebuild and maintain the level of reserves over the 2024/25 to 2026/27 period of the MTFP as reflected in Figure 3 below:

Figure 3: Projected Unrestricted Reserves Balances from closing balance 2023/24 through to closing balance 2026/27



5 Best Value Notice and External Auditor’s Statutory Recommendations in relation to financial recovery and resilience

5.1 In January 2023 the Department for Levelling Up Housing and Communities issued a Best Value Notice in relation to the Council’s failings in culture and governance for an initial period of 12 months. The notice was extended by the Minister for Local Government, Simon Hoare in January 2024, who acknowledged the Council’s progress on a range of improvement measures over the course of the 12-month period. However, it was stressed that much more work is required to embed improvements in relation to securing financial sustainability and delivery of transformation, whilst effectively implementing new strategies to embed positive cultures. The Minister will reassess the Council’s progress in July 2024, when possible, outcomes will range from the removal of the Council from DLUHC intervention, through to an escalation of intervention if sufficient progress and improvement is not demonstrated.

5.2 In short, the Council is at a crossroads on its improvement journey and must seize opportunities to deliver modernisation and efficiency in its operations and embed more robust financial management practices at pace in order to protect its financial position and succeed in the medium term.

5.3 The Council currently lacks sufficient capacity within its permanent staffing establishment across service directorates and enabling services such as HR, Legal, IT and Finance in order to achieve the level of change required at the

pace expected and this presents a significant risk which needs to be addressed through the resource planning for transformation that is currently underway. This risk has been highlighted by the Middlesbrough Independent Improvement and Advisory Board (MIAB) and also Inner Circle Consulting who have been engaged to help develop the Council's Transformation Programme. Ensuring that the Council has the appropriate skills, knowledge and capacity in place across service directorates and enabling services such as finance, HR, ITC and legal services is critical to the Council's success. This will be addressed within the development of the transformation programme resource plans.

5.4 In August 2023 the External Auditor, EY LLP issued eleven statutory recommendations under Section 24 Schedule 7(2) of the Local Audit and Accountability Act 2014 in relation to the Council's failures to meet its Best Value Duties. Recommendations 4 to 6 specifically relate to the significant weaknesses in arrangements for securing the Council's financial sustainability as quoted below:

4	<i>We recommend that the Council builds upon the steps already taken to control its expenditure to identify specific deliverable savings over the short term (next 12 months) and protect its limited remaining reserves. Where appropriate, this may need to include the Council changing how it meets its statutory responsibilities and the extent to which it delivers services which are not required to discharge its statutory responsibilities.</i>
5	<i>We recommend that the Council reviews its service delivery models to ensure that they are efficient, represent value for money and achieve the outcomes required for the resources invested. Where opportunities to improve service delivery models are identified, the Council should develop detailed plans for implementation of service delivery transformation and how the upfront transformation costs will be funded</i>
6	<i>We recommend that the Council reviews its financial forecasting processes to understand why significant financial pressures, over and above those anticipated and reflected in the Council's annual budget, have emerged within the first half of both the 2022/23 and 2023/24 financial years and ensure future forecasting reflects those lessons learned.</i>

5.5 These recommendations are being addressed through the establishment and delivery of the Corporate Governance Improvement Plan and S24 Action Plan

for which the latest update on progress is set out in a report to Council on 17 January 2024¹.

