

# Appendix 2

## Medium Term Financial Plan (MTFP)

### Introduction

- 1.1. The Council maintains a MTFP which sets out the financial envelope that is available within which the aims of the Council Plan are to be achieved. It is integrated with the Transformation Programme that will deliver the business change required to establish services from a lower cost within a financially sustainable cost envelope. A further report will be submitted to Executive and Council in March 2024 detailing the Transformation Programme together with the Flexible Use of Capital Receipts Strategy which will then be referred to Council for consideration and approval and incorporation into the Budget and Policy Framework.
- 1.2. The Council is committed to making the changes needed to secure its long term financial stability whilst maintaining and improving services to residents. This will be achieved by the prudent management of the Council's finances and the strengthening of its financial resilience through enhanced budget monitoring controls, more effective financial forecasting, minimising new borrowing, and the effective management of reserves.
- 1.3. The MTFP Update 2024/25 to 2026/27 report to Executive on 20 December 2023 set out the financial challenges facing the Council. This was based upon a number of key assumptions in relation to the wider economic environment and local challenges faced by the Council in meeting the needs of the community. Cost pressures are driven largely by persistently high inflation and increased demand and complexity of need in adult social care, children's social care and SEND transport particularly. In addition, the Council is experiencing increased demand and cost of homelessness, and market driven increases in the cost of waste disposal. This report confirms the financial planning assumptions following the announcement of the Final Local Government Finance Settlement announced on 5 February 2024 upon which the 2024/25 budget and MTFP to 2026/27 is based.
- 1.4. The revenue element of the MTFP is set out in the context of:
  - a period of persistently high inflation
  - a cost of living crisis impacting on citizens;
  - a challenging employment market, with recruitment and retention issues internally within the Council and generally across the wider public sector;
  - increased demand for services, in particular those relating to Adults Social Care and Children's Social Care, Home to School Transport, and Homelessness which is expected to continue over the life of the plan;
  - the need to secure financial recovery by protecting the current level of revenue reserves and rebuilding them to strengthen the Council's financial resilience.
  - continued lack of certainty over future Government funding that impacts adversely upon the Council's ability to carry out effective long term financial planning.

## Constructing the Medium Term Financial Plan (MTFP)

- 2.1 The development of the MTFP has identified a range of financial pressures including inflation on pay, energy and contracts, together with increased service demand across statutory services like adult social care, children’s social care, homelessness, home to school transport and waste disposal (details of drivers behind these pressures were provided in the December report to Executive). These have been offset by identifying deliverable expenditure reductions and income growth through a range of budget proposals that are programmed to deliver significant cost efficiency and/or demand reduction whilst delivering improved outcomes for citizens, thereby improving value for money.
- 2.2 The revenue budget and the capital programme are intrinsically linked By the Treasury Management Strategy and MRP Policy which determines how the Council accounts for the revenue cost of borrowing The Council’s investment in its capital programme is reliant upon borrowing, external grants, contributions and the generation of capital receipts that are realised from the sale of its fixed assets. The Council is in the process of fundamentally reviewing and rationalising its asset portfolio to realise a substantial pipeline of capital receipts that is required to fund its transformation programme, future capital investment and/or repayment of borrowing to reduce the revenue costs of borrowing (as detailed in the Asset Review report to Executive in November 2023) <sup>1</sup>.
- 2.3 Given the Council’s critical level of financial revenue reserves and the lack of capital receipts in the bank at the start of 2024/25, the successful delivery of capital receipts arising from the future planned asset disposals in 2024/25 is critical to funding the delivery of the Transformation Programme and realising the savings that are due to be delivered in 2024/25 and are further required over the period of the MTFP to return to financial sustainability.
- 2.4 The aim is to achieve a financially balanced and sustainable General Fund revenue budget, and Capital Programme that support the delivery of the Council’s priorities, meets statutory requirements and delivers value for money services to citizens over the MTFP period.
- 2.5 The profile of capital receipts during 2024/25 to 2026/27 is summarised below:

<b>Planned capital receipts</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Receipts from approved asset disposals	8.0	4.2	9.7	21.9
Additional Receipts proposed in Asset Review report (latest profile)	16.5	9.0	-	25.5
<b>Total Planned Receipts</b>	<b>24.5</b>	<b>13.2</b>	<b>9.7</b>	<b>47.4</b>

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<sup>1</sup> Asset Review

## Funding Overview

- 3.1 The Government allocates grant funding to local authorities in a process called the 'local government finance settlement'. These can be multi-year settlements but since 2015 they have been single year settlements which creates undue risk and uncertainty for local authorities in their medium term business and financial planning.
- 3.2 The Local Government Finance Settlement (LGFS) confirms funding for 2024/25 only and therefore significant uncertainty remains with regard to the Council's resources for 2025/26 and beyond. The long delayed 'Fair Funding' review and the reform of business rates which seek to change the way that government funding is allocated to local authorities, have been delayed for a number of years. It is not expected to be addressed until after the next General Election and will require substantial consultation before changes are implemented therefore is unlikely before 2026/27. Middlesbrough as an area of very high deprivation, would expect to benefit more from these, based upon our analysis of national work undertaken during the 2010's. The prolonged delay in completing the review therefore disadvantages local authorities like Middlesbrough.

### Local Government Finance Settlement (LGFS) Funding

- 3.3 In the provisional LGFS published on 18 December 2023 the Government outlined 2024/25 grant funding for local authorities. This was issued prior to the publication of the report to Executive in December 2023.
- 3.4 The final LGFS was published on 5 February 2024, with the major change from the provisional LGFS being the announcement of additional Social Care Grant funding of £1.579m for Middlesbrough as detailed in paragraph 3.25). This settlement announcement, alongside other changes since the December report are reflected in this report.
- 3.5 Settlement Funding is the amount of funding assumed by the Department for Levelling Up, Housing and Communities (DLUHC) to be available to an authority through the estimated business rates share and general grant funding.

**Table 1** summarises the total amount of funding assumed by DLUHC to be available to the Council through an estimated business rates share and general grant funding (including previous specific grants which have been rolled into it).

**Table 1: Final Local Government Finance Settlement 2024/25**

Main Element of Settlement	Final Settlement 2024/25 £m
Revenue Support Grant	15.122
Business Rates Baseline	19.173
Business Rates Top Up	30.486
Business Rates Top Up 23/24 reconciliation	(0.025)
	<b>64.756</b>

3.6 The Government has assumed a level of retained business rates for Middlesbrough based on their own projections drawing from the new 2023 business rates revaluation. The baseline figure used in the settlement calculations and included in **Table 1** is **£1.329m** higher than the forecast of retained business rates income of **£17.844m** as reported to DLUHC in the NNDR1 return and included in the proposed budget. This DLUHC estimate is based on the original 2013/14 level assumed when the local retained scheme was introduced, uplifted by multiplier inflation and revaluations. It does not take account of local changes in the underlying tax base.

3.7 In the absence of any Government exemplifications of the likely impact of any 'Fair Funding' policy and business rates reforms the future settlement funding, included in the MTFP from 2025/26 onwards, assumes an unchanged underlying system with projected inflationary increases. Where increases are expected for specific grants listed in **Table 2** these have been projected on the best available data, and a summary of the amounts assumed is provided in **Table 12**.

### Core Spending Power

3.8 Core Spending Power is the Government calculation used to illustrate the overall impact of local authority funding. This includes the Settlement funding, their assessment of Council Tax income and various specific grants. This measure attempts to assess the total resources over which the Council can exercise discretion on how it can spend its funding.

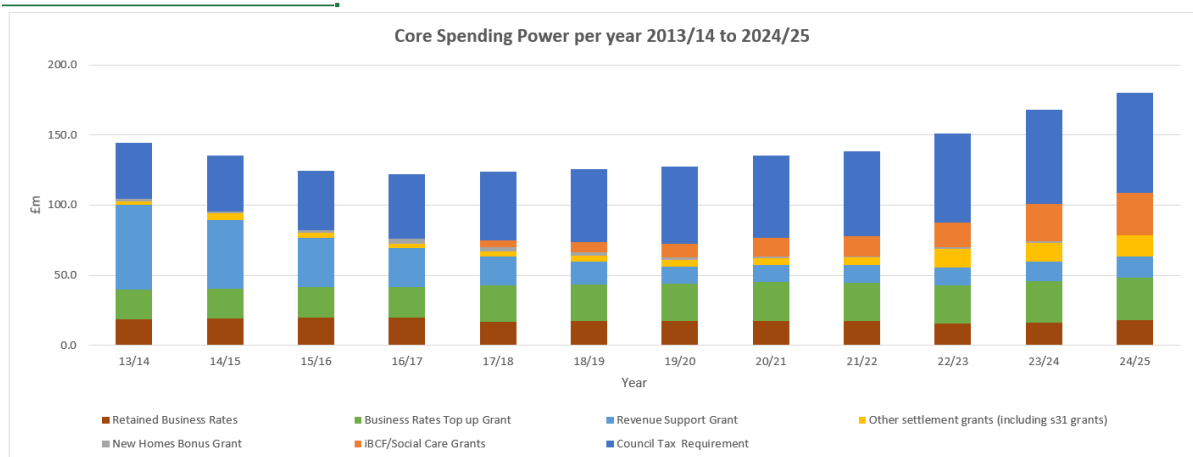
3.9 The Government has published that in their assessment Middlesbrough's overall core spending power for 2024/25 is **£2,733** per dwelling. This represents an assumed annual increase in core spending power of **7.3%** or **£186** per dwelling in 2024/25 as set out in **Table 2**. This is below the England total percentage change in core spending power of 7.5%.

