

MIDDLESBROUGH COUNCIL



Report of:	Director of Finance
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Relevant Executive Member:	The Mayor Executive Member for Finance and Governance
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Submitted to:	Executive
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Date:	22 May 2024
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Title:	2025/26 Budget and Medium Term Financial Plan Approach and Timetable
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Report for:	Decision
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Status:	Public
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Council Plan priority:	Delivering Best Value
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Key decision:	No
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Why:	Decision does not reach the threshold to be a key decision
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Subject to call in?:	Yes
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Why:	
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Proposed decision(s)	
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	That Executive approve the approach and timetable for developing the 2025/26 Budget and Medium Term Financial Plan (MTFP).
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Executive summary	
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	The Council's financial position remains critical given its reliance upon one-off borrowing via Exceptional Financial Support (EFS) to balance the 2024/25 budget and the need to replenish its low level of revenue reserves to rebuild its financial resilience over the medium term.
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Key priorities during 2024/25 financial year are:

- to recover the Council's financial position by delivering the 2024/25 outturn within the budget approved by Council on 8 March 2024; and protect revenue reserves to enable rebuilding over the period of the MTFP.
- to develop plans to close the remaining budget gap which is currently estimated to be £7.475m in 2025/26 rising to £7.965m by 2026/27 but this may increase when the MTFP is reviewed and updated during the summer.

Each year, the Council undertakes a service and financial planning exercise that aims to achieve a balanced annual revenue budget and MTFP in order to secure a financially sustainable position, capital programme, sets the capital and treasury management strategy and agrees the annual level of council tax.

This report sets out for consideration and approval by the Executive, the proposed approach and timetable for the 2025/26 budget setting and the MTFP for the four-year period 2025/26 to 2028/29.

1. Purpose

- 1.1 The purpose of this report is to seek approval of the budget development approach and timetable for the 2025/26 budget and MTFP for the four-year period 2025/26 to 2028/29.

2. Recommendations

- 2.1 That the Executive approves the proposed budget development approach and the timetable for the 2025/26 budget setting and MTFP for the period 2025/26 to 2028/29 as summarised in Table 1 and detailed in Appendix 1.

3. Rationale for the recommended decision(s)

- 3.1 The forward planning for and setting of a robust budget and balanced MTFP enables the Council to provide and deliver services within its overall corporate and financial planning framework. The MTFP underpins the delivery of the Council's vision for Middlesbrough to be a thriving, healthier, safer, and more ambitious place where people want to live, work, invest, and visit, and where we will support our residents to live fulfilling lives, to ensure that our communities thrive.

4. Background and relevant information

- 4.1 Each year the Council engages in an annual financial planning and budget setting cycle that aims to achieve a balanced annual revenue budget and capital programme, sets the council tax, and sets out the capital and treasury management strategy. A high level summary of the financial planning cycle is summarised in Table 1 below. A more detailed timetable is set out in Appendix 1.

Table 1 2025/26 Financial Planning Cycle

April-July

Review previous years outturn
Review current year projections
Update financial planning assumptions
Calculate budget gap
Further develop transformation project pipeline

July to September

Identify and review budget pressures
Update financial planning assumptions and budget gap
Further develop transformation project pipeline of investment, savings and income
Develop other operational income and savings proposals

September to December

Develop detailed service budgets
Develop budget proposals for investment, savings and income generation
Start budget consultation process
Scrutiny involvement
Assess impact of provisional Local Government Finance Settlement
Update financial planning assumptions

January to February

Consider impact of final Local Government Finance Settlement
Finalise financial planning assumptions
Consider consultation feedback
Scrutiny involvement
Development of Executive report and recommendations to Council

February to March

Present Executive Budget and MTFP, Capital Programme, Treasury Strategy report to Council
Council approve budget, MTFP and Council Tax

