

<b>Report of:</b>	Director of Finance (s151 Officer)
<b>Relevant Executive Member:</b>	Elected Mayor and Executive Member for Adult Social Care & Public Health Executive Member for Finance and Governance
<b>Submitted to:</b>	Executive
<b>Date:</b>	4 September 2024
<b>Title:</b>	2025/26 Medium Term Financial Plan
<b>Report for:</b>	Decision
<b>Status:</b>	Public
<b>Council Plan priority:</b>	Delivering Best Value
<b>Key decision:</b>	Yes
<b>Why:</b>	Decision(s) will incur expenditure or savings above £250,000 and have a significant impact in two or more wards
<b>Subject to call in?:</b>	Yes
<b>Why:</b>	

### Proposed decision(s)

That the Executive:

- Notes the current projected budget gap of £7.864m in 2025/26 rising to £8.749m in 2028/29 (Table 7 and paragraphs 4.29 to 4.33).
- Notes the revised budget preparation timetable set out in Appendix 2.

### Executive summary

On 8 March 2024, the Council approved its budget and Medium Term Financial Plan (MTFP) for the period 2024/25 to 2026/27.

The Council's financial position remains fragile, as it continues to spend in excess of its annual income streams as reflected in an overspend of £3.594m in 2023/24 and having been unable to balance the 2024/25 budget without reliance on one-off Exceptional Financial Support (EFS) of £4.7m. It is essential that expenditure is contained within the approved budget for 2024/25 and all savings are delivered on an ongoing basis. As set out elsewhere on this Executive agenda, at Quarter One, the forecast is for an overspend of £3.742m of which £2.498m is due to potential unachieved savings. This

would require the one-off use of EFS and/or revenue reserves in order to balance the 2024/25 position. This is not a financially sustainable position. Any overspend in 2024/25 will add to the budget gap in 2025/26 as set out in this report.

This report provides an update on the financial and economic outlook within which the Council is required to operate and sets the financial framework within which Officers will work with the Mayor and Executive to develop the Council Plan and propose a balanced budget to Council in February 2025 for 2025/26 and over the four-year period of the MTFP through to 2028/29. This is the first stage in the Council's annual budget planning process for 2025/26 and builds upon the 2023/24 outturn and 2024/25 forecast.

The MTFP is based upon the best information available at this time and a range of assumptions that will be reviewed, modelled, and tested over the budget development period through to February 2025.

The initial forecast gap on the General Fund budget for 2025/26 is £7.864m rising to £8.749m by 2028/29. This does not yet include requests for investment in permanent skilled capacity in several service areas that have been identified as lacking the appropriate resources required to deliver effectively over the medium to long term to meet Council objectives. Every £1 of further investment will add to the budget gap to be closed via new budget proposals for expenditure saving and/ or income generation.

The budget gap presents a significant financial challenge for the Council, following on from the 2024/25 budget and MTFP which included approved savings of £13.910m in 2024/25 rising to £21.028m by 2026/27 which remain to be delivered in full.

The forecast will be reviewed and refreshed over the period as new information becomes available during the budget development process.

Detailed work is continuing to review and test the level of budget growth provided to meet service demand pressures estimated over the period of the MTFP. There is a particular focus in Adults and Children's Social Care, Special Educational Needs & Disabilities (SEND) Transport, and Waste Disposal which received the majority of £20.764m of budget growth in 2024/25 and originally planned growth of £7.361m in 2025/26, which is the main driver of the budget gap.

The Chancellor is expected to announce the Government's Budget on 30 October 2024, which is expected to provide more clarity and context for the outlook on local authority funding. Therefore, the planned date for issuing an update on the MTFP and the draft budget for consultation for approval by the Executive has been revised from the original planned date of 11 November 2024 to 4 December 2024.

Budget proposals with options for further income growth and savings will be developed for consideration by the Executive in early December to balance the budget which will then be subject to consultation before the final budget is approved by Council in February 2025. These will include new projects to be developed within the Transformation Portfolio and other opportunities identified by staff and member suggestions.

The Council's revenue reserves remain fragile with a General Fund balance of £11.1m at 1 April 2024 and this is the minimum recommended by the s151 Officer. Unrestricted usable earmarked reserves stood at £9.280m at 1 April 2024. The MTFP assumes that all approved savings are fully achieved, that expenditure is contained within the approved budget and there is no unplanned drawdown upon revenue reserves.

Historically the Council has relied upon one-off use of reserves in order to balance its annual budget. This is unsustainable because reserves can only be used once, and this practice has resulted in reserves reaching a critically low position. In order to rebuild the

Council's financial resilience, the 2025/26 MTFP includes planned increases to unrestricted usable earmarked reserves in line with the Reserves Policy approved by Council on 8 March 2024.

## **1. Purpose**

- 1.1 The purpose of the report is to set out the financial framework and timetable within which Officers will work with the Mayor and the Executive to develop the 2025/26 budget and MTFP to 2028/29.

## **2. Recommendations**

- 2.1 That the Executive:

- Notes the current projected budget gap of £7.864m in 2025/26 rising to £8.749m in 2028/29 (Table 7 and paragraphs 4.29 to 4.33).
- Notes the revised budget preparation timetable set out in Appendix 2.

## **3. Rationale for the recommended decision(s)**

- 3.1 All Council members have a legal obligation to agree a balanced robust budget and set the Council Tax by 11 March 2025. In addition, the Council has a Best Value duty to demonstrate financial sustainability through the delivery of a balanced Medium Term Financial Plan (MTFP) over a period of at least 3 years. The setting of the budget is part of the budget and policy framework and therefore requires Full Council approval scheduled for 19 February 2025.
- 3.2 The Council is required to take a systematic, coherent, and controlled approach to addressing its ongoing financial challenges over the medium-term, while enabling the delivery of the Mayor's vision and priorities for Middlesbrough through delivery of the wider Council Plan.

## **4. Background and relevant information**

- 4.1 In common with all local authorities, the Council continues to operate within a difficult and uncertain economic environment. The ongoing impact of high inflation in recent years combined with increased demand and the complexity of needs of vulnerable residents in the wake of the COVID-19 pandemic together with the Cost of Living Crisis, continues to place significant pressure upon service budgets.
- 4.2 The sector continues to face uncertainty in relation to financial support that may be available from Central Government over the medium term. As detailed in paras 4.13 and 4.14, His Majesty the King's Speech to Parliament on 17 July 2024 outlined a number of areas affecting local government, and the Chancellor has also announced that the Government will deliver the next Budget on 30 October 2024.
- 4.3 This report is the first stage of the budget development strategy for the four-year period 2025/26 to 2028/29. It builds upon the MTFP approved by Council on 8 March 2024, the 2025/26 Budget and MTFP Approach and Timetable report to Executive 22

May 2024, the 2023/24 financial outturn reported to Executive on 26 June 2024, and the 2024/25 forecast financial position at Quarter One contained elsewhere on this agenda. It sets out the financial framework and timetable within which Officers will work with the Mayor and Executive, with input from the cross-party Financial Resilience Working Group (FRWG) to develop budget proposals that will deliver the Council Plan within available resources.

4.4 In summary, the Council continues to spend in excess of its annual income streams and needs to successfully address the challenge of delivering within its financial means in order to set a legally balanced budget for 2025/26 and longer term financial sustainability.