**Table 2: Core Spending Power (CSP)**

Elements of DLUHC Core Spending Power	DLUHC estimates	
	Revised 2023/24 £m	Final 2024/25 £m
Settlement Funding Assessment	61.922	64.756
Compensations for lower BR multiplier ( <i>DLUHC estimate</i> )	8.132	9.845
Council Tax Requirement ( <i>DLUHC estimate</i> )	67.275	71.737
Improved Better Care Fund	8.646	8.646
New Homes Bonus Grant	1.102	0.499
Social Care Grant	15.017	19.202
ASC Market Sustainability & Improvement Fund	1.775	3.316
ASC Discharge Fund	1.212	2.020
Services Grant	1.861	0.321
Grants rolled in	1.153	0.000
Funding Guarantee	0.000	0.000
<b>Total</b>	<b>168.095</b>	<b>180.343</b>
Increase in CSP		£12.248m
Annual % change in CSP		7.3%
CSP per dwelling (£)	£2,547	£2,733
Increase in CSP by dwelling (£)		£186

3.10 The source of local authority funding has altered in recent years with a greater proportion of overall funding coming from Council Tax and less from Revenue Support Grant (RSG). **Figure 1** below shows the Council's Core Spending Power for 2013/14 to 2024/25 with **Table 3** showing the absolute figures used for the chart to provide detail on the individual components. This shows a change in the mix of funding over the years including increasing percentage of overall funding from Council Tax and a reducing percentage from RSG. As shown in **Table 3** above, Middlesbrough Council has suffered a significant reduction in general Government funding in the form of RSG and Business Rates Top Up Grant with a reduction of £35.6m (44%) from £81.2m received in 2013/14 to £45.6m in 2024/25. This does not take into account inflation. It should be noted that some of this reduction has been offset by growth in service specific grants, such as iBCF, Social Care grant as illustrated in **Figure 1**. Given the mix of government funding has altered substantially over the period, some widely used comparisons that focus upon RSG and Business Rates top up need to be interpreted with great care.

**Figure 1: Core Spending Power per year 2013/14 to 2024/25**



**Table 3: Core Spending Power per year 2013/14 to 2024/25**

Core Spending Power												
	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Retained Business Rates	18.9	19.1	20.0	19.9	16.9	17.4	17.5	17.7	17.6	15.5	16.4	17.8
Business Rates Top up Grant	20.8	21.2	21.6	21.8	25.7	26.0	26.9	27.3	27.3	27.3	29.3	30.5
Revenue Support Grant	60.4	49.1	34.9	27.6	21.1	16.5	12.0	12.2	12.2	12.6	14.2	15.1
Other settlement grants (including s31 grant)	2.5	4.6	3.6	3.3	3.3	4.1	4.6	5.0	6.0	13.6	13.2	14.9
New Homes Bonus Grant	1.6	1.7	2.1	3.3	3.0	2.3	2.0	1.3	0.2	0.9	1.1	0.5
iBCF/Social Care Grants	0.0	0.0	0.0	0.0	5.1	7.3	9.7	13.2	14.7	17.7	26.7	29.8
Council Tax Requirement	40.2	40.0	42.6	46.2	49.1	51.9	55.3	58.7	60.6	63.8	67.3	71.7
<b>Core Spending Power</b>	<b>144.5</b>	<b>135.7</b>	<b>124.8</b>	<b>122.1</b>	<b>124.1</b>	<b>125.5</b>	<b>127.8</b>	<b>135.4</b>	<b>138.6</b>	<b>151.2</b>	<b>168.1</b>	<b>180.3</b>
<b>% Annual change</b>		<b>-6.1%</b>	<b>-8.0%</b>	<b>-2.1%</b>	<b>1.6%</b>	<b>1.1%</b>	<b>1.8%</b>	<b>6.0%</b>	<b>2.4%</b>	<b>9.1%</b>	<b>11.2%</b>	<b>7.2%</b>

Note – above does not factor in inflation

3.11 The Special Interest Group of Municipal Treasurers (SIGOMA) has undertaken some research to understand the 'real terms' effect of the Core Spending Power changes from 2010/11 to 2024/25. They have done this by determining a 2010/11 Core Spending Power notional figure which allows direct comparison to reflect the rolling out of grants and changes to the composition of Core Spending Power and by using the GDP deflator produced in the Autumn Statement each year. **Table 3a**

below shows that whilst Middlesbrough has had a cash increase in Core Spending Power from 2010/11 to 2024/25 it has actually suffered a £62.1m (25.6%) cumulative 'real terms' cut in Core Spending Power from 2010/11 to 2024/25 based on 2023/24 prices, equating to a 'real term cut' of £958.5 per dwelling. This is both more than the national average and the SIGOMA average.

**Table 3a: Core Spending Power Changes 2010/11 to 2024/25 (SIGOMA)**

Local authority	Real terms cuts			Cash terms cuts		
	Cum. Cut 14 years 10-11 to 24-25 at 2023-24 prices	Percentage real term cut	£ per dwelling real term cut	Cash increase/cut 14 years 10-11 to 24-25	Percentage cash term increase/ cut	Cash Increase/ Cut 10-11 to 24-25 Per dwelling
	£m	%	£ pd	£m	%	£ pd
England	-13,902.2	-18.1%	-556.4	8,723.6	15.7%	349.1
<b>Middlesbrough</b>	<b>-62.1</b>	<b>-25.6%</b>	<b>-958.5</b>	<b>8.6</b>	<b>4.7%</b>	<b>132.4</b>
SIGOMA	-4,765.0	-23.3%	-756.3	1,193.7	7.9%	189.46

- 3.12 It is important to note that the Government's calculation of Core Spending Power assumes that the local authority increases the Council Tax by the maximum permitted. Therefore, the extent to which the Council has determined Council Tax increases below the maximum permitted, results in a level of funding below the assessed Core Spending Power.

### Council Tax income

- 3.13 The final LGFS confirmed that local authorities can increase Council Tax up to a maximum of 3% plus 2% Adult Social Care precept (a total of up to 5%) without the requirement for a referendum for 2024/25. The increases in Council Tax being proposed for 2024/25 is 2.99% and 2% respectively and is therefore within the maximum permissible increase and these are detailed in Appendix 7 with a summary of the Middlesbrough element of the Council Tax (excluding parishes, Police and Fire) being shown in **Table 13** in paragraph 4.57.
- 3.14 As detailed above Council Tax income has increased as a proportion of total Council income over the last 10 years as the level of RSG has reduced. This presents a particular financial challenge for the Council given it has a particularly low Council Tax base with 50.3% of dwellings in Band A, and 17.4% in Band B. This is a higher proportion than the national Band A and B percentage and means that a greater proportion of our residents pay a Band A and B than comparable Councils. Every 1% of Council tax raises approximately £0.675m of income per year. This means that a higher rate of Council Tax is needed to derive the same income yield compared with many other councils.
- 3.15 Details of the number and percentage of dwellings by Council Tax Band in September 2023, a comparison to other local authorities average Band D Council Tax, average council tax bill per dwelling for 2023/24, and details of Council Tax increases since 2023/24 were provided in paragraphs 4.58 to 4.63 of the December Executive report.

### Retained Business Rates

- 3.16 With the localisation of Business Rates, it is necessary for each authority to estimate the amount of business rates to be collected in 2024/25. The locally retained element of business rates is 50%, of which the Council retains **49%** and

1% is received by Cleveland Fire and Rescue Authority. The monitoring and estimating of Business Rates is a local responsibility and the financial risk due to the volatility within Business Rates (including outstanding valuation appeals) has an impact on the Council's overall funding.