- 5.6 Alongside the need to redesign and transform service delivery, there is a requirement to fundamentally change and strengthen the financial management arrangements within service directorates, including the adoption of a corporate standard approach to demand and cost modelling, forecasting and reporting, improved financial management skills amongst budget holders, upskilling the finance team and ensuring underlying IT systems, business processes and procedures are in place to establish 'one version of the financial truth' for Middlesbrough Council to support its financial planning and strategic and operational decision making.
- 5.7 The nature of the demand pressures in adult and children's social care, SEND transport, homelessness, and Waste Disposal have proved difficult to control and mitigate during 2023/24 and are key themes within the transformation and savings programmes proposed for 2024/25 and over the medium term and in turn are critical to securing financial sustainability of the Council.
- 5.8 Service Directors will be required to deliver fully on their savings plans during 2024/25 whilst proactively managing operational income and expenditure to remain within the budget allocations for which they are responsible and accountable without exception.
- 5.9 In addition to ensuring appropriate resources within the service areas, this work will need appropriate engagement of the Finance Business Partnering function. The Finance service is currently depleted in terms of its capacity to meet the needs of the organisation at this time and presents a specific risk to the Council's ability to deliver on transformation and meet the statutory responsibilities of the s151 Officer. Resources need strengthening in terms of the input of senior professional capability in the short term in order to achieve this objective, given that there is unsustainable pressure on a small number of key finance officers within the permanent finance team which is untenable.
- 5.10 A significant amount of work has been undertaken by the Finance Team to develop the Council's approach to demand and cost modelling which is the foundation of robust financial management. This has been achieved with the support of senior interim resources during 2023/24 as the capacity and capability of the permanent Finance Team is limited due to historical budget reductions. Further work will be required during 2024/25 and will build upon the foundations laid during 2023/24 and will require the integration of operational and financial management through activity-based costing at the most basic level of operational management and decision making across all directorates. In particular, senior finance input will be required to be embedded in transformation programme multi-disciplinary teams to ensure that effective and robust financial management systems and processes are

¹ [Report.pdf \(middlesbrough.gov.uk\)](https://middlesbrough.gov.uk/Report.pdf)

established and embedded in the redesigned and transformed service models.

- 5.11 Budget holders and decision makers within service areas must become more proficient in understanding and managing the financial consequences of their decisions and training will be provided throughout 2024/25.
- 5.12 The standard of Finance Business Partnering needs to be developed to provide forward looking, proactive analysis, information, advice and constructive challenge to Directorate Management Teams. The Finance Business Partner is the s151 Officer's representative and should be positioned as a full and equal member of the Directorate DMT, representing and advising Service Directors on behalf of the s151 Officer and upholding the statutory responsibilities of the s151 Officer. The s151 Officer will seek to modernise the traditional approach to delivering accountancy support and financial reporting that is currently the norm across the organisation. This is necessary in order to establish a firm grip upon the financial management of Service Directorates and embed a strong financial management culture.
- 5.13 There is a fundamental risk to achieving this requirement given there is insufficient capacity of appropriately skilled and experienced staff within the permanent Accountancy function as outlined above. Section 114(7) of the Local Government Finance Act 1988 requires the local authority to provide its Chief Finance Officer with such staff, accommodation and other resources as are in his/her opinion sufficient to allow his/her duties under the Act to be performed. This risk will be addressed as set out above in relation to the transformation programme and s24 recommendation resource requirements.

6. Robustness of Estimates

- 6.1 Budget estimates are based upon a combination of known data and assumptions of which some are within the organisation's control, and some are outside of its control. Therefore, it is not possible to predict the future with certainty and so the statement on robustness of estimates cannot give a 100% guarantee that expenditure and income will be incurred as expected in developing those budget estimates. The financial planning environment is particularly uncertain as the impact of the Covid19 pandemic upon demand upon business and communities continues to evolve combined with volatility in the global economy.
- 6.2 Work has commenced to establish a standardised approach to demand and cost modelling in the areas of adult social care, children's social care and the Integrated Transport Unit given the scale of the expenditure and financial pressures being experienced in order to improve the Council's approach to budget setting, monitoring and forecasting as required by the external auditor's statutory recommendations.

6.3 Models are assessed as adequate, but work will need to continue through 2024/25 to improve the Council's financial planning and forecasting capability through more focus upon data and forecasting techniques to strengthen the links between service and financial planning for the future.