4.5 The current financial position is summarised as follows:

- The 2023/24 General Fund revenue outturn was an overspend of £3.594m (2.8% of Net Revenue Budget).
- The MTFP covering the three-year period 2024/25 to 2026/27 was approved by Council on 8 March 2024.
- The 2024/25 General Fund revenue budget could not be balanced in the usual way. The Council relied upon £4.7m of one-off borrowing through Exceptional Financial Support (EFS) approved in principle by the Ministry of Housing Communities and Local Government (MHCLG) (formerly DLUHC) in order to set a legally balanced budget of £143.190m for 2024/25 and to avoid the s151 Officer being required to issue a s114 Notice. The EFS falls out in 2025/26 and therefore contributes to the ongoing budget gap referenced in this report.
- A further £8.7m of one-off borrowing via EFS was approved in principle to cover potential risks in the budget and MTFP relating to the timing of savings delivery and realisation of capital receipts during 2024/25. This was required in order for the s151 Officer to assess the budget and MTFP as robust in the light of risks facing the Council and given its critically low revenue reserves which would be insufficient to cover those risks if they crystallised and this was addressed in the s151 Officer's s25 report to Council.
- The forecast revenue budget overspend at Quarter One of 2024/25 is £3.742m as detailed in a separate report on this Executive agenda. Within this sum, £2.498m is due to savings that may not be delivered in 2024/25 for which EFS of up to £3.5m would be used in 2024/25 to fund the overspend in order to protect the critically low revenue reserves. The £3.742m would add to the 2025/26 budget gap and therefore it is imperative that these savings are delivered through the original plans or alternative proposals on an ongoing basis. The balance of the 2024/25 overspend of £1.244m, if not controlled, would need to be covered by revenue reserves.
- The 2024/25 MTFP incorporated new savings projects totalling £13.910m in 2024/25, and a further £5.151m in 2025/26 and £1.967m in 2026/27 which is a significant challenge for the Council to deliver successfully. However, a budget gap of £7.474m remained in 2025/26, rising to £7.965m in 2026/27.
- The Council's Reserves have been significantly depleted in recent years to fund overspending. The General Fund Balance stood at £11.1m at 1 April 2024 and unrestricted earmarked reserves stood at £9.280m after realising a Collection Fund surplus of £8.3m following a review of the bad debt provision. This is very low when compared to other unitary authorities nationally.

- There is a need to rebuild reserves to strengthen the Council's financial resilience and sustainability in the medium to long term, enabling it to withstand unforeseen financial shocks and plan investment in services more effectively. Strengthening the Council's financial resilience is one of the 11 statutory recommendations made by the External Auditor in August 2023 and is also a requirement of the Best Value Notice issued by MHCLG in January 2024 and is critical to stabilising the Council's financial future.

4.6 The 2024/25 MTFP approved by Council on 8 March 2024 is summarised in Table 1.

**Table 1 – MTFP 2024/25 to 2026/27 approved by Council 8 March 2024**

2024/25 to 2026/27 MTFP Summary approved by Council in March 2024 (incremental)				
Budget Item	2024/25 £m	2025/26 £m	2026/27 £m	Cumulative £m
<b>Net Budget brought forward</b>	<b>126.354</b>	<b>134.865</b>	<b>141.126</b>	<b>402.345</b>
Inflation	4.957	4.477	2.680	12.114
Service Demand Pressures	20.764	7.361	5.331	33.456
Capital Financing	1.878	1.599	0.207	3.684
Flexible Use of Capital Receipts	3.000	-	-	3.000
Increased contingency funds for financial resilience	1.452	-	-	1.452
Increased Reserves contributions for financial resilience	0.500	0.750	0.750	2.000
Grant Funding adjustments	(4.661)	-	-	(4.661)
Budgeted contribution to replenish General Fund & Usable Revenue Reserves	8.325	-	-	8.325
<b>Projected Net Budget Requirement including reserves - before savings &amp; EFS</b>	<b>162.569</b>	<b>149.052</b>	<b>150.094</b>	<b>461.715</b>
<b>Funded by:</b>				
Estimated Collection Fund Surplus	(8.325)	-	-	(8.325)
Council Tax	(71.438)	(75.770)	(80.319)	(227.527)
Business Rates	(48.305)	(49.781)	(51.274)	(149.360)
Revenue Support Grant	(15.122)	(15.576)	(16.043)	(46.741)
<b>Assumed Funding</b>	<b>(143.190)</b>	<b>(141.126)</b>	<b>(147.636)</b>	<b>(431.953)</b>
Agreed savings from 2023/24 budget setting	(0.769)	-	-	(0.769)
Agreed savings from 2024/25 budget setting	(13.910)	(5.151)	(1.967)	(21.028)
Exceptional Financial Support	(4.700)	4.700	-	-
<b>TOTAL FUNDING FOR NET BUDGET REQUIREMENT</b>	<b>(162.569)</b>	<b>(141.577)</b>	<b>(149.603)</b>	<b>(453.750)</b>
<b>BUDGET GAP + / SURPLUS ( )</b>	<b>(0.000)</b>	<b>7.474</b>	<b>0.491</b>	<b>7.965</b>

- 4.7 The areas of significant financial pressure within the Council's budget continue to be:
- Children's Social Care
  - Adult Social Care
  - SEND Transport
  - Waste Disposal

Table 2 summarises the growth provided in the 2024/25 MTFP in relation to all anticipated demand pressures. The budgetary growth provided is in the process of being reviewed considering the 2023/24 outturn and the performance at Quarter One 2024/25 with a view to identifying opportunity to reduce budget in line with emerging data on actual demand and cost pressures (see para 4.26).