- 3.17 Business Rates are now based on a new 2023 valuation list with the total rateable value of businesses in Middlesbrough assessed as **£101.820m** at 3 January 2024 (NNDR1 February 2024). There are currently numerous rating appeals lodged with the Government's Valuation Office in respect of rateable values. Not all of these will be successful either in full or part. The cost of any successful appeals will be met from the monies received, and hence will impact the Council's overall funding. The Council holds an earmarked provision to secure a degree of protection against such appeals which could otherwise cause in-year budget management issues.

### **Business Rates Top-Up Payment**

- 3.18 Under the retained Business Rates system any local authority, whose Business Rates income is less than their initial baseline funding level, as is the case for Middlesbrough, will receive the balance as a 'top-up' grant. The Council will receive **£30.486m** for 2024/25, however it will receive a negative adjustment of **(£0.025m)** due to a 2023/24 tariff and top-up reconciliation to reflect the adjustment for the 2023/24 business rate revaluation. Other authorities, whose Business Rates income is greater than their initial baseline funding level, pay a 'tariff'. It is the combination of 'tariffs' and 'top-ups' that balances the system nationally.

### **Revenue Support Grant (RSG)**

- 3.19 Most authorities currently continue to receive RSG from the Government in addition to their retained business rates. The Council will receive **£15.122m** in 2024/25 representing an increase of 6.62% or £0.939m reflecting a CPI inflationary increase based on September 2023 CPI rate.

### **Improved Better Care Fund (iBCF)**

- 3.20 This grant was initially awarded in 2017/18 with the purpose of driving health and social care integration and contributing towards the increased pressure of Adult Social Care needs aiming to reduce pressures in Health and ensure the Social Care market is provided for. The allocation for 2024/25 remains unchanged at **£8.646m**.

### **New Homes Bonus (NHB)**

- 3.21 The NHB rewards local authorities for increasing the number of new, occupied and affordable homes. The allocation is **£0.499m** for 2024/25 with no legacy payments as was the case also in 2023/24. This is a reduction from the £1.101m received in 2023/24 but broadly in line with estimates assumed in earlier versions of the MTFP.
- 3.22 The LGFS did not provide any clarity on the future of the NHB, and this prevents effective planning beyond next year over the medium term. It is assumed in the MTFP that there will be a similar one-off allocation in 2025/26 before the NHB system is discontinued and replaced by a new policy, as previously proposed but as yet, still not detailed by the Government.

### **Social Care Grant**

- 3.23 This grant, which covers both children's and adult's social care, was initially awarded in 2020/21 to upper tier authorities with social care responsibilities. The allocation methodology uses a combination of the Adults Relative Needs Formula (RNF) and an assessment of each Council's ability to raise funds via the social care precept. Once received, authorities have flexibility to apportion this grant between its children's and adult's social care according to local need.
- 3.24 The announced grant for 2024/25 in the provisional LGFS was £17.623m and reflected a £2.606m increase from that received in 2023/24 in line with previous announcements and therefore anticipated in our financial modelling.
- 3.25 A further announcement was made by the Government on 24 January 2024 that an additional £600m of funding would be provided to local authorities in addition to that outlined in the provisional LGFS, including £500m being added to the Social Care Grant to bolster social care budgets, which was a key concern raised by local authorities during the consultation period. This was confirmed in the final LGFS announced on 5 February 2024 with Middlesbrough receiving an additional £1.579m of Social Care Grant, making a total of **£19.202m** for 2024/25, reflecting an increase of **£4.185m** from that received in 2023/24. This change accounts for the overall favourable movement in the budget gap from £6.3m to £4.7m. It has been currently assumed that this funding will continue in future years, but this will be reviewed in future MTFP updates.
- 3.26 The Government rolled-in the previous Independent Living Fund into the Social Care Grant from 2023/24 – for Middlesbrough this totalled £1.828m for 2023/24. There is therefore an expectation that an element of Social Care Grant is used to support disabled people with high support needs and enable individuals to live independently.
- 3.27 Within the MTFP the Social Care Grant has been allocated between the significantly increased children in care pressures seen in recent years, and to adult social care to help fund fee rate increases paid to providers and other cost pressures.

### **ASC Market Sustainability & Improvement Fund**

- 3.28 This grant was introduced in 2023/24 and replaced the previous 'Market Sustainability & Fair Cost of Care Fund' grant. It is for local authorities to improve adult social care market sustainability and drive wider improvements in their areas. The allocation for Middlesbrough in 2024/25 is **£3.316m**. This is an increase of £1.541m from that received in 2023/24, however the Market Sustainability and Improvement Fund, Workforce Fund totalling £0.647m for Middlesbrough for 2024/25, has been included in the ASC Market Sustainability and Improvement Fund from 2024/25.
- 3.29 The Government expects the funding will enable local authorities to make tangible improvements to adult social care and in particular, to address discharge delays, social care waiting times, low fee rates, workforce pressures, and to promote technological innovation in the sector. It also helps to support the progress local authorities and providers have made to date on fees and cost of care exercises.



## **Discharge Fund**

- 3.30 This grant was introduced in 2023/24 and is to be used to maximise access to social care and drive down discharge delays, including fast access to domiciliary care and home-based reablement.
- 3.31 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. £500m is available nationally in 2024/25, with Middlesbrough being allocated **£2.020m** of grant funding for 2024/25 in line with that announced previously.

## **Services Grant**

- 3.32 This grant was introduced in 2022/23 for all tiers of local government in recognition of the vital services delivered and the cost pressures being faced. It was reduced in 2023/24 reflecting cancellation of the Government's National Insurance (NI) levy and repurposing within the settlement system and has also been further reduced in 2024/25 with Middlesbrough's allocation being **£0.293m**, a reduction of £1.568m from the £1.861m received in 2023/24. The MTFP currently makes a working assumption that this level of funding will continue into 2025/26 and beyond, however this will be reviewed and updated in future MTFPs.

## **Significant Specific Grants outside the Settlement**

- 3.33 A number of other grants are received outside of the key settlement figures. The basis of distribution varies from grant to grant. This budget has again been constructed on the established basis that if specific grant funding reduces then the associated expenditure and activity will reduce accordingly.

## **Public Health**

- 3.34 Whilst not part of the final LGFS, details of the Public Health Grant allocations for 2024/25 were also announced on 5 February 2024. Middlesbrough will receive an increase of 1.6% with **£18.609m** of grant to be received in 2024/25. The national increase in the Public Health Grant for 2024/25 was 2.06%. Public Health Grant must be fully spent on public health activities as per the conditions of the ring-fenced grant.

## **Local Council Tax Support & Housing Benefit Administration Subsidy Grant**

- 3.35 The 'Local Council Tax Support Subsidy Admin Grant' was discontinued from 2023/24 with £0.303m rolled into the Revenue Support Grant from 2023/24.
- 3.36 The MTFP assumes the Council will continue to receive 'Housing Benefit Administration Subsidy Grant' in 2024/25 to fund the Council's statutory duty to administer and process Housing Benefit and directly related enquiries. The 2024/25 allocation has not yet been announced and currently the same level of grant as received in 2023/24 of **£0.594m** has been assumed.

## **Dedicated Schools Grant (DSG)**

- 3.37 Details of the DSG to be received in 2024/25 are provided in **Appendix 8**.
- 3.38 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.

- 3.39 This presents a significant financial risk to many local authorities and for Middlesbrough, the current forecast total cumulative deficit of £13.208m at 31 March 2024 (as reported in the Quarter Three budget monitoring report to Executive on 14 February 2024) is not specifically addressed within this MTFP. The Council is participating in the Delivering Better Value Programme with the Department for Education (DfE) in relation to measures to mitigate future pressures.
- 3.40 Local government is lobbying central government for a long term funding solution to these pressures.

## Medium Term Financial Plan (MTFP)

- 4.1 This section provides an update to the MTFP report presented to December 2023 Executive to reflect latest assumptions, Government announcements and the final local government finance settlement (LGFS).
- 4.2 The December Executive MTFP report was produced prior to the announcement of the financial settlement and included an outstanding 2024/25 budget gap of **£6.279m**, with a cumulative projected deficit of **£8.180m** by 2026/27, assuming all budget savings proposed were approved.
- 4.3 Public consultation commenced on the 21 December 2023 and closed on 18 January 2024. The updated MTFP reflects the provisional financial settlement and updates following the Council's public consultation (detailed in **Appendix 3**).