6.4 The s151 Officer has relied upon the following measures in order to meet the requirements for assessing the robustness of estimates:

- Budgets have been aligned to the identified spending needs of the Council through the assessment of demand, pay inflation, non pay inflation, contractual inflation and assessment of income sources as set out in the detailed Budget and MTFP at Appendix 2.
- Compliance by all Directors in the use of budget development guidance issued to support the development of budget saving proposals, including the use of standardised summary business case templates (R2 forms) which capture the costs, benefits, risks, impact of proposals together with a high level profile of delivery timescales.
- A review of income from fees and charges for discretionary services has been undertaken and a new Fees and Charges policy is proposed for 2024/25 and future years to provide a framework within which fees and charges should be managed going forwards.
- A review of savings proposals and their achievability by the Executive, LMT, Departmental Management Teams and an independent due diligence review by Inner Circle Consulting to assess the robustness and deliverability of proposals.
- The Overview and Scrutiny Board and individual Service Scrutiny Panels have been engaged in the review and challenge of budget proposals during the consultation period and a series of all member briefings and consultation events have been held to help shape budget proposals.
- Budget proposals have been subject to public and staff consultation where appropriate and feedback has been factored into the finalisation of proposals.
- Directors have taken responsibility and accountability for the delivery of their budget proposals and have formally signed them off as deliverable.
- The use of in-year budget monitoring by Directors and engagement through monthly budget challenge sessions to understand and address the underlying drivers of cost and the recurrent vs non recurrent nature of pressures being experienced in year.
- Director's assessment of expected demand for service provision over the term of the MTFP and testing this in order to assess the credibility of future growth pressures.
- Sensitivity analysis on the assessment of service demand for the demand led statutory service areas to assess the adequacy of reserves.
- The capital programme has been extensively reviewed and reprioritised to minimise and focus expenditure funded from Council resources within affordable limits, reducing the planned 2024/25 programme from £110m to

£61m, and planned borrowing from £53m to £29m (before the effects of EFS).

- The Treasury Management position reflects the annual budget to meet capital financing costs of £11.154m in 2024/25 which is equivalent to 7.8% of the Net Revenue Budget.

7 Governance

- 7.1 The Budget has been prepared with the full involvement of the Leadership Management Team led by the Chief Executive and has engaged fully the Elected Mayor and the Executive over many months and iterations of budget proposals.
- 7.2 Under the Council's Constitution, financial management is delegated to each Director, and they are required to manage expenditure within approved resources allocated to their control.
- 7.3 Following the revision of the Constitution and Contract and Financial Procedure rules in September 2023, all senior officers have received relevant training and are required to comply fully with these procedures.
- 7.4 Enhanced monthly budget monitoring, forecasting and reporting arrangements will continue throughout 2024/25 and essential spending controls including vacancy management and contract compliance will remain indefinitely.
- 7.5 Monthly tracking of savings delivery will be reported by the Programme Management Office engaging fully with Finance Officers to ensure savings delivery and overall cost control remain on track.
- 7.6 An enhanced transformation and programme management framework will operate in relation to the delivery of proposed savings and the development of new transformational projects throughout 2024/25 and over the period of the medium-term financial plan.
- 7.7 Realisation of capital receipts from asset sales is critical to funding investment in transformation and therefore will be managed as a workstream within the programme management framework to provide assurance of delivery.

8 Accounting Practice

- 8.1 The 2022/23 annual audit report by the Head of Internal Audit (Veritau) gave a Limited Assurance conclusion in July 2023 in relation to the framework for governance, risk management and control operating in the Council, which was primarily due to the wider context of officer, member relationships and separation of duties between their roles; governance arrangements for Middlesbrough Development Company.
- 8.2 However, it is noted that within that assessment, the conclusion of the most recent internal audit reports relating to core financial systems has given substantial assurance on the audit of the main accounting system, debtors and payroll, and reasonable assurance for creditors, which gives the s151 officer some degree of assurance over the control environment and completeness and accuracy of financial reporting arrangements for core financial systems that impact upon budgeting and financial reporting. Issues identified in relation to use of Purchase Cards in Children's services in

2022/23 has resulted in a revision and strengthening of policies and procedures for the use of purchase cards across the wider organisation.

- 8.3 Due diligence has been undertaken by the s151 Officer and Director of Public Health during the 2023/24 financial year to assure the eligible use of Public Health Grant in accordance with regulations (Public Health Ring Fenced Grant Determination 2023 to 2024: NO 31/6550) which was found to be acceptable.
- 8.4 Further due diligence will be undertaken in relation to accounting practice including Dedicated Schools Grant and capitalisation of expenditure through 2024/25 and so it is possible that new issues may emerge as this work is delivered.