**Table 2 – Growth provided in MTFP 2024/25 to 2026/27**

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>

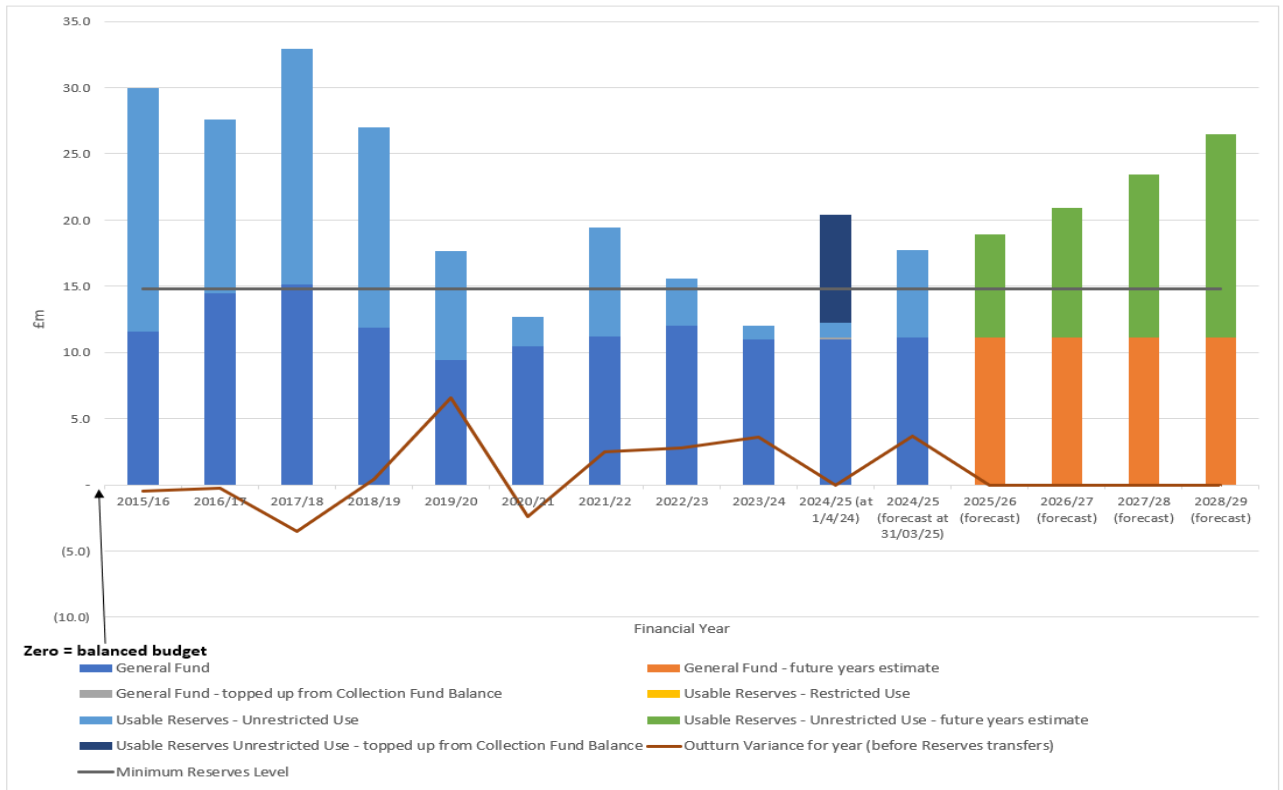
- 4.8 As part of setting a balanced budget for 2024/25, a total of £13.4m of Exceptional Financial Support (EFS) in the form of borrowing, was agreed in principle by MHCLG, subject to detailed financial assurance by Grant Thornton which is in progress at the time of writing this report. The EFS will only be drawn down if required and approved by MHCLG. Table 3 shows the breakdown:

**Table 3: Exceptional Financial Support 2024/25**

Directorate	2024/25 £m
Required to balance 2024/25 budget	4.700
Contingency for non-delivery of budgeted 2024/25 savings risk	3.500
Contingency for capital receipts delivery risk	4.600
General contingency	0.600
<b>TOTAL</b>	<b>13.400</b>

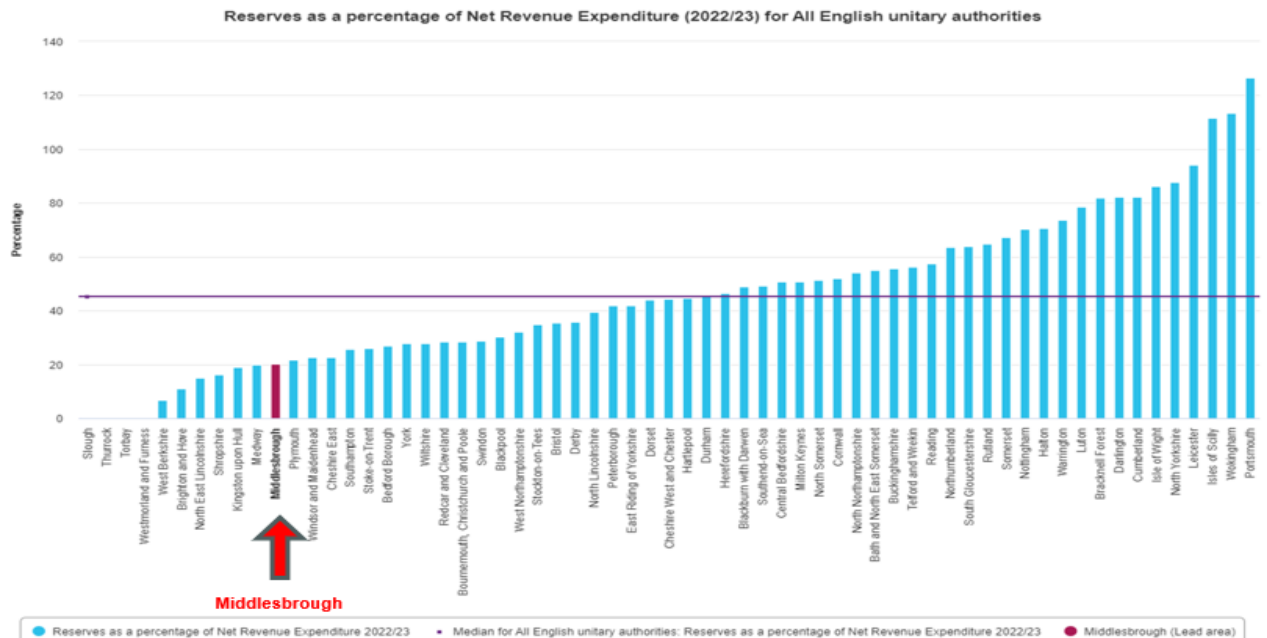
- 4.9 It should be noted that EFS provided one off funding to close the remaining £4.7m budget gap in 2024/25 only after all feasible budget options were put forward. The MTFP summary at Table 1 reflects the £4.7m of EFS borrowing dropping out in 2025/26 which is part of the calculated budget gap of £7.864m for 2025/26.
- 4.10 The 2024/25 Quarter One report reflects the current forecast use of the EFS in 2024/25 assuming the currently forecast overspend is not reduced.
- 4.11 The Council's Reserves have fallen to a critically low level, below the recommended minimum level, and one of the lowest levels of Reserves as a percentage of net revenue expenditure of all unitary authorities in the country. This was addressed as part of 2024/25 budget setting following a fundamental review of the Collection Fund bad debt provision which has restored the unrestricted reserves balances to a total of £20.380m at 1 April 2024. Further contributions to reserves are planned within the 2025/26 MTFP in order to rebuild financial resilience as illustrated in Table 4.

**Table 4 - Unrestricted Reserves Balances from closing balance 2015/16 through to forecast closing balance 2028/29 and reported outturn variance per year**



4.12 Comparative data at the end of 2022/23 financial year, shows the level of all revenue reserves (both unrestricted and restricted use) as a percentage of net expenditure for Middlesbrough compared to all unitary authorities in England. Middlesbrough has the eleventh lowest level of reserves as a percentage of net expenditure of all unitary authorities and must take action to rebuild its financial resilience to enable it to plan its investment in services more effectively and withstand financial shocks over the medium to long term.

**Table 5 – Reserves as a percentage of Net Revenue Expenditure (2022/23)**



## Financial and Economic Context

### The King's Speech

4.13 On 17 July 2024, His Majesty the King opened the 2024/25 Parliamentary session setting out the new Government's legislative plan. The speech was described as 'mission led' and based upon principles of security, fairness and opportunity for all. It contained 39 bills of which 26 appear to be of interest to local government covering:

- Planning and Housing
- Devolution
- Education, skills and training
- Health
- Energy
- Safety

A summary of the key features of the planned legislation is set out in Appendix 1. At this stage no details of the impact upon local government finances were published.