### 2024/25 Budget Overview and Headlines

- 4.4 The MTFP has been constructed in accordance with all relevant corporate financial protocols, policy-led, risk assessed and reflecting current Council Plan priorities. The key headlines from the 2024/25 budget are:
- 2024/25 net General Fund revenue budget (budget requirement) of **£143.190m** after adjusting for the capitalisation of £4.7m of revenue expenditure relating to Exceptional Financial Support (EFS) (**see Annex 4 for the detailed calculation and summary by Directorate**)
  - Council Tax requirement of **£71.438m**
  - Council Tax increase of **4.99%** for Middlesbrough Council element which includes basic Council Tax increase of **2.99%** and an additional **2.00%** increase for the Adult Social Care precept.
  - Total new 2024/25 budget saving proposals of **£13.910m** rising to **£21.028m in 2026/27**
  - Assumed pay inflation of **4.00%** in 2024/25 and a total increase on **£4.597m** in 2024/25 to include additional funding required for the 2023/24 pay award
  - Assumed contractual inflation of **£1.550m** in 2024/25 – predominately driven by fee rates paid to Adult and Children Social Care providers
  - Assumed additional income of **£1.853m** from a review of Fees and Charges and inflationary uplift of 4.6%
  - Assumed service pressures of **£20.764m** in 2024/25 – predominately driven by homelessness, home to school transport, waste disposal, and adult social care and children in care demographics, and including the effect of National Living Wage of **£3.362m** in 2024/25 on services commissioned from external adult social care providers
  - Assumed budget growth totaling **£1.114m** to revise 2023/24 approved savings in 2024/25 to reflect the Elected Mayors' priorities and these are now recommended by Executive for approval by Council – details are provided in **Annex 3**
  - Assumed budget growth of **£1.105m** to address delayed and changes in assumptions to previously approved savings in 2024/25, predominately in Children's Services, and these are now recommended by Executive for approval by Council - details are provided in **Annex 3**
  - Base budget contribution to the Financial Resilience Reserve of **£0.5m** in

2024/25, to build financial resilience to manage future risks

- Additional funding of **£1.579m** representing Middlesbrough Council's share of the £500m additional funding for Social Care Grant confirmed in the final LGFS

### Changes to budget gap since December 2023 report

- 4.5 The updated MTFP reflects the final LGFS and updates following the Council's public consultation and a further review of the main cost drivers of demand. **Table 4** summarises the movement in the budget gap since the report to Executive in December 2023.

**Table 4: movement in budget gap since December 2023 report**

Item	2024/25 £m	2025/26 £m	2026/27 £m	Cumulative £m
<b>Original Budget Gap as at December 2023 - after previous years' budget savings removed and new savings proposals added in</b>	<b>6.279</b>	<b>1.596</b>	<b>0.305</b>	<b>8.181</b>
Additional Social Care Grant - announced in final LGFS	(1.579)	-	-	(1.579)
Additional s31 Business Rates Grant	(1.700)	-	-	(1.700)
Other Grant Funding changes	1.095	-	-	1.095
Precepts & Levies changes	0.006	-	-	0.006
Demand Changes - Education (ITU)	(0.924)	-	-	(0.924)
Demand Changes - Environment & Community Services	0.350	-	-	0.350
Demand Changes - Legal & Governance Services	0.089	-	-	0.089
Demand changes - Regeneration (Property R&M / running costs)	0.500	-	-	0.500
Commercial Income assumptions changes	(0.500)	-	-	(0.500)
Capital Financing changes to support Capital Programme	0.834	-	-	0.834
Capital Financing changes to support Exceptional Financial Support application	0.200	1.088	-	1.288
Estimated Collection Fund Surplus 2023/24 used to replenish Reserves	8.325	-	-	8.325
Changes to savings proposals 2024/25	0.128	(0.068)	-	0.060
Changes to inflation assumptions	0.005	0.336	0.212	0.554
Other minor changes	(0.519)	0.300	0.503	0.284
<b>Net Budget movements</b>	<b>6.312</b>	<b>1.656</b>	<b>0.715</b>	<b>8.683</b>
Council Tax - changes to Housing Growth assumptions	(0.036)	(0.074)	(0.114)	(0.224)
Revenue Support Grant changes	0.010	-	-	0.010
Business Rates changes	0.460	(0.403)	(0.416)	(0.359)
Estimated Collection Fund 2023/24 Surplus	(8.325)	-	-	(8.325)
<b>Funding movements</b>	<b>(7.891)</b>	<b>(0.477)</b>	<b>(0.530)</b>	<b>(8.898)</b>
<b>GAP BEFORE EXCEPTIONAL FINANCIAL SUPPORT</b>	<b>4.700</b>	<b>2.775</b>	<b>0.491</b>	<b>7.966</b>
Exceptional Financial Support	(4.700)	4.700	-	-
<b>GAP AFTER EXCEPTIONAL FINANCIAL SUPPORT</b>	<b>-</b>	<b>7.475</b>	<b>0.491</b>	<b>7.966</b>

- 4.6 **Table 4** illustrates that a budget gap of £4.7m remains in 2024/25 after all possible measures have been taken. Despite the best endeavours of officers and Executive members, It has not been possible to identify further robust and assured budget savings proposals to enable a legally balanced budget to be set for 2024/25.
- 4.7 In order to avoid a s114 Notice being issued by the s151 Officer in relation to the 2024/25 budget, the Executive approved that an application for Exceptional Financial Support (EFS) for up to £15m be made to DLUHC on 17 January 2024. This application was to meet the calculated £6.3m budget gap in 2024/25 prior to the LGFS and to provide £8.7m of contingency funding to cover financial risks associated with delivering the Council's ambitious planned savings programme, redundancies, and realisation of capital receipts to fund planned transformation expenditure in the absence of a bank of capital receipts in the first part of 2024/25.
- 4.8 As detailed in paragraphs 3.4 and 3.25 an additional £600m funding was provided to local authorities in the Final LGFS above that received in the Provisional LGFS, with Middlesbrough receiving £1.579m of additional funding in the form of additional Social Care Grant. This has reduced the budget gap to £4.7m and the amount required from EFS reducing accordingly by this amount.

- 4.9 It is expected that a formal response to the EFS application will be received from DLUHC by 1 March 2024. This report is based upon the fundamental assumption that the application will be approved to enable the recommendation of a robust and balanced budget to be recommended for approval by Council on 8 March 2024.
- 4.10 If the EFS application is not approved in full, or the Council do not accept the terms of any approved offer by DLUHC, then the Council's s151 Officer will have no choice but to issue a s114 notice in accordance with s114(3) of the Local Government Finance Act 1988.
- 4.11 The s114 process and implications for the Council are summarised below
- Since 2020 the government has agreed to provide Exceptional Financial Support to a small number of authorities that have requested assistance to manage financial pressures that they considered to be unmanageable. It is conditional upon:
    - External assurance on their financial position
    - Submission and oversight of financial recovery plans
    - Other conditions specific to the local authority which may be onerous including an escalation of intervention in the running of the Council operations. At the extreme, and most likely when it has become necessary to issue a s114 notice, government intervention may result in the appointment of independent commissioners and a suspension of democratic decision making but will depend on DLUHC's assessment of the Council's recovery actions
  - An application for Exceptional Financial Support will be in the form of a 'capitalisation direction'. This is permission for the Council to treat revenue expenditure as capital and to fund from capital receipts or to borrow and repay this amount at a premium rate over Public Works Loans Board (PWLB) borrowing over a period of up to 20 years. It is a one-off solution in order to finance the capitalisation of revenue expenditure in a particular year to provide breathing space for the Council to implement plans to recover its financial position. It is not a grant and is not free money. It is however a solution that helps to avoid the draconian measures that would accompany a s114 Notice.
  - Outcomes of EFS have varied from such applications with :
    - Some authorities have not ultimately needed to draw upon the capitalisation direction and have managed to achieve financial turnaround within their own resources (LB Bexley)
    - Some authorities have drawn on the capitalisation direction and then delivered recovery (Peterborough)
    - Other authorities have needed to issue s114 notice as well as drawing on the capitalisation direction (Slough)
    - Varying degrees of DLUHC intervention ranging from advisory Improvement Boards, statutory Improvement boards through to Commissioners
  - If the Council cannot set a legally balanced budget, then there is a requirement for a s114 notice being issued under the provisions of the Local Government Act 1988 Section 114 (3) which states that:

*“The chief finance officer of a relevant authority shall make a report under this section if it appears to them that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure”.*

- Councillors have 21 days from the issue of a Section 114 notice to discuss the implications at a Full Council meeting.
- The issue of s114 notice means that:
  - no new expenditure is permitted, with the exception of that funding statutory services, including safeguarding vulnerable people, at minimum level
  - existing commitments and contracts will continue to be honoured.
  - Council officers must therefore carry out their duties in line with contractual obligations and to acceptable standards, while being aware of the financial situation.
  - any spending that is not essential or which can be postponed should not take place and essential spend will be monitored.
- The only allowable expenditure permitted under an emergency protocol would include the following categories:
  - existing staff payroll and pension costs
  - expenditure on goods and services which have already been received
  - expenditure required to deliver the council’s provision of statutory responsibilities at a minimum possible level
  - urgent expenditure required to safeguard vulnerable citizens
  - expenditure required through existing legal agreements and contracts
  - expenditure funded through ring-fenced grants
  - expenditure necessary to achieve value for money and / or mitigate additional in year costs