9 Budget Savings Delivery

- 9.1 The budget development process for 2024/25 has introduced the requirement to produce a summary business case as a minimum standard (referred to as R2 form) in relation to every budget proposal which captures key financial information around investment, income, expenditure reduction (staff and non staff), impact upon service users, equality impact assessment, risks and dependencies and high level delivery timescale, together with a RAG rating on the risks associated with delivery of planned savings.
- 9.2 More complex and transformational savings initiatives will be subject to enhanced programme and project management in accordance with the new Transformation Programme governance arrangements to provide assurance of delivery.
- 9.3 Given the significant scale of the savings programme for 2024/25 valued at c£14m, the Council has engaged external consultants Inner Circle Consulting, to support the Council in:
 - Assessing deliverability of savings and establishing appropriate resources and delivery plans within directorates to assure the s151 Officer of the robustness and deliverability of savings for the purpose of budget setting.
 - establishing appropriate Programme management arrangements to secure delivery during the year.
 - Establish a Transformation Programme to identify further savings opportunities to deliver in excess of the remaining £7.5m to be delivered during 2025/26.

This investment is considered essential to ensure the successful delivery of planned and further savings which are critical to achieving financial stability of the organisation.

- 9.4 It is critical that the Leadership Management Team and Executive have an unwavering focus upon ensuring the following during 2024/25:

- delivery of planned savings
- development and implementation of further transformation, efficiency and demand management plans.
- Strict cost control including on vacancies, other staff costs and expenses,
- Compliance with Contract Procedure Rules to ensure expenditure is 'on-contract' and appropriate use and control of purchase card expenditure.
- Continuation of monthly budget monitoring, forecasting and challenge sessions to ensure that proactive arrangements are in place to address adverse variances as they emerge.
- Continuation of quarterly member led budget challenge and review sessions with full engagement of portfolio holders in overseeing financial performance on a monthly basis.
- Integration of operational and financial management processes that enable the development of more robust data driven demand and cost models which are the foundation for effective financial planning, forecasting, monitoring and control.

9.5 The Inner Circle assessment of deliverability of the savings concludes that savings of c£14m are achievable and ideas for further savings are credible, requiring development of further business cases. However, they have highlighted that there is a real risk to successful delivery due to the Council's current lack of capable staff capacity which is in the process of being addressed by the LMT and will be critical to successful implementation.

9.6 The s151 Officer has made financial provision of delivery slippage of on average one financial quarter, due to the following factors:

- the challenging nature of the savings programme which is predicated heavily upon new transformation, redesign and demand management measures
- the fact that programmes of this magnitude are normally planned and developed for implementation over 3-6 months. Work with Inner Circle Consulting commenced in earnest during mid December 2023 and so has been conducted in less than 3 months.
- The council's current lack of sufficient resources to ensure delivery at pace which requires prompt action to secure temporary resources to enable delivery.

9.7 Given the critically low level of revenue reserves are insufficient to cover this delivery risk, a capitalisation direction of £3.5m (25% of £14m planned savings) has been included in the EFS requested from DLUHC.

9.8 The Council's investment in transformation and programme management expenditure is estimated to be £5.5m (does not include Contingency) in 2024/25, together with estimated redundancy costs up to £6.5m which is to be funded by Flexible use of Capital Receipts which are estimated to total £24m during the year, although are mostly profiled to be received from Quarter 3 onwards. It is essential that at least £12m of capital receipts are received

during the year. A capitalisation direction funded by borrowing for £4.6m has been requested from DLUHC in order to fund transformation expenditure through to Q2 given that the Council will hold minimal or no capital receipts on 1 April 2024 that are necessary to ensure expenditure is financed.

- 9.9 Provided sufficient capital receipts are realised by 31 March 2025, it is expected that this capitalisation direction will not be required. However, in order to provide assurance to the adequacy of the 2024/25 revenue budget which is dependent upon transformation and programme activity, this is considered necessary.