### Chancellor's statement on public finances

4.14 On 29 July 2024, the Chancellor gave a statement on the state of public finances and announced that the next Budget will be delivered on 30 October 2024. The statement indicated that:

- A one-year spending review will be carried out in the Autumn, followed by a more comprehensive multi-year spending review concluding in Spring 2025
- There will be a commitment to hold three-year spending reviews every two years
- The Departmental Expenditure Limits (DEL) for 2025/26 will be set in the Autumn alongside the Budget
- The Spending Review process will be long-termism, investment in prevention, managing demand and increasing devolution and local integration of services
- There will be a new approach to public service reform to drive greater productivity in the public sector with a greater focus on prevention and integration of services both nationally and locally enable through technology.
- The adult social care charging reforms will be cancelled and is expected to save £30m in 2024/25 and £1,075m in 2025/26. There was no detail on the impact for social care funding to local authorities
- Savings in all government departments will be required.
- Targeting of winter fuel payments to recipients of pension credits and other mean tested benefits from Winter 2024/25, with closer working with local authorities and charities to maximise take up of pension credit.
- Cancellation of the Investment Opportunity Fund and other small projects.
- Review of the transport infrastructure portfolio including cancelling the Restoring your Railways programme
- Cancelling the Advanced British Standard which was proposed to replace A levels and T levels in the education system.
- Reviewing the New Hospital Programme



- The extension of the Household Support Fund to September 2024 and the extension of the £2 bus fare cap were highlighted as unfunded spending commitments of the previous government.
- There will be a commitment to transforming the Special Educational Needs and Disabilities (SEND) system to make it more inclusive and ensure its financial sustainability.

4.15 The Government said that they will use the Spending Review to create a more sustainable local government system by:

- Improving how different tiers of government work together
- Consolidating funding streams for local authorities into the Settlement
- Rolling out integrated settlements for further Mayoral Combined Authorities
- Working with councils to overhaul the local audit system.

4.16 No information has yet been shared in relation to the Government's plans to progress the long overdue reform of the local government funding distribution system through a 'Fair Funding Review' and Business Rates reform. In practice and based upon past experience in the sector, the lead in time for such proposals to be developed and to go through consultation processes with local authorities is likely to be in the region of 12-18 months and so the earliest date for the implementation of any such reform is likely to be 2026/27 financial year.

#### Local Government Finance Settlement

4.17 The Local Government Finance Settlement (the Settlement) is a critical element of developing and finalising local authority budget setting and medium-term financial planning. Historically, the provisional Settlement is announced in mid to late December, with the final settlement announced in early February. It is expected that the Settlement for 2025/26 will broadly follow the same timeline.

4.18 Given the timing of the provisional Settlement is normally announced in mid-late December this means that there is a lack of clarity and certainty for all local authorities for the duration of their financial planning cycle. The prospect of annual settlement for 2025/26 means that the Executive will be required to produce a draft budget for consultation prior to the announcement of the provisional Settlement.

4.19 Based upon the information issued by Government to date, the Council needs to plan for the worst-case scenario in relation to the settlement and to expect no substantial additional funding, whilst hoping that there will be additional financial support to ease some of the forecast pressures. The Council must plan prudently to develop and implement a pipeline of further budget proposals to deliver expenditure savings and/or income generation initiatives in order to balance the identified gap between spending and available income streams in the 2025/26 budget and MTFP to 2028/29.

4.20 The balance of overall Council funding has altered in recent years with a greater proportion coming from Council Tax and specific Social Care funding. Significantly less funding has come through the Revenue Support Grant (RSG) from central government. Even though there was additional funding announced for 2023/24, Government funding for local government as a whole has fallen substantially since 2010. Since changes were made to the Local Government Finance System in

2013/14. Middlesbrough Council has suffered a significant reduction in 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.

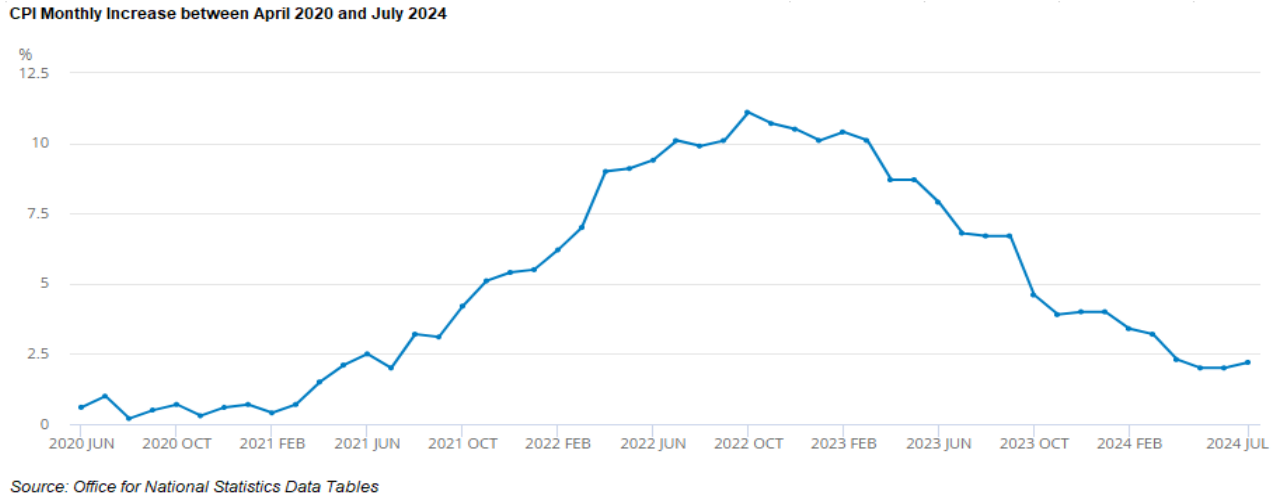
- 4.21 The Special Interest Group of Municipal Treasurers (SIGOMA) has undertaken some research to understand the 'real terms' effect of the Core Spending Power changes from 2010/11 to 2024/25. They have done this by determining a 2010/11 Core Spending Power notional figure which allows direct comparison 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. This demonstrates 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 £958.50 per dwelling over the period. This is both more than the national average and the SIGOMA average.
- 4.22 It is important to note that there are several long-standing issues that the Government needs to resolve which have a significant impact upon the national distribution of funding to meet need and the ability of all local authorities to plan and manage their finances effectively:
- The Fair Funding Review of the formula allocation of funding from central government. The current formula is based on spending need in 2013/14 and is therefore not reflective of changing populations and relative need. The review was first promised in 2016.
  - Impact of Business Rate revaluations which determine the level of business rate income collectable from individual business properties. The latest valuations came into effect on 1 April 2023 which may result in increased levels of appeals which are considered by the Valuation Office Agency (VOA), which continues to suffer from processing backlogs made worse during the Covid-19 pandemic.
  - The future of the New Homes Bonus grant scheme, which is uncertain, given there have been plans to end this scheme for several years followed by decisions to extend.
  - Securing the long-term funding arrangements for Social Care beyond those set out in the last Government Spending Review.
  - Arrangements for Council Tax where there are large scale differences in the levels of council tax nationally and in terms of the ability of many local authorities with a low council tax base, to raise revenue through council tax increases.
  - The future of the Adult Social Care Precept.