4.12 The following provides further detail of the main changes made since the December 2023 Executive report:

- The effects of the Exceptional Financial Support (EFS) application have been built into the MTFP. **(£4.700m)** has been built in for 2024/25 which represents the amount of EFS required to enable a balanced budget to be set for 2024/25. As this only covers 2024/25, the reversal of that effect **£4.700m** is included in the MTFP in 2025/26 as this amount will still need to be covered on an ongoing basis from 2025/26 onwards.
- Grant funding has been updated following the final Local Government Finance Settlement, including an additional **£1.579m** Social Care Grant allocation from 2024/25 in the final LGFS as previously detailed.
- Demand requirements have been reviewed and updated accordingly for Education (Integrated Transport Unit) **(£0.924m)**, Environment & Community Services **£0.350m**, and Legal and Governance Services **£0.089m**
- Capital financing requirements have been updated for the revenue cost associated with financing both the revised Capital Programme **£0.300m** in 2024/25, and the additional borrowing costs for the anticipated capitalisation directive following the Exceptional Financial Support application **£0.200m** in 2024/25 and a further **£1.088m** from 2025/26

- New savings proposals have been revised and updated to reflect changes following consultation resulting in changes of **£0.128m** in 2024/25 and **(£0.068m)** in 2025/26 (**Annex 3**)
- Funding assumptions (including Housing Growth assumptions) have been updated following the Final Local Government Finance Settlement and updated data from the NNDR1 Business Rates government return
- The estimated Collection Fund Surplus from 2023/24 of **(£8.325m)** has been built into the MTFP – this will be used in full to provide some financial resilience by replenishing Reserves which are projected to be at a critically low level at the end of the 2023/24

4.13 The major components of the revised budget gap are detailed in the following paragraphs and are summarised in **Table 14**.

### Pay Inflation

4.14 Middlesbrough Council is part of the national pay bargaining framework and is bound by national agreements. **Table 5** below summarises the pay and pension items included in the MTFP. These form a significant driver to the increased MTFP gaps.

**Table 5: Pay and pension inflation**

<b>Pay model / pension (incremental increases to existing pay model resources)</b>				
<b>Item</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>Cumulative</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	
2024/25 Pay award	3.556	2.667	1.778	8.001
Additional required for 2023/24 Pay Award (over & above previous amount provided in MTFP which was insufficient)	1.041	-	-	1.041
<b>Pay Model</b>	<b>4.597</b>	<b>2.667</b>	<b>1.778</b>	<b>9.042</b>
Increase in employers pension contributions following actuarial review	0.454	0.908	-	1.362
<b>Pension</b>	<b>0.454</b>	<b>0.908</b>	<b>-</b>	<b>1.362</b>
<b>Pay/Pension</b>	<b>5.051</b>	<b>3.575</b>	<b>1.778</b>	<b>10.404</b>

4.15 As outlined in the December report, following finalisation of the 2023/24 pay award of £1,925 p.a. plus on-costs, the cost of the 2023/24 pay award has been revised and **£1.041m** will now be required in the 2024/25 base for this.

4.16 Informed by latest inflation forecasts and other information provided by organisations such as the Special Interest Group of Municipal Authorities (SIGOMA) the assumption of the 2024/25 pay award remains at 4% which is estimated to cost £3.556m p.a. Assumptions of pay awards for 2025/26 and 2026/27 have also been kept the same with £2.667m p.a. (3%) being assumed for 2025/26 and £1.778m p.a. (2%) being assumed for 2026/27.

4.17 This MTFP therefore assumes pay inflation of:

- 2024/25 **4.0%**
- 2025/26 **3.0%**
- 2026/27 **2.0%**

- 4.18 Pay inflation budgets will be held corporately until final agreements have been made at which point updated budgets will be allocated to departmental budgets, this is done to aid in year budget monitoring. Any variations in the final pay award compared to the MTFP assumptions will need to be managed as part of the in-year budget monitoring process.

### **Non-Pay Inflation**

- 4.19 Contractual inflation has been provided for in the MTFP period, with **£1.550m** being provided for in 2024/25 in relation to specific contracts, mainly around Adult Social Care purchasing budgets and Children's Care external residential and fostering contracts. These will initially be held centrally with budgets being transferred to the relevant service budgets when need has been fully assessed. £1m was previously provided for from 2024/25 in the updated MTFP approved in February 2023 for the potential effects of additional inflation in a wide range of areas, including energy costs, and this will also be held centrally. Also **£0.223m** p.a. of inflation for a number of other areas, including the increased cost of external audit fees, has been provided for from 2024/25.

### **Risk Management**

- 4.20 Inflation totaling **£1.864m** from 2024/25 has been provided for the effects of risk around potential additional inflation across a wide range of areas due to uncertainty around levels of inflation, including the cost of energy. This will initially be held centrally. Also an amount of **£0.500m in 2024/25 and a total of £1.250m in 2025/26 and £2m in 2026/27** has been provided for, to top up the Financial Resilience Reserve to meet unforeseen financial pressures that cannot ultimately be managed within directorate budgets.

### **Income Policy and Fees and Charges**

- 4.21 The Council has undertaken an organisation wide review of Fees and Charges to embed a consistent methodology for reviewing and setting discretionary fees and charges across the organisation. As part of the review a Fees and Charges policy (included at Appendix 5) has been developed that recognises a range of different factors in setting a price including legislative requirements and constraints, the cost of delivering a service, benchmarking with other organisations and achieving policy objectives.
- 4.22 The review focused on discretionary services to residents and businesses and has initially focused on the areas with the highest level of income from Fees and Charges which are incorporated into Directorate budget proposals. A composite Fees and Charges booklet, comprising prices across the Council's services, has been produced as part of the final budget proposals to Council and is included in Annex 1 of Appendix 5.
- 4.23 Under the Income Policy, the Director of Finance has determined the minimum percentage increase in fees that will apply as part of the annual budget process unless separately addressed in a specific budget proposal. The current proposed inflationary increase that will apply for 2024/25 is 4.6% in line with the rate of CPI in October 2023, which it is estimated will produce **£1.853m** of additional income in 2024/25.

### **Commercial Income**

- 4.24 The Council receives income from a number of Commercial developments. The



assumptions made relating to these have been reviewed and it is now assumed that an additional **£0.536m** will be made from these in 2024/25. The assumptions are being constantly reviewed in light of the effect of the current economic climate in particular on town centre retail. These have also been examined as part of the fees and charges review mentioned in paragraph 4.21. It should be noted that the commercial developments have provided substantial additional income to the Council, in excess of the cost, both in previous years and in the future, which has helped to meet other spending pressures within the MTFP.

- 4.25 Income the Council receives from commercial developments has been amended to reflect the revenue costs arising from lost income less running costs from the sale of assets approved by Executive on 21 November 2023 as part of the Asset Review report. This totals **£1.527m** in 2024/25 and a further **£0.188m** in 2025/26.

### **Living Wage**

- 4.26 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.
- 4.27 In Spending Review 2021 (SR21) the Government announced that it remains committed to raising the National Living Wage in order so that it reaches two-thirds of median earnings. The Chancellor's Autumn Statement 2023 reiterated this commitment and confirmed that the National Living Wage (NLW) will increase to £11.44 from £10.42 per hour (a 9.8% increase) for 2024/25. The amounts that are allocated in the MTFP to cover the increases in cost expected as a result of this have been revised in line with current available information, and an amount of **£3.362m** has been allocated for this within Adult Social Care in 2024/25 and **£8.687m** over the MTFP period.
- 4.28 As with future pay awards there is a high level of uncertainty around this and whether the Government will further change the levels of increase for future years, and therefore this will be reviewed again future updates of the MTFP.
- 4.29 A number of years ago, the Council made a commitment to align to the Living Wage Foundation recommended levels for pay which aim to provide a real living wage based on the cost of living. Given the Council's current financial position this commitment will be reviewed during 2024/25 and updates will be provided to Executive and Council once further detailed work has been undertaken.

### **Spending pressures**

- 4.30 As reported in quarterly monitoring reports during 2023/24, the Council has faced significant spending pressures in a number of areas and these are expected to continue in 2024/25 and future years. **Table 6** summarises the budgetary pressures arising from forecast overspends in 2023/24 and ongoing pressures in these areas and these form a significant driver to the MTFP gaps.