10 Key Risks impacting Budget Delivery

- 10.1 **Demand for Children's Social Care** - As described in the MTFP at Appendix 2, the Council continues to experience exceptionally high levels of demand, complexity, and cost of children's social care, particularly in relation to its reliance upon external residential provision to meet the needs of children in its care. The budget has increased from £33m in 2012/13 to £55.7m in 2023/24, with a further increase of £4.7m for demand in 2024/25 based upon further expected pressures.
- 10.2 **Demand and cost of Adult Social Care** – Costs are increasing due to increased demographic demand pressures, together with higher care fees to providers to offset their rising costs and capacity constraints due to labour shortages. The Adult Social Care service is also experiencing challenges in recruitment and retention of staff of which pay is a driving factor.
- 10.3 **SEND Transport** – The budget for the Integrated Transport Unit which provides transport services has been reviewed in detail and rebased during 2023 in order to address the increasing numbers and complexity of SEND pupils requiring transport. The budget has been increased by £2.9m to £6.6m for 2024/25. Further work is required to establish more robust demand and cost modelling to support financial planning and budgetary control.
- 10.4 **Homelessness** - In line with the national issue affecting many local authorities across the country, the Council is experiencing an increase in the number and complexity of homelessness cases and a need for temporary accommodation, This is coupled with an increase in the cost of provision, especially in relation to bed and breakfast accommodation. The Local Housing Allowance (LHA) within Housing Benefit Subsidy is proving to be insufficient to meet these costs resulting cost pressure to the General Fund budget.
- 10.5 **Waste Disposal Costs** – Inflationary provisions have been built into the budget for waste disposal given that the Council is nearing the end of its existing contractual arrangements for residual waste disposal, and it is necessary to reflect the expected uplift in market prices that is likely to result from replacement provision. This, combined with budget proposals aimed to

increase recycling rates and reduce the proportion of residual waste, aims to deliver cost efficiencies in 2024/25 and future years. This is dependent upon changing the behaviours of households across the town to dispose of waste more responsibly and has potential to achieve significant cost savings / cost avoidance if implemented effectively.

- 10.6 **Delivery of Savings** – The budget for 2024/25 is predicated on £13.910m of new savings being delivered in addition to £1.392m of savings approved in 2023/24. As set out in section 9, enhanced transformation and programme management governance arrangements are being established with the support of external expertise from Inner Circle Consulting to provide assurance on delivery over the course of the year. In addition, a further £4.7m+ of ongoing savings are to be identified during 2024/25 through additional transformation themes over the course of the year, as well as a further £3.3m ongoing to address the budget gap over the MTFP planning period.
- 10.7 **Outcome of OFSTED inspection** – Members will be aware that the ILACS inspection conducted in March 2023 concluded that the Children’s service had improved from ‘inadequate’ to ‘requires improvement’. The Council continues to engage with OFSTED and the DfE on its improvement journey through a formal statutory board which is continuing to oversee the delivery of service improvements. The Executive Director of Children’s Services is devising a range of transformational plans that aim to improve outcomes for children from a lower cost base which are integral to the 2024/25 budget proposals.
- 10.8 **Insured and uninsured risks** – During 2022/23 the Council’s Insurance Actuary undertook a review of the insurance arrangements and as a result the Council set aside £7m for known and future insurance claims that are likely to be settled. Of this, £3.33m was set aside as a provision in 2020/21 Statement of Accounts for claims received but not yet paid. With effect from the 2023/24 budget, an annual contribution of £0.5m is made over future years to address the remaining £3.7m of potential claims that may be received in the longer term.
- 10.9 **Internal Borrowing** – The Council adopts a policy of optimising its treasury management activities to utilise internal borrowing from its cash balances where it is prudent to do so. This is expected to be around £21.328m in 2024/25. Much of this relates to revenue and capital reserves held on the balance sheet that are expected to be used over the MTFP period. This and the associated costs of external borrowing are factored into the capital financing budget of £11.154m for 2024/25.
- 10.10 **Finalisation of prior year Statement of Accounts 2021/22 and 2022/23** – The Council currently has prior years Statements of Account that remain subject to the completion of the external audit, with the delay due largely to the impact of the national reset of the local authority audit market by DLUHC. DLUHC is currently consulting between 8 February and 7 March 2024 in relation to arrangements for re-setting the local authority audit market and the