### **Inflation**

- 4.23 During October 2022 the rate of inflation as measured by the Consumer Prices Index (CPI) reached a 40 year high at 11.1% because of a range of adverse global factors including the impact of the COVID-19 Pandemic and the Russian invasion of Ukraine. Inflation remained stubbornly high through 2023 and eventually reduced to 2.2% in

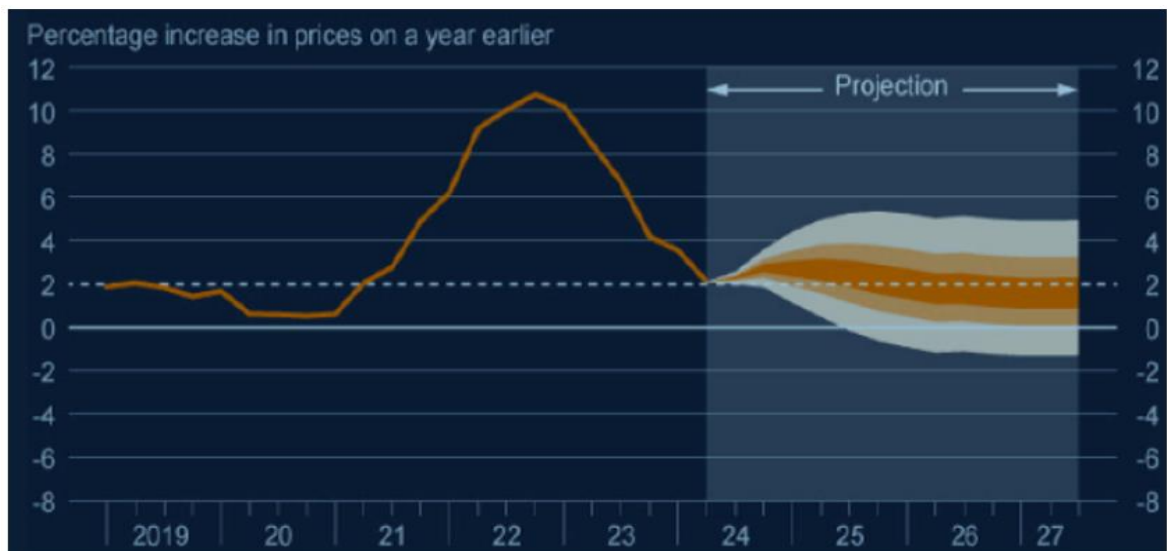
July 2024, which is currently just above The Bank of England inflation target of 2.0%. This is reflected in Chart 1:

**Chart 1: CPI Monthly increase between April 2020 and July 2024**



- 4.24 It should be noted that the rate of inflation measures the annual increase in prices and therefore the exceptionally high rate of inflation that peaked at 11.1% in October 2022, has effectively locked in higher prices that are paid for the Council’s supplies of goods, works and services. Local authorities received no government support to meet the cost of inflationary pressures in the 2023/24 or 2024/25 finance settlements.
- 4.25 The last Office for Budget Responsibility (OBR) prediction in March 2024 is for CPI to fall over the course of 2024 to 2.2% on average and reach 1.5% by Q1 of 2025. The forecast provided by the Council’s Treasury Management Advisers, Arlingclose indicates that this will not happen as quickly as forecast by the OBR. They predict that CPI inflation reduction effects in domestic prices and wages will take longer to unwind than they did to emerge. The mean projection for CPI inflation, which incorporates these risks, is at or just the 2% target in the medium term. This is demonstrated in Chart 2.

**Chart 2 : Outlook for UK CPI inflation**



Source: Arlingclose

4.26 In common with most local authorities, the combination of previous high inflation and cost of living crisis have significantly impacted the local and national economy and put significant pressure upon demand for Council services and the cost of providing them. Within Quarter One of 2024/25, existing financial pressures are continuing, and further financial pressures are emerging in relation to:

- Adults Social Care –There are labour shortages in the care sector which could lead to higher care fees. The service is also experiencing challenges in recruitment and retention of staff.
- Childrens Social Care – increased numbers and complexity of external residential placements
- Potential shortfalls on income from commercial investments.
- Crematorium – reduced demand and associated reduction in income
- Fleet Management – increased staff costs and vehicles hires due to recruitment and retention challenges
- Pressures outlined in previous MTFP reports are built into base budgets and remain subject to review.

Following Quarter One 2024/25, cost modelling is being developed jointly with services and Finance to test the growth already provided in the MTFP and the impact of transformational change which is starting to take place.

### **Budget Strategy**

4.27 It is essential that the Council develops a credible medium term financial strategy to recover its financial position and achieve financial sustainability over the course of its MTFP whilst demonstrating that it is achieving Best Value in its use of resources. It is essential that the 2025/26 budget process achieves the following key objectives:

- Set and deliver a balanced General Fund budget for 2025/26
- Establish a plan to recover the Council's financial resilience through the achievement of a balanced MTFP and rebuilding of revenue reserves
- Further develop the Transformation Portfolio to establish programmes and projects that deliver improved outcomes at lower cost whilst meeting the Mayor's priorities within a Council Plan
- Establishes and utilises more robust and reliable demand and cost modelling that can be used to plan, manage, forecast and control the cost of services more effectively.

4.28 The proposed budget strategy for 2025/26 and over the medium term will focus upon further development of the following themes in order to establish a robust and affordable MTFP:

- Further development of robust demand and cost modelling that will support the development of outcome based and zero-based budgeting over the MTFP
- Develop prevention and demand management strategies in relation to meeting statutory responsibilities
- Service redesign and transformation and efficiency to deliver improved outcomes from a lower cost base

- Review statutory duties and functions and align policy and practice to remove provision in excess of statutory requirements where this is unaffordable
- Review, benchmark, and prioritise services within resource constraints
- Review, rationalise and optimise the use of Council assets to create a pipeline of capital receipts to fund transformation and the longer term capital programme whilst reducing operational costs of assets
- Review and optimise Income from fees and charges
- Review and optimise debt recovery
- A renewed focus upon the detection and prevention of fraud against the Council

## 2025/26 to 2028/29 Medium Term Financial Plan Update

4.29 For information Table 6 shows the movement in the budget gap in the updated MTFP since the approval of the MTFP in March 2024 incorporating the updates highlighted above.