**Table 6: Spending Pressures**

Directorate	2024/25 £m	2025/26 £m	2026/27 £m	Cumulative £m
Adult Social Care Increased demand	3.559	1.100	1.100	5.759
Adult Social Care Increases in grant expenditure (offset by corresponding increased grant income)	1.702	-	-	1.702
Adult Social Care - Living Wage	3.362	2.594	2.731	8.687
Children's Care - demand	4.672	1.500	1.500	7.672
Education & Partnerships - Integrated Transport Unit (ITU)	2.919	-	-	2.919
Environment & Community Services - mainly Waste Disposal	2.230	1.450	-	3.680
Regeneration - income reductions from Asset Review	1.527	0.188	-	1.715
Regeneration - changes to Commercial income	(0.536)	0.402	-	(0.134)
Regeneration - Property R&M/running costs budgets uplift	0.500	-	-	0.500
Increased homelessness costs/effect on Housing Subsidy	0.600	-	-	0.600
Other	0.229	0.127	-	0.356
<b>Spending Pressures</b>	<b>20.764</b>	<b>7.361</b>	<b>5.331</b>	<b>33.456</b>

4.31 Details of the spending pressures in the following key areas which are of statutory service provision are provided below:

- Children's Care - this area is experiencing increased demand for care and cost increases due to provider rates and complexity of cases and in the updated MTFP an amount of **£4.672m** has been included for this in 2024/25 and a further £1.5m p.a. for 2025/26 and 2026/27.
- Adult Social Care – there is an increased cost due to increased demographic demand pressures and higher care fees to providers to offset their rising costs and capacity constraints due to labour shortages. The service is also experiencing challenges in recruitment and retention of staff of which pay is a driving factor. Table 6 above shows that due to a number of potential pressures an additional **£5.261m** has been included in the updated MTFP for 2024/25 and a further **£1.1m p.a.** for 2025/26 and 2026/27.
- Integrated Transport Unit (Home to School and Adults Transport) - the service is experiencing increased cost of transport from local suppliers and high levels of demand for service, and therefore based on the forecast overspend in 2023/24 and predicted growth in 2024/25 an amount of **£2.919m** has been built into the updated MTFP from 2024/25. This is a decrease from the £3.843m included in the December report, following further work on the complex demand and cost modelling in this area.
- Waste Disposal - is incurring inflationary increases on the unit cost of waste disposal and increased demand beyond budgetary provision and therefore **£1.793m** has been included from 2024/25. Also, there will be further increased costs from 2025/26 due to the extension of the current contract for a further year until the new Energy from Waste Site is complete, which is currently expected in 2026/27. A further £1.500m has been built into the updated MTFP from 2025/26 in order to accommodate expected increases in the price of residual waste disposal under the new contract.
- Homelessness Pressures and effect on Housing Benefit Subsidy - the Council is experiencing an increase homelessness cases and a need for temporary accommodation together with an increase in the cost of provision, especially bed and breakfast. 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. A total of **£0.600m** has been built into the updated MTFP, comprising of **£0.300m** for the effects of this within Adult Social Care and **£0.300m** within Finance in relation to a shortfall in benefit subsidy. This is an emerging national issue affecting many local authorities across the country. A cross cutting review across all service areas involved in providing homelessness support is underway to understand current activities and future needs and to identify more cost effective solutions to meeting the needs of homeless households. This may lead to the amount provided in the MTFP being reviewed in the future.

- 4.32 Whilst all directorates have been required to put forward budget proposals to balance the budget, fundamental review of service models in these specific service areas are necessary in order to achieve a financially sustainable budget position.

#### **Technical Adjustment - reversal of 2023/24 Flexible Use of Capital Receipts**

- 4.33 As mentioned in the August and December MTFP Updates there is a technical adjustment relating to the Flexible Use of Capital Receipts (FUOCR) in 2024/25 which is the reversal of the one year inclusion of a £3m credit to revenue within the base budget for 2023/24 that is to fund transformation expenditure from FUOCR. The reversal of this sum has the effect of increasing the budget pressure in the MTFP.

#### **Capital Financing**

- 4.34 The Capital Financing Costs currently assumed have been reviewed in light of the latest interest rate forecasts, changes to the Council's Capital Programme, the recently approved Asset Review, and for the potential additional borrowing costs for EFS. Additional funding totaling **£1.344m** has been provided to the Capital Financing budget for this in 2024/25 with a further **£1.599m** in 2025/26 and a further **£0.207m** in 2026/27. The budgeted revenue cost of borrowing over the period of the MTFP is set out in Table 6A.

**Table 6A: Revenue Costs of borrowing for capital programme**

	<b>2022/23 actual</b>	<b>2023/24 forecast</b>	<b>2024/25 forecast</b>	<b>2025/26 forecast</b>	<b>2026/27 forecast</b>
Financing costs (£m)	8.058	9.376	<b>11.154</b>	12.814	14.496
Net Revenue Budget (£m)	118.329	126.354	<b>143.190</b>	148.601	148.127
Proportion of net revenue budget (%)	6.8%	7.4%	<b>7.8%</b>	8.6%	9.8%

#### **Reserves**

- 4.35 The s151 Officer recommends a minimum level for the General Fund Balance is 7.5% of the Net Revenue Budget (before one of adjustment for EFS) which is equivalent to **£11.1m** for 2024/25. In addition, it is recommended that the Financial Resilience Reserve (FRR) is replenished and maintained at a level of between £8m to £10m by 2026/27. The budgeted contribution to the FRR over the period is £0.5m in 2024/25, £1.250m 2025/26, and £2.00m in 2026/27. An earmarked Legacy Accounts and Audit Reserve of £1m has also been set aside to provide for

unforeseen adverse audit adjustments that may arise from the conclusion of legacy audits in future periods. The Council also holds a Change Fund Reserve for the purpose of meeting the revenue costs of transformation and efficiency programmes, including meeting redundancy costs, which cannot be capitalised under the Flexible Use of Capital Receipts regulations. Further information is included within Appendix 1 - s25 Report and Appendix 4 – Financial Reserves Policy.

### Budget savings

- 4.36 Budget proposals totaling £14.038m in 2024/25 rising to £21.088m in 2026/27 were detailed in the report to Executive on 20 December 2023. The savings proposed were categorised in two appendices with the savings in Appendix 2 of the December report , totaling £3.949m in 2024/25 rising to £5.465m in 2026/27, being deemed to potentially affect service delivery levels and therefore being subject to public consultation.
- 4.37 Following the budget consultation and further review, a number of changes have been made to the budget savings previously proposed. The changes are summarised in **Table 7** below and detailed in the Budget Consultation Feedback 2024/25 contained in **Appendix 3**.

**Table 7 – Changes to budget savings since December 2023 report**

Savings Proposals 2024/25	2024/25 £m	2025/26 £m	2026/27 £m	TOTAL £m
<b>December 2023 Proposals</b>	<b>(14.038)</b>	<b>(5.083)</b>	<b>(1.967)</b>	<b>(21.088)</b>
ECS09 - Car Parking Charge at Stewart Park	0.000	0.060	0.000	0.060
REG03 - Captain Cook Birthplace Museum.	0.100	(0.100)	0.000	0.000
FIN08 - Reduction in the allocation of resource for voluntary and community sector grants from the local authority.	0.028	(0.028)	0.000	0.000
LGS07 - Review of Subscription spend	0.006	0.000	0.000	0.000
LGS08 - Reduction in Member Allowances	(0.006)	0.000	0.000	0.000
<b>Revised Savings Proposals 2024/25</b>	<b>(13.910)</b>	<b>(5.151)</b>	<b>(1.967)</b>	<b>(21.028)</b>

- 4.38 The effect of the above changes has meant that the recommended budget savings total £13.910m in 2024/25 rising to £21.028m in 2026/27 and these are summarised by Directorate in **Table 8a** below and detailed in **Annex 1**.

**Table 8a: Summary of proposed budget savings by Directorate**

Directorate	2024/25 £m	2025/26 £m	2026/27 £m	Cumulative £m
Adult Social Care	(5.757)	(1.283)	(0.750)	(7.790)
Children's Care	(4.254)	(1.400)	(0.715)	(6.369)
Education & Partnerships	(0.132)	-	-	(0.132)
Environment & Community Services	(1.459)	(0.670)	(0.120)	(2.249)
Regeneration	(0.551)	(0.794)	(0.200)	(1.545)
Finance	(1.379)	(0.959)	(0.182)	(2.520)
Legal & Governance Services	(0.378)	(0.045)	-	(0.423)
	<b>(13.910)</b>	<b>(5.151)</b>	<b>(1.967)</b>	<b>(21.028)</b>

- 4.39 **Table 8b** analyses the recommend budget savings by type of saving. This shows that in deriving the budget proposals the Mayor and Executive have sought to transform how front line services are delivered rather than make cuts to services.