- 4.2 The annual financial planning cycle involves the periodic review and updating of financial planning assumptions in the light of new information and data at key stages of the financial year in order to inform the Council's budgetary control, financial forecasting and medium to long term financial planning. Particular areas of focus include:
- The Council's actual financial performance against its financial forecasts for the previous financial year and current year financial performance in terms of budgetary control and savings delivery against plan.
 - Changes in information and intelligence concerning external factors outside the Council's direct control, such as:
 - the general state of the national economic forecast, inflation, interest rates, pay inflation and market factors that will impact upon the cost of services and anticipated demand for services;
 - demographic forecasting and level of service demand experienced across key service areas
 - Internal factors relating to the design and operation of service delivery models to meet demand from residents, businesses, and visitors to the town.
 - The level of reserves and forecast impact of all factors upon reserves.
- 4.3 During 2023/24 financial year, the Council started to develop its plans for how it will improve, modernise, and transform the delivery of its services for 2024/25 and over the medium term to 2026/27. This work was undertaken in order to meet the significant financial challenge that was identified in the updated 2024/25 MTFP, and in order to respond to the statutory recommendations made by the External Auditor in August 2023.
- 4.4 The External Auditor's recommendations related to the need to recover the Council's financial position (rec. 4), review service delivery models and implement transformation of service delivery in order to achieve improved value for money (rec. 5) and to review financial forecasting processes and apply lessons learned (rec. 6) as set out in the extract from the Auditors [report](#) below.

External Auditor Statutory Recommendations – August 2023

4. 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.
5. 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 up-front transformation costs will be funded.
6. We recommend that the Council review 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 the lessons learned.

- 4.5 Following the 2024/25 financial planning process, a budget gap of £4.7m remained for 2024/25 which was balanced using one off borrowing in the form of Exceptional Financial Support (EFS) approved in principle by the Department for Levelling Up Housing and Communities (DLUHC). Effectively, this shifted the ongoing budget gap into 2025/26, buying the Council more time to further develop and deliver its

transformation plans in order to be able deliver more significant sustainable cost reduction from 2025/26 onwards. At budget setting on 8 March 2024, the forecast budget gap for 2025/26 stood at £7.475m, rising to £7.965m by 2026/27. As members will appreciate from past experience of budget setting, it is likely that upon reviewing and updating financial planning assumptions during the spring and summer each year, the budget gap changes and normally increases given that the cost and volume of service demand typically exceeds the total available funding through government grants, business rates, council tax and income from fees and charges.

- 4.6 At 2024/25 budget setting Council approved a significant and challenging savings programme of £13.910m in 2024/25 rising to £21.028m by 2026/27, equivalent to approximately 11% to 16.5% of the 2023/24 net revenue budget. These plans have been incorporated into the Recover, Reset, Deliver Transformation Portfolio as set out in the Transformation of Middlesbrough Council [Report](#) considered and approved by Council on 24 April 2024. This will ensure that the investment in robust programme resources and delivery arrangements will provide sufficient capacity to realise these projects for approved savings/ income contained in the programme delivery plans, establishing the first step on the transformation journey during 2024.
- 4.7 A pipeline of projects to achieve savings from service redesign, transformation, efficiency, demand management and income were started during the 2024/25 budget process but were not sufficiently developed and robust to include in the 2024/25 budget. However, they have provided the Council with an early start to its budget development work for preparation of the 2025/26 budget and MTFP and work is now underway.
- 4.8 Programmes and projects are in various stages of development as summarised in the Transformation of Middlesbrough Council [report](#) including in relation to a new Customer Model, Neighbourhoods Model, a review of the Council's Target Operating Model and associated management restructuring. The established resources and capacity within the portfolio, will develop a further pipeline of projects during 2024 and will constitute the majority of budget proposals to be put forward for the 2025/26 budget process. Lower level operational savings may also need to be developed, depending upon the size of the budget gap compared to the timeline for delivery of programmes and projects within the Transformation portfolio in order to deliver a balanced 2025/26 budget.

Integration of Transformation Portfolio with the MTFP

- 4.9 The Transformation governance arrangements [report](#) approved by the Executive on 13 March 2024 provide an appropriate forum and structure for the organisation to develop and progress idea generation for transformation and further saving and income opportunities, both in the short to medium term, and the long term. The governance arrangements are made up of several levels as follows:
- Transformation Assurance Board, a non-decision-making body including members from all political groups. The Board is charged with providing political accountability, ownership, and oversight to ensure the themed projects and associated savings within the transformation portfolio have the political and

organisational support to be successfully delivered and that they align with key political and operational priorities. The Board is accountable to the Executive.