**Table 6 – Movement in budget gap since March 2024 MTFP**

Item	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	Cumulative £m
<b>24/25 Budget Report to Council 08/03/24</b>	<b>7.475</b>	<b>0.491</b>	-	-	<b>7.966</b>
<b>Cross-Directorate / Corporate Issues</b>					
Pay model changes	-	-	1.778	1.778	3.556
Contractual inflation changes	-	-	1.550	1.550	3.100
Fees & Charges changes	-	-	(0.648)	(0.648)	(1.296)
Capital Financing changes (estimate)	0.500	0.500	-	-	1.000
Rebuild Financial Resilience - Financial Resilience Reserve	-	-	0.500	0.500	1.000
Rebuild Financial Resilience - Change Fund Resilience Reserve	-	0.500	-	-	0.500
	0.500	1.000	3.180	3.180	7.860
<b>Directorate Service Demand pressures</b>					
<u>Adult Social Care</u>					
Adult Social Care Living Wage changes	(0.272)	(0.888)	1.907	1.907	2.654
Demand pressures - Adult Social Care	-	-	1.100	1.100	2.200
Review of triple lock pensions linked income	0.140	-	-	-	0.140
	(0.132)	(0.888)	3.007	3.007	4.994
<u>Children's Care</u>					
Demand pressures - Childrens	2.000	-	1.500	1.500	5.000
	2.000	-	1.500	1.500	5.000
<u>Legal &amp; Governance Services</u>					
Demand pressures - Legal & Governance Services	0.087	-	-	-	0.087
	0.087	-	-	-	0.087
<b>Directorate Investment to address capacity shortfalls</b>	TBD	TBD	TBD	TBD	TBD
<b>Net Budget movements</b>	<b>2.455</b>	<b>0.112</b>	<b>7.687</b>	<b>7.687</b>	<b>17.941</b>
Council Tax - assumed increase of 4.99% p.a.	-	-	(4.776)	(5.015)	(9.791)
Business Rates Retained - updated inflation estimate (based on CPI)	0.179	0.187	(0.372)	(0.378)	(0.384)
Business Rates Top Up Grant - updated inflation estimate (based on CPI)	0.304	0.321	(0.634)	(0.647)	(0.656)
Revenue Support Grant - updated inflation estimate (based on CPI)	0.151	0.159	(0.315)	(0.321)	(0.326)
<b>Funding movements</b>	<b>0.634</b>	<b>0.667</b>	<b>(6.097)</b>	<b>(6.361)</b>	<b>(11.158)</b>
<b>TOTAL MOVEMENT IN GAP</b>	<b>3.089</b>	<b>0.778</b>	<b>1.590</b>	<b>1.326</b>	<b>6.783</b>
<b>Updated Budget Gap + / Surplus ( ) as at 31/07/24</b>	<b>10.564</b>	<b>1.269</b>	<b>1.590</b>	<b>1.326</b>	<b>14.749</b>
<b>Measures identified to reduce budget gap as at 31/07/24</b>					
<u>Revisions to Inflation assumptions</u>					
Energy inflation provided no longer required	(0.830)	-	-	-	(0.830)
	(0.830)	-	-	-	(0.830)
<u>Revisions to Service Demand Pressures</u>					
Adult Social Care - review of demand growth	(1.100)	(1.100)	(1.100)	(1.100)	(4.400)
Environment & Community Services - Concessionary Fares - growth provided no longer required	(0.320)	-	-	-	(0.320)
Environment & Community Services - Green Waste income overachievement	(0.450)	-	-	-	(0.450)
	(1.870)	(1.100)	(1.100)	(1.100)	(5.170)
<b>Total measures identified to date to reduce gap</b>	<b>(2.700)</b>	<b>(1.100)</b>	<b>(1.100)</b>	<b>(1.100)</b>	<b>(6.000)</b>
<b>REVISED GAP + / SURPLUS (*)</b>	<b>7.864</b>	<b>0.169</b>	<b>0.490</b>	<b>0.226</b>	<b>8.749</b>

*Note MTFP currently assumes that 24/25 budget will be balanced and within that, all budgeted savings will be delivered*

4.30 The key updates since the March 2024 MTFP reflect the following areas:

- Financial years 2027/28 and 2028/29 added into model (MTFP now covers 4-year period, rather than previous 3-year period)
- Adult Social Care Living Wage assumptions revised based on updated hourly cost and activity levels
- Directorate Service Demand Pressures requirements reviewed and updated
- Inflation previously provided for energy revised to reflect reducing prices
- Inflation assumptions for Revenue Support Grant and Business Rates updated in line with current forecast inflation rates
- Capital Financing requirement revised and updated (requires further work)
- Planned contributions to Reserves revised to provide additional financial resilience for future years

The updated MTFP does not yet include requests for investment in permanent skilled capacity in several service areas that have been identified as lacking the appropriate resources required to deliver effectively over the medium to long term to meet Council objectives. This is currently being quantified by the relevant directorates, and it should be noted that every £1 of further investment will add to the budget gap to be closed via new budget proposals for expenditure saving and/ or income generation.

4.31 The updated MTFP is set out in Table 7 and reflects the cost of delivering current Council policy and service levels over the 4 years from 2025/26 to 2028/29 based upon the best information available at this time and the following key assumptions:

- That all agreed savings will be delivered as approved by Council in March 2024
- That 2024/25 expenditure is controlled within the budget approved by Council in March 2024. Failure to contain expenditure within the approved budget will add to the budget gap for 2025/26.

4.32 The estimated budget gap based upon these assumptions is £7.864m in 2025/26 rising to £8.749m by 2028/29. These assumptions will be reviewed, updated, and tested for robustness over the period of the budget setting process as new information becomes available. This provides an indication of the size and scale of savings to be delivered in order to achieve a legally balanced budget for 2025/26 and financial sustainability over the period of the MTFP.

**Table 7 – updated MTFP 2024/25 to 2028/29**

Updated MTFP Summary 2025/26 to 2028/29 (incremental)					
Budget Item	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	Cumulative £m
<b>Net Budget brought forward</b>	<b>134.865</b>	<b>140.492</b>	<b>146.335</b>	<b>152.432</b>	<b>574.124</b>
Pay Inflation / change in NI rate & employers pension rate	3.575	1.778	1.778	1.778	8.909
Contractual inflation	1.550	1.550	1.550	1.550	6.200
Other Inflation	(0.830)				(0.830)
Fees & Charges inflation	(0.648)	(0.648)	(0.648)	(0.648)	(2.592)
<b>Inflation subtotal</b>	<b>3.647</b>	<b>2.680</b>	<b>2.680</b>	<b>2.680</b>	<b>11.687</b>
<b>Service Demand pressures</b>					
Regeneration	0.590	-	-	-	0.590
ECS	0.680	-	-	-	0.680
Education	-	-	-	-	-
Children's Care	3.500	1.500	1.500	1.500	8.000
ASC	2.462	1.843	1.907	1.907	8.119
Public Health	-	-	-	-	-
Finance	-	-	-	-	-
LGS	0.214	-	-	-	0.214
Central & General Fund	-	-	-	-	-
<b>Service Demand pressures subtotal</b>	<b>7.446</b>	<b>3.343</b>	<b>3.407</b>	<b>3.407</b>	<b>17.603</b>
Capital Financing	2.099	0.707	-	-	2.806
Increased Reserves contributions for financial resilience	0.750	1.250	0.500	0.500	3.000
Grant Funding adjustments	-	-	-	-	-
<b>Corporate and Grant Funding adjustments subtotal</b>	<b>2.849</b>	<b>1.957</b>	<b>0.500</b>	<b>0.500</b>	<b>5.806</b>
<b>Projected Net Budget Requirement</b>	<b>148.807</b>	<b>148.472</b>	<b>152.922</b>	<b>159.019</b>	<b>609.220</b>
Budgeted contribution to replenish General Fund & Usable Revenue Reserves	-	-	-	-	-
<b>Projected Net Budget Requirement including reserves - before savings &amp; EFS</b>	<b>148.807</b>	<b>148.472</b>	<b>152.922</b>	<b>159.019</b>	<b>609.220</b>
<b>Projected Net Budget Requirement funded by:</b>					
Estimated Collection Fund Surplus	-	-	-	-	-
Council Tax	(75.770)	(80.319)	(85.095)	(90.110)	(331.294)
Business Rates	(49.297)	(50.283)	(51.289)	(52.315)	(203.184)
Revenue Support Grant	(15.425)	(15.733)	(16.048)	(16.369)	(63.575)
<b>Assumed Funding</b>	<b>(140.492)</b>	<b>(146.335)</b>	<b>(152.432)</b>	<b>(158.794)</b>	<b>(598.053)</b>
Agreed savings from 2024/25 budget setting	(5.151)	(1.967)	-	-	(7.118)
Exceptional Financial Support	4.700	-	-	-	4.700
<b>TOTAL FUNDING FOR NET BUDGET REQUIREMENT</b>	<b>(140.943)</b>	<b>(148.302)</b>	<b>(152.432)</b>	<b>(158.794)</b>	<b>(600.471)</b>
<b>BUDGET GAP + / SURPLUS ( )</b>	<b>7.864</b>	<b>0.169</b>	<b>0.490</b>	<b>0.226</b>	<b>8.749</b>

4.33 The most significant drivers of the budget gap are as follows and these are detailed in the following paragraphs along with details of other components of the updated MTFP:

- Pay inflation
- Contractual inflation
- Service demand spending pressures

### ***Pay inflation***

- 4.34 Table 8 summarises the pay and pension items included in the MTFP. These form a significant driver to the increased MTFP gaps.