**Table 8b: Summary of proposed budget savings by type**

Directorate	2024/25 £m	2025/26 £m	2026/27 £m	Cumulative £m
Income	(3.156)	(1.502)	(0.182)	(4.840)
Efficiency	(5.849)	(1.027)	(0.120)	(6.996)
Service Reduction / Stop	(0.532)	(0.157)	-	(0.689)
Transformation	(3.541)	(2.465)	(1.665)	(7.671)
Demand Management	(0.832)	-	-	(0.832)
	<b>(13.910)</b>	<b>(5.151)</b>	<b>(1.967)</b>	<b>(21.028)</b>

### Budget Growth

- 4.40 Budget growth totaling **£1.114m** was proposed in the December report to revise 2023/24 approved savings in 2024/25 to reflect the Elected Mayors' priorities and these are now recommended by Executive for approval by Council – details are provided in **Annex 3**. Also, budget growth of **£1.105m** was proposed in the December report to address delayed and changes in assumptions for previously approved savings and these are now recommended by Executive for approval by Council – details are provided in **Annex 3**.

### Previously Agreed Savings

- 4.41 **Table 9** below and **Annex 2** provides a summary of the income & savings agreed in previous budget rounds that are due to be delivered during 2024/25 in addition to the new savings that are proposed in the 2024/25 budget. This is after removal of some savings which have been replaced by proposed budget growth as referred to in paragraph 4.40. The delivery of these savings will be tracked alongside new savings as part of corporate budget monitoring arrangements.

**Table 9: Savings agreed in 2023/24 Budget report to Council – to be delivered in 2024/25**

Directorate	2023/24 Saving Initiative for delivery in 2024/25	2024/25 £m
Children's Care	CC04 Re-purpose Safe Families Contract	0.019
Central	CEN02 Senior Management Review	0.244
Environment & Community Services	ECS14 Reduce opening hours of hubs in line with demand and introduce self-serve at Rainbow and Neptune Libraries, and reduce opening hours of other libraries in line with demand	0.062
Education and Partnerships	EP06 Develop Children's Centre into Family Hubs	0.153
Legal & Governance	LGS03 Democratic Services reduction in member and non-member related administration	0.031
Legal & Governance	LGS06 Delete political assistant vacancy	0.019
Regeneration	RC05 Events team to reduce by 1-2 posts, and external funding to be sought to delivery events	0.028
Regeneration	RC08 Reduction of 20% in the Council's Marketing and Communications function	0.028
Children's Care	CS01 Reduction in the use of high cost external family support provision	0.318
Children's Care	CS04 Introduce supplier incentive Scheme across Childrens purchasing	0.031
Children's Care	CS05 Combine posts to release efficiencies in Quality	0.048
Children's Care	CS07 Reduction in agency costs	0.380
Children's Care	CS08 Redesign of short break provision	0.030
<b>Total</b>		<b>1.391</b>

## Funding

- 4.42 The Council's retained 49% share of business rate income, after adjustments for transitional relief and cost of collection, is **£17.844m** in 2024/25, which is **£1.329m** below our Business Rate Baseline as determined by the Government for the purpose of the settlement.
- 4.43 This retained income carries potential volatility risks for the Council in calculating our share of the yield. The major risks and concerns are; the level of successful rating appeals that may be made in the year, the unknown level of bankruptcies and businesses going into administration, the number of empty properties, the number of new properties and the collection rate achievable. The Council is required to make an estimate of the impact of all these, based on limited trend information. The NNDR1 return submitted to DLUHC in February 2024 estimated the net rates payable as **£37.384m** after all reliefs, with **£0.822m** assumed for bad debts (**2.2%**) and **£0.799m for appeals (2.1%)** leaving total collectible rates for 2024/25 as **£35.763m**.
- 4.44 The Council in 2024/25 expects to receive **£13.582m** section 31 grant which compensates councils for the loss of income, suffered as a result of previously announced changes to the business rates multiplier. The impact of these grants has been included within the budget refresh figures and details are shown in **Table 10** below.

**Table 10: Section 31 Grants (Business Rates)**

Budget Item	2024/25 £m
Multiplier cap	4.314
Small Business Rates Relief	1.396
Supporting Small Business Relief	0.192
Retail Hospitality & Leisure Relief	1.641
	<b>7.544</b>
<b>NNDR1 Return</b>	
Under-indexing of Top-up Grant	6.038
<b>Total</b>	<b>13.582</b>

- 4.45 **Table 11** sets out the overall funding assumed within the budget. Revenue Support Grant, Business Rates Top Up Grant and Retained Business Rates have been assumed to increase by 3% p.a. in both 2025/26 and 2026/27. The increase in 2025/26 is broadly based on the estimated CPI increase as at September 2024 (which the Government will base the actual increase on), with the increase for 2026/27 being less robust and based on an estimated increase.

**Table 11: Funding Summary**

Item	2024/25 £m	2025/26 £m	2026/27 £m	Cumulative £m
Retained Business Rates	17.844	18.380	18.931	55.155
Business Rates Top-up Grant	30.461	31.401	32.343	94.205
Revenue Support Grant	15.122	15.576	16.043	46.741
Council Tax	71.438	75.769	80.319	227.526
Collection Fund Surplus / (Deficit)	8.325	0.000	0.000	8.325
<b>Total</b>	<b>143.190</b>	<b>141.126</b>	<b>147.636</b>	<b>431.952</b>

- 4.46 **Table 12** sets out details of all other specific Government funding provided to the Council. These are based on the most up to date reliable information and the impact for 2025/26 and 2026/27 have been estimated, but these figures are necessarily less robust than the figures for 2024/25 due to very little information being provided by the Government as to future years funding.

**Table 12: Other specific grant funding**

	2024/25	2025/26 (Indicative)	2026/27 (Indicative)
	£m	£m	£m
Improved Better Care Fund	8.646	8.646	8.646
New Homes Bonus	0.499	0.499	0.499
Social Care Grant	19.202	19.202	19.202
ASC Market Sustainability & Improvement Fund	3.316	3.316	3.316
Discharge Fund	2.020	2.020	2.020
Services Grant	0.293	0.293	0.293
S31 Grant for Business Rates Compensation for Reliefs	13.582	13.582	13.582
Public Health Grant	18.609	18.609	18.609
Housing Benefit Administration Subsidy Grant ( <i>assumed - still TBC</i> )	0.594	0.594	0.594
	<b>66.761</b>	<b>66.761</b>	<b>66.761</b>

Not included in the table above are details of the Dedicated Schools Grant (DSG) which the Council receives, which are detailed in Appendix 8.

### Collection Fund

- 4.47 Statutory regulations require councils to account for annual council tax / business rates income in a manner different to normal accounting arrangements as would apply if using International Financial Reporting Standards (IFRS). This means any difference between the budgeted net council tax and business rates income and the actual is held on the Council's balance sheet to be distributed in subsequent years.
- 4.48 Councils are required to calculate an estimated position of the Collection Fund in January which is used by the precepting authorities in setting its budget for the forthcoming year.
- 4.49 An annual review is undertaken to assess the estimated level of collection, the likely balance of the funds and to advise the precepting authorities (Fire and Police) of their share of any surplus/deficit. This enables them to take this into account in their own budget calculations.
- 4.50 It is currently estimated that there will be a total surplus on the collection fund of **£10.482m** with the Council's share being **£8.325m**. This comprises of a surplus on the council tax collection fund of **£9.231m** with the Council share of this being **£7.712m**. It is estimated that there will be a surplus on the business rates collection fund of **£1.251m** with the Council share of this being **£0.613m**. The council's surplus will be allocated to the replenishment if its depleted revenue reserves as detailed further in the Reserves Policy at Appendix 4.

### Council Tax Requirement for 2024/25

- 4.51 Given the Council's fragile financial position, in the report to Executive in December 2023 the s151 Officer advised the Mayor and Executive to adopt the current assumed maximum permissible Council Tax increase of 4.99% p.a. for 2024/25 in order to reduce the additional budget savings required to be made to balance the

budget. This is also recommended for 2025/26 and 2026/27. This advice also reflects the fact that the Government assumes that local authorities will increase the Council Tax by the maximum permissible in their calculation of the Council's Core Spending Power, which is a measure of how much the Government believes local authorities can raise from Council Tax and that they have available to spend.