prospect of local authority accounts being subject to qualification or disclaiming (not being audited) by the external auditor as part of the approach to clear the backlog of legacy accounts up to 2022/23 by 30 September 2024. Officers will discuss with the auditor once they set out their proposals for concluding the 2021/22 and 2022/23 audit for Middlesbrough in light of the consultation. An earmarked reserve of £1m has been set aside to provide for unforeseen adverse audit adjustments that may arise from the conclusion of these legacy audits in future periods.

10.11 **DSG deficits** - Whilst Middlesbrough received approximately £30m for DSG High Needs, the Council are forecasting spending an estimated £36.6m expenditure in 2023/24, an in year pressure of £6.6m which would double the Council's overall DSG deficit position to £13.2m at 31 March 2024. The pressure has been driven up by Education and Health Care Plans (EHCPs) increasing from 2022 to 2023 by over 27% (up from 1370 to 1743) and the service has faced the full year effect of this increase along with continued increasing numbers in the past 12 months, and also increasing exclusions. 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 will continue to 31 March 2026. However, no further information in relation to a Government funding solution or the continuation of the statutory override beyond that date has yet been received and therefore this presents a significant financial risk to the Council in the future. Middlesbrough participates in the Delivering Better Value (DBV) programme that invests £1m over an approximate 18-month period ending 31 March 2025, and a range of management actions are being taken alongside the DBV programme to try to reduce this deficit. Further focus in this area is required during 2024/25.

10.12 **Utilisation of Reserves** – Whilst the proposed budget for 2024/25 relies upon Exceptional Financial Support in order to achieve a balanced revenue position, it does not place any requirement or reliance upon the use of revenue reserves in order to balance the revenue budget position and this principle will be upheld over the term of the MTFP.

11 Adequacy of Reserves

11.1 The Council's General Fund balance is forecast to be £9.0m at 31 March 2024 which is below the level considered adequate at £9.5m (7.5% of the Net Revenue Budget). Usable unrestricted revenue reserves will be depleted to zero and therefore the reserves position at 31 March 2024 is considered to be inadequate.

11.2 However, mitigating actions have been taken by the s151 Officer during the 2023/24 financial year in order to avoid a s114 position evolving in year. In addition to financial recovery measures to reduce the level of the 2023/24 overspend, a detailed review of the balance sheet has been undertaken as

detailed within the Reserves Policy. As a result, adjustments to the Collection Fund Bad Debt provision have been made as a result of that review there is an anticipated surplus on the Collection Fund at 31 March 2024 of £8.3m. This sum must be used to replenish the General Fund Balance and unrestricted revenue reserves, in particular the Financial Resilience Reserve to preserve balances at a level considered to be the minimum adequate to support the Council's 2024/25 budget in the context of the range of risks set out in section 10.