***Table 8 – Pay inflation***

<b>Pay model / pension (incremental increases to existing pay model resources)</b>					
<b>Item</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>	<b>Cumulative</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
2025/26 Pay award	2.667	1.778	1.778	1.778	8.001
<b>Pay Model</b>	<b>2.667</b>	<b>1.778</b>	<b>1.778</b>	<b>1.778</b>	<b>8.001</b>
Increase in employers pension contributions following actuarial review	0.908	-	-	-	0.908
<b>Pension</b>	<b>0.908</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.908</b>
<b>Pay/Pension</b>	<b>3.575</b>	<b>1.778</b>	<b>1.778</b>	<b>1.778</b>	<b>8.909</b>

- 4.35 The estimated cost of the 2024/25 pay award, based on the Employers offer of £1,290 p.a. plus on-costs (equates to approx. 4% increase), is currently projected to be in line with the £3.556m provision already set aside in the MTFP.
- 4.36 The MTFP currently includes a working assumption that the eventual 2025/26 pay award will be at 3% costing £2.667m p.a., with future years assumed as £1.778m p.a. or 2%. There have been no changes to the original assumptions for 2025/26 pay award in the March 2024 MTFP.
- 4.37 Employee pension contributions, based on a draft triennial pension valuation, are as included in the 2024/25 MTFP.

### ***Contractual inflation***

- 4.38 Contractual inflation is provided within the MTFP of £1.550m p.a.. Work is currently underway to determine the allocation to directorates, based on contracts subject to inflationary price increases. The allocations to directorates will be reflected in the next MTFP Update report to Executive on 4 December 2024.

### ***Fees and charges inflation***

- 4.39 For 2025/26 fees and charges budgets are currently assumed to increase by 2% producing £0.648m p.a., and by 2% p.a. for 2026/27, 2027/28 and 2028/29 producing £0.648m p.a. This will be reviewed in line with inflation rates.
- 4.40 In line with the Fees and Charges Policy, Directors are expected to review provision of discretionary services in terms of price and volume and aim to deliver an increase in charges and/or increased activity to achieve the required income growth to cover the inflationary increase in cost set out in the MTFP planning assumptions. Deviation from this position will require a business case to be set out in budget proposals for consultation.



## Commercial Income

- 4.41 The Council receives income from several Commercial developments. The MTFP assumes that there may potentially be some reduction in income in future years due to rent reviews at Cleveland Centre Shopping Centre, and potential break clauses in some of the rental contracts of the Centre Square buildings. These assumptions are being regularly reviewed in light of the effect of the current economic climate in particular on town centre retail. It should be noted that even with these potential reductions, the commercial developments have provided additional income to the Council, more than the cost in previous years and this is expected to continue in the future.

## Service Demand Pressures

- 4.42 Table 9 summarises the demand and service pressures increase identified by Directorates and included in the updated MTFP. This updates Table 2 of this report which shows service demand pressures at the time of setting the budget in March 2024. These summarise the significant demand pressures driving the budget gap.

**Table 9 – Service Demand Pressures**

Service Demand Pressures (incremental adjustments)					
Directorate	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	Cumulative £m
Adult Social Care					
- Living Wage; external commissioned services	2.322	1.843	1.907	1.907	7.979
- Changes to means tested income generation assumptions	0.140	-	-	-	0.140
	2.462	1.843	1.907	1.907	8.119
Environment & Community Services					
- Removal of Community Environment Initiatives funding	(0.050)	-	-	-	(0.050)
- Waste Disposal	1.500	-	-	-	1.500
- Concessionary Fares savings	(0.320)	-	-	-	(0.320)
- Additional Green Waste savings	(0.450)	-	-	-	(0.450)
	0.680	-	-	-	0.680
Children's Care - demand	3.500	1.500	1.500	1.500	8.000
Education & Partnerships - Integrated Transport Unit (ITU)	TBD	-	-	-	-
Regeneration - Commercial income	0.590	-	-	-	0.590
Legal & Governance - staffing	0.214	-	-	-	0.214
<b>Service Demand pressures</b>	<b>7.446</b>	<b>3.343</b>	<b>3.407</b>	<b>3.407</b>	<b>17.603</b>

## Technical adjustments

- 4.43 Table 10 summarises various technical adjustments contained in the MTFP and reflects the £4.7m of one off EFS borrowing used to balance the budget in 2024/25 dropping out in 2025/26, which is part of the calculated budget gap of £7.864m for 2025/26.

**Table 10 – Technical Adjustments**

Technical adjustments (incremental adjustments)					
Item	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	Cumulative £m
Exceptional Financial Support 2024/25	4.700	-	-	-	4.700
Capital financing requirements (revenue costs of capital financing)	2.099	0.707	-	-	2.806
<b>Technical adjustments</b>	<b>6.799</b>	<b>0.707</b>	<b>-</b>	<b>-</b>	<b>7.506</b>

## Grants / contributions

4.44 Currently no adjustments to grants/contributions, e.g. Social Care grant are assumed within the MTFP. This is unchanged from the March 2024 MTFP. This will be updated when information becomes available from Central Government.

## Council Tax

4.45 The MTFP assumes the following in respect of Council Tax and Adult Social Care precept:

- 2.99% Council Tax increase over the period of the MTFP (maximum allowed without referendum)
- 2% Adult Social Care precept over the period of the MTFP (maximum allowed without referendum)
- Growth in the Council Tax Base of approximately 369 Band D equivalent properties per annum totalling £0.768m p.a. (this is to be reviewed regularly)

4.46 The actual level of Council Tax increase for 2025/26 will be formally approved by Council in February 2025. Any reduction from these maximum assumed levels will result in an increased budget gap from that presented. It should be noted that each 1% increase in Council Tax generates approximately £675,000 of income.

4.47 The effect of the assumption of a 4.99% total increase in Council Tax (Middlesbrough Council element only excluding Police, Fire, and Parish Councils elements) for each Council Tax band for the period of the MTFP is shown in Table 11. This also includes the percentage of dwellings currently in each band on the Valuation List. It can be seen from the table that 68% of dwellings in Middlesbrough are in Bands A and B (the lowest bands for Council Tax). It should also be noted that a large proportion of residents in the lower band dwellings will be subject to the Council Tax Reduction Scheme and various discounts, e.g. single person's discount. Therefore, even though the council tax increase is at the maximum allowed the effect on many residents in Middlesbrough will be minimal.