- Corporate Transformation Programme Board, Chaired by the Chief Executive, who is the Senior Responsible Officer (SRO) for Transformation, holding Thematic Programme Sponsors (LMT representatives) to account. The SRO is accountable to the Executive and leads the interface with the Transformation Assurance Board.
- Project working groups, feeding up into Thematic Programme Boards (led by Leadership and Management Team representatives as Sponsors, with responsibility for ensuring that the collection of projects within the thematic programme meet their objectives and deliver projected financial and non-financial benefits within their respective programmes.

4.10 As part of the monthly Transformation Board cycles, 'new ideas' will be brought forward as a standard agenda item to the Thematic Programme Boards for discussion and challenge, with a view to developing a project brief (a document that forms part of the suite of governance documentation that provides an overview and outline of the intended benefits and / or savings of the initiative). If approved, a business case will be developed for Sponsor approval, flowing up through the layers of governance and ultimately forming a report for Executive consideration and decisions to progress and route map to implementation.

4.11 The development of new initiatives that can be implemented in the 2024/25 financial year rather than awaiting the start of the 2025/26 financial year is encouraged where practicable and will increase the pace of transformation to deliver both financial that will improve the overall financial position and non-financial benefits that will improve the quality of service and outcomes for the community. Implementation will be subject to appropriate consultation and governance in order to incorporate plans into the Budget and Policy Framework. Other initiatives will be incorporated into the 2025/26 budget planning cycle for implementation from 1 April 2025.

4.12 The Recover, Reset, Deliver Transformation Portfolio aims to deliver change over a period of two to four years. The timescales for planning, investment, implementation, embedding of new operating arrangements and therefore realisation of financial benefits in the form of expenditure savings and income generation will vary. In order to reflect the longer-term impact of the Transformation Portfolio within the Council's financial planning horizon, the MTFP will be extended from a three year plan to a four year plan and will therefore run from 2025/26 to 2028/29 and may be further extended to five years to incorporate 2029/20 as appropriate as the transformation portfolio matures.

Member engagement in developing the budget and MTFP

4.13 The scale of the transformation and financial challenge facing the Council requires a collaborative and co-ordinated approach by all members and officers in order to recover the financial position at the earliest opportunity to achieve a balanced MTFP. Member briefings will be arranged at various points of the process to ensure that key issues are understood. It is also proposed to establish a Financial Sustainability

Working Group (FSWG) comprising cross party member representation. The Terms of Reference for the working group are to be established by the Mayor in consultation with the cross party Leaders Group.

5. Other potential alternative(s) and why these have not been recommended

- 5.1 Given that the Council is required to operate robust and meaningful financial planning arrangements, there is no practical alternative to setting out its financial planning timetable.

6. Impact(s) of the recommended decision(s)

By agreeing an approach and timetable for developing the 2025/26 budget and MTFP, the Council will have clarity of the overall process to ensure robust and adequate planning and engagement of stakeholders in its development which underpins the delivery of the Council plan .

6.1 *Financial (including procurement and Social Value)*

There are no direct financial or procurement implications arising as a result of the recommendations within this report.

6.2 *Legal*

The need for any Executive, full Council, or Officer Delegated Decision about individual projects should be built into the project plans and assessed by the Corporate Transformation Board. Decision making with then be progressed via usual governance routes.

6.3 *Risk*

There are no specific risks arising from the approval of the MTFP approach and timetable. The operation of a robust and timely financial planning cycle serves to manage and mitigate the strategic risk associated with the Council not achieving a robust and balanced budget and MTFP.

6.4 *Human Rights, Public Sector Equality Duty and Community Cohesion*

Not applicable

6.5 *Climate Change / Environmental*

Not applicable

6.6 *Children and Young People Cared for by the Authority and Care Leavers*

Not applicable

6.7 Data Protection / GDPR

Not applicable

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

Not applicable

Appendices

1	2025/26 Financial Planning Detailed Timetable
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Background papers

Body	Report title	Date
EY	Middlesbrough Council Value for Money Update and Issuance of recommendations under Section 24 Schedule 7(2) of the Local Audit and Accountability Act 2014	21 August 2023
Council	2024/25 Revenue Budget, Medium Term Financial Plan, Council Tax setting and Treasury Management	8 March 2024
Executive	Transformation Governance Arrangements	13 March 2024
Council	Transformation of Middlesbrough Council	24 April 2024

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