- 4.52 It should be noted that each 1% increase in Council Tax produces estimated additional income to the Council of approximately £0.675m per annum.
- 4.53 There is estimated to be an increase in Council Tax income of **£0.768m** in 2024/25 and on an ongoing basis due to a predicted increase in the Council's Tax Base resulting from projected Housing Growth over the period. In addition, it is assumed that there will be an increase of a similar amount each year in 2025/26 and 2026/27. Since 2013/14 the Council's Housing Growth Strategy has delivered an increase in the Council Tax Base of **5,967** Band D Equivalent properties, an increase in Middlesbrough Council's Tax Base of **approximately 20%**. The cumulative effect is approximately **£11.794m per annum** and reduces the need to make further annual savings within Council services by this amount.
- 4.54 The Council is required to set a balanced budget for 2024/25. 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 2024/25.
- 4.55 If the final budget proposed in this report is approved by Council the Budget Requirement for 2024/25 will be **£143.190m** (after a one off adjustment for the £4.7m EFS) with a Council Tax Requirement of **£71.438m**, equating to a Council Tax (Band D) for non-parish areas (Middlesbrough Council only element) of **£1,975.76** and Band A of **£1,317.17**. This represents a total increase in Council Tax of **4.99%** for 2024/25 comprising of a general increase of 2.99% and an Adult Social Care precept of 2.00%.
- 4.56 The draft statutory Band D Council Tax calculation that will form the basis of the March Council budget report is detailed at **Appendix 7**.
- 4.57 The tax to be levied for each band for each tax band for Middlesbrough Council element (excluding Fire, Police and Parish precepts) is detailed in **Table 5** of **Appendix 7** and is shown below in **Table 13**:

**Table 13: Proposed Council Tax per Band for Middlesbrough Council element (excluding Fire, Police and Parish precepts) 2024/25**

Effect of assumed 4.99% p.a. total increase in Middlesbrough element of Council Tax for the period of 2024/25 to 2026/27				
Band	% of dwellings per band*	2024/25 4.99% increase		
		Council Tax £	Annual Increase £	Weekly Increase £
A	50.3%	1,317.17	62.60	1.20
B	17.4%	1,536.70	73.03	1.40
C	17.3%	1,756.23	83.47	1.61
D	8.4%	1,975.76	93.90	1.81
E	4.2%	2,414.82	114.77	2.21
F	1.5%	2,853.88	135.64	2.61
G	0.9%	3,292.93	156.50	3.01
H	0.1%	3,951.52	187.80	3.61

\* Based on number of dwellings on the Valuations List as at 11/09/23



- 4.58 Nunthorpe Parish Council has set a precept of £25,000 for 2024/25. The tax to be levied for each for each tax band are set out in **Table 5 of Appendix 7**.
- 4.59 Stainton & Thornton Parish Council has set a precept of £13,153 for 2024/25 . The tax to be levied for each for each tax band ae set out in **Table 5 of Appendix 7**.
- 4.60 Cleveland Fire Authority has set a precept for Middlesbrough of **£3,232,896**. The Council Tax levels for 2024/25 are set out in **Table 6 of Appendix 7**.
- 4.61 Cleveland Police and Crime Commissioner has set a precept of **£10,976,164** and Council Tax levels for 2024/25 are set out in **Table 7 of Appendix 7**.
- 4.62 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 8 of Appendix 7**.
- 4.63 The Executive recognises the financial challenge faced by many households due to the cost of living crisis and provides financial support in the form of reductions to Council Tax for the most financially vulnerable households in addition to grants under the Household Support Fund and its Welfare Strategy.
- 4.64 Whilst the Council takes a very firm and fair approach to collection there are a number of support solutions which are available to assist financially vulnerable households. Through the Council's proposed Council Tax Reduction Scheme, to be approved by Council at its budget setting meeting, a maximum of 90% support. This equates to an overall level of expenditure to support financially vulnerable households of approximately £20.1m per year is provided to 18,285 households across the town. The Council has considered increasing the scheme to 100%, which would mean around 11,000 working age households would have nothing to pay, however this would likely cost the Council around £4m extra to implement and is not considered affordable at present.
- 4.65 In addition to the Council Tax Reduction Scheme a number of other support solutions exist. The Council has a welfare strategy which is designed to support households who may be struggling financially. The range of support is extensive and can include such things like maximising benefits, support with any shortfall in rent, as well as help with white goods, furniture, food, and energy referrals. The Council takes a firm but fair and persistent approach to collection of debt including full benefit and welfare checks to ensure that households have access the right level of support to help them meet their council tax obligations.

## Budget summary & Medium Term Financial Plan assumptions

5.1 In examining proposals for the 2024/25 budget, the Council considers both the immediate situation and the longer term outlook and assesses the impact of decisions accordingly. Current budgets for 2024/25 through to 2026/27 assumes:

- Council tax increases of **4.99%** in 2024/25 (**2.99%** general increase and **2.00%** Adult Social Care precept) and **4.99% p.a.** increase in 2025/26 and 2026/27 comprising the same mix of funding as 2024/25.
- 2024/25 council tax base of **36,137.9** as per December 2023 Executive report with assumed future net growth of **£0.768m pa** equating to approximately **389** Band D equivalents p.a. after student exemptions and various discounts.
- Confirmed final settlement funding for 2024/25 only with a future working assumption of projected inflationary increases for future years.
- Future increases in Retained Business Rates and associated section 31 grants reflect only CPI inflation projections with working assumption of nil underlying growth.
- Assumed pay inflation of **4.00%** per annum for 2024/25, **3.00%** for 2025/26 and **2.00%** for 2026/27.
- NHB grant assumed to continue at same level in future years as in 2024/25
- Where national increases are known for specific grants, an estimated future projection has been included based best available information.
- Assume that all other specific grants will continue at their current level for all future years.

All these budget assumptions will be subject to on-going review in light of changing circumstances.

5.2 **Table 14** shows the updated MTFP for the period 2024/25 to 2026/27 based on the information contained elsewhere in this report.

**Table 14: Refreshed MTFP Summary 2024/25 to 2026/27 (incremental)**

Budget Item	2024/25 £m	2025/26 £m	2026/27 £m
<b>Net Budget brought forward</b>	<b>126.354</b>	<b>134.865</b>	<b>141.126</b>
Pay Inflation	5.051	3.575	1.778
Contractual inflation	1.550	1.550	1.550
Other inflation	0.209	-	-
Fees & Charges inflation	(1.853)	(0.648)	(0.648)
<b>Inflation subtotal</b>	<b>4.957</b>	<b>4.477</b>	<b>2.680</b>
Service Demand pressures	20.764	7.361	5.331
<b>Service Demand pressures subtotal</b>	<b>20.764</b>	<b>7.361</b>	<b>5.331</b>
Technical adjustments	4.878	1.599	0.207
Risk Management	1.952	0.750	0.750
Grant Funding adjustments	(4.661)	-	-
Savings - approved in previous years	(0.769)	-	-
New savings proposals	(13.910)	(5.151)	(1.967)
Budgeted contribution to Reserves	8.325	-	-
<b>Other adjustments subtotal</b>	<b>(4.185)</b>	<b>(2.802)</b>	<b>(1.010)</b>
<b>Projected Net Budget</b>	<b>147.890</b>	<b>143.901</b>	<b>148.127</b>
<b>Exceptional Financial Support</b>	<b>(4.700)</b>	<b>4.700</b>	-
<b>REVISED PROJECTED NET BUDGET</b>	<b>143.190</b>	<b>148.601</b>	<b>148.127</b>
Council Tax	(71.438)	(75.770)	(80.319)
Business Rates	(48.305)	(49.781)	(51.274)
Estimated Collection Fund Surplus	(8.325)	-	-
Revenue Support Grant	(15.122)	(15.576)	(16.043)
<b>Assumed Funding</b>	<b>(143.190)</b>	<b>(141.127)</b>	<b>(147.636)</b>
<b>Incremental Budget Gap + / Surplus ( )</b>	<b>(0.000)</b>	<b>7.474</b>	<b>0.491</b>
<b>Cumulative Budget Gap + / Surplus ( )</b>	<b>(0.000)</b>	<b>7.474</b>	<b>7.965</b>

5.3 It can be seen from **Table 14** that budget gaps still remain in 2025/26 and 2026/27 and further savings proposals arising from the Transformation projects currently being undertaken will be required as a minimum to meet these budget gaps. In practice, the level of further savings to be developed will need to anticipate the risk of further pressures arising from 2025/26 onwards as is the usual experience of the annual budget setting cycle. A report setting out the proposed Transformation Programme will be presented to Executive and Council meetings in March 2024 alongside the Flexible Use of Capital Receipts Strategy.

## Annex

1	Proposed Budget Savings by Directorate
2	2023/24 Saving Initiative for delivery in 2024/25 By Directorate
3	Budget Growth
4	Detail of net revenue budget by Directorate