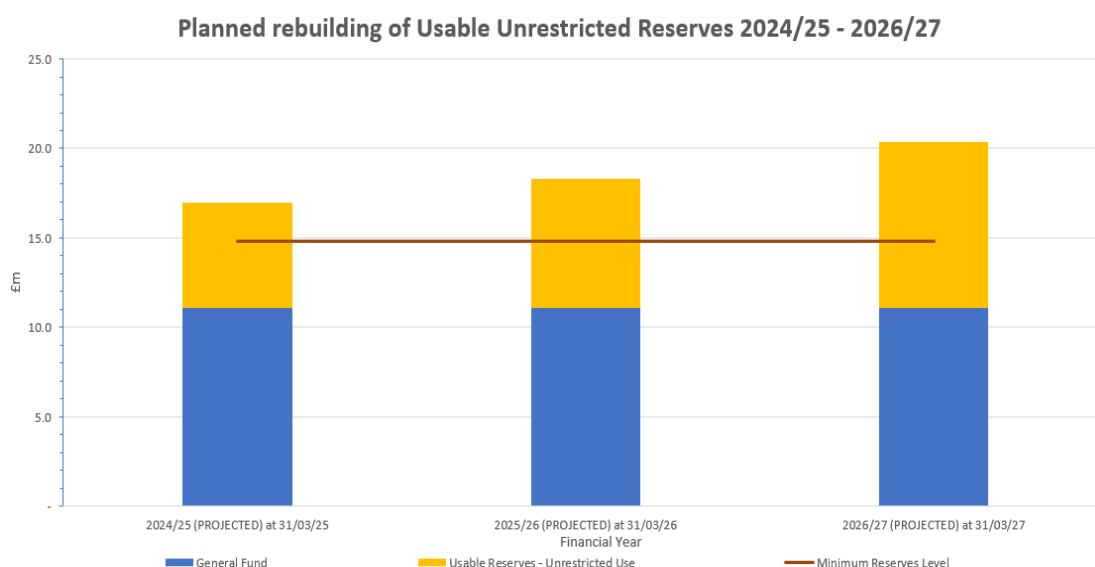
- 11.3 The Financial Reserves Policy sets out the proposed approach to rebuilding and maintaining revenue reserves over the period of the MTFP to 2026/27 as required by external auditor's statutory recommendations to recover the Council's financial position and rebuild its financial resilience. It is essential that Directorates exercise strict management of expenditure within approved budgets in 2024/25 with no overspending, which will detract from achieving the planned rebuilding of reserves. A summary of the forecast reserves is set out in **Table 1** below:

Table 1: Earmarked Reserves Projections over MTFP period 2024/25 to 2026/27

Earmarked Reserves Projections over MTFP period 2024/25 to 2026/27										
	2024/25			2025/26			2026/27			
	Opening Balance 01/04/24 £m	Projected Additions £m	Projected Drawdowns £m	Closing Balance 31/03/25 £m	Projected Additions £m	Projected Drawdowns £m	Closing Balance 31/03/26 £m	Projected Additions £m	Projected Drawdowns £m	Closing Balance 31/03/27 £m
Usable										
General Fund Reserve	11.1	-	-	11.1	-	-	11.1			11.1
Unrestricted Use	6.3	1.3	(1.7)	5.9	2.1	(0.7)	7.2	2.8	(0.7)	9.3
Total Unrestricted Use	17.4	1.3	(1.7)	17.0	2.1	(0.7)	18.3	2.8	(0.7)	20.4
Total Restricted Use	4.7	0.6	(0.1)	5.2	0.5	-	5.7	0.5		6.2
Usable total	22.2	1.9	(1.8)	22.2	2.6	(0.7)	24.0	3.3	(0.7)	26.6

- 11.4 **Figure 4** below sets out the planned replenishment of useable unrestricted reserves over the period:

Figure 4: Projected Unrestricted Reserves Balances replenishment from 2024/25 to 2026/27



- 11.5 The minimum General Fund Balance is recommended to be no less than 7.5% of the Net Revenue Budget each financial year (equivalent to £11.1m in 2024/25), whilst a balance of between £8m to £10m should be accumulated within the Financial Resilience Reserve (FRR) to provide sufficient resilience to manage the risk of unforeseen pressures upon service budgets without recourse to the General Fund Balance by 31 March 2027. The forecast balance on the FRR at 31/3/25 is £4.8m.
- 11.6 The Council has made an application for Exceptional Financial Support of up to £15m. Following the Final Local Government Finance Settlement, DLUHC have indicated that additional funding provided of £1.6m, which reduces the £6.3m budget gap to £4.7m is expected to reduce the EFS requirement. This is reflected below.

Request for Exceptional Financial Support	£m	£m
Budget Gap 2024/25	4.7	
Contingency	0.6	
Firm Request		5.3
Savings Delivery Slippage Risk	3.5	
Funding of transformation and redundancy expenditure pending realisation of capital receipts	4.6	
Contingency Request if Risks crystalise		8.1
Total Request for EFS		13.4