**Table 11 – effect of assumed 4.99% total increase in Middlesbrough element of Council Tax for the period of 2024/25 to 2028/29**

Band	% of dwellings per band*	2025/26 4.99% increase**			2026/27 4.99% increase**			2027/28 4.99% increase**			2028/29 4.99% increase**		
		Council Tax £	Annual increase £	Weekly increase £	Council Tax £	Annual increase £	Weekly increase £	Council Tax £	Annual increase £	Weekly increase £	Council Tax £	Annual increase £	Weekly increase £
A	50.3%	1,382.90	65.73	1.26	1,451.90	69.01	1.33	1,524.35	72.45	1.39	1,600.42	76.07	1.46
B	17.4%	1,613.38	76.68	1.47	1,693.89	80.51	1.55	1,778.41	84.53	1.63	1,867.16	88.74	1.71
C	17.3%	1,843.87	87.64	1.69	1,935.87	92.01	1.77	2,032.47	96.60	1.86	2,133.90	101.42	1.95
D	8.4%	2,074.35	98.59	1.90	2,177.86	103.51	1.99	2,286.54	108.68	2.09	2,400.63	114.10	2.19
E	4.2%	2,535.32	120.50	2.32	2,661.83	126.51	2.43	2,794.66	132.83	2.55	2,934.11	139.45	2.68
F	1.5%	2,996.29	142.41	2.74	3,145.80	149.51	2.88	3,302.78	156.98	3.02	3,467.59	164.81	3.17
G	0.9%	3,457.25	164.32	3.16	3,629.76	172.52	3.32	3,810.89	181.13	3.48	4,001.05	190.16	3.66
H	0.1%	4,148.70	197.18	3.79	4,355.72	207.02	3.98	4,573.07	217.35	4.18	4,801.27	228.20	4.39

\* Based on number of dwellings on the Valuation List

\*\* Based on applying maximum increase without a referendum

4.48 Whilst Middlesbrough has one of the highest Band D Council Tax rates in the Tees Valley the actual Council Tax per household is the lowest in the Tees Valley due to the high number of lower banded properties.

**Business Rates**

4.49 Given the future regeneration of the town there will be a need to review the potential for business rates growth, whilst also considering the risk to the viability of shopping centres.

**Government Funding**

4.50 The assumptions on Government funding have reduced from those assumed in the March 2024 MTFP, with Revenue Support Grant and Business Rates Top Up grant both now being assumed to increase by 2% (in line with the current assumed level of CPI), rather than the 3% assumed in the March 2024 MTFP. This will be further reviewed as and when further information is available.

**Savings**

4.51 The following savings are included in the MTFP as approved in March 2024 MTFP.

**Table 12 – Savings**

Previously agreed savings proposals (incremental adjustments)					
Item	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	Cumulative £m
Directorate Savings agreed at 2024/25 budget setting	(5.151)	(1.967)	-	-	(7.118)
<b>Savings</b>	<b>(5.151)</b>	<b>(1.967)</b>	<b>-</b>	<b>-</b>	<b>(7.118)</b>

4.52 The MTFP will be revised over coming months and will take account of a range of potential risks. The adequacy of the General Fund balance and reserves will be assessed throughout the process, culminating in the issue of S151 Officer’s statutory report under s25 of the Local Government Act 2003 in which advice to Council in relation to the robustness of budget estimates and the adequacy of reserves will be provided ahead of budget setting in February 2025.

**General Fund Balance and Usable Reserves**

4.53 The Council’s General Fund Balance and other usable revenue reserves at 1st April 2024 are summarised in Table 14. It should be noted that the General Fund balance is the reserve of last resort and stands at 7.75% of the 2024/25 net revenue budget. Unrestricted usable earmarked revenue reserves remain at a critically low level, and it is essential that 2024/25 expenditure is contained within the approved budget in order to protect these balances. The intention over the period of the MTFP is to replenish these reserves to rebuild the Council’s financial resilience so that it can respond to unforeseen financial shocks outside of its control. The updated MTFP includes contributions to the Financial Resilience Reserve of £0.750m p.a. in 2025/26 and 2026/27, and then a further £0.500m p.a. in 2027/28 and 2028/29. Additionally, a further £0.500m is provided in the MTFP for the Change Fund from 2026/27, which can over time be used to fund service improvement and transformation. A breakdown

of the budgeted contributions and forecast balance on the Financial Resilience Reserve is shown in Table 13.

**Table 13 – Financial Resilience Reserve budgeted contributions and forecast closing balance per year**

Budgeted contributions to Financial Resilience Reserve & Forecast Balances (assuming no drawdown)					
Item	2024/25 Forecast Closing Balance £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Budgeted contributions in year 2025/26 - 2028/29		1.250	2.000	2.500	3.000
<b>Cumulative forecast balance</b>	<b>5.467</b>	<b>6.717</b>	<b>8.717</b>	<b>11.217</b>	<b>14.217</b>

**Table 14– Reserves as at 31<sup>st</sup> March 2024 / 1<sup>st</sup> April 2024**

Reserves - Closing Balance at 31st March 2024 / Opening Balance at 1st April 2024			
	Closing Balance 31/03/24 / Opening Balance 01/04/24 £m	Use of Collection Fund Balance £m	Revised Opening Balance 01/04/24 £m
General Fund Reserve	10.986	0.114	11.100
<u>Usable Earmarked Reserves</u>			
Restricted Use	1.880	-	1.880
Unrestricted Use	1.069	8.211	9.280
	2.949	8.211	11.160
<u>Unusable Earmarked Reserves</u>			
School Balances	(8.885)	-	(8.885)
Provisions	4.599	-	4.599
	4.530	-	4.530
<b>Reserves as at 31st March 2023</b>	<b>14.179</b>	<b>8.325</b>	<b>22.504</b>

## Local Government Finance Settlement

- 4.54 The modelling of funding projections will be reviewed through the budget process to reflect new information as it becomes available. It is not expected that there will be any significant policy changes for the 2025/26 provisional finance settlement, given that no Technical Consultations have been issued by Central Government which would usually be the case if significant changes were planned. The provisional settlement is normally issued in late December 2024. The Government have announced that the Budget will be delivered on 30 October, there will be a one year settlement for 2025/26 and a three year Comprehensive Spending Review will be announced in Spring 2025.

## Budget Development Timetable

- 4.55 It is proposed that the Council adopts the following timetable summarised in Table 15 and detailed in Appendix 2, so that suitable proposals to balance the MTFP 2025/26 to 2028/29 can be published for public consultation before final decisions are made by Council in February 2025.

**Table 15 -2025/26 Budget Setting – Budget Timetable**

2025/26 Budget Setting - Budget Timetable		
Date	Responsible	Action
August 2024 - end of October 2024	LMT / Executive	Development of budget savings proposals
4th December 2024	Executive	Executive - budget savings proposals agreed for consultation. Capital Programme review. 2025/26 Council Tax Base set
5th December 2024 - 8th January 2025	Finance	Budget Consultation period with public, political groups, OSB, business community & other stakeholders
Late December 2024 / Early January 2025	Finance	Consider Provisional Local Government Finance Settlement (usually available late December)
End January 2025		Final Local Government Finance Settlement to be considered
Mid - late January 2025	Elected Mayor / Executive / LMT	Amend budget savings proposals in light of consultation, feedback/updated officer advice and consider any alternative budget proposals
5th February 2025	Executive	Executive - agree final budget proposals for recommendation to Council
19th February 2025	Council	Full Council - to set 2025/26 revenue budget, 2025/26 Council Tax, revised MTFP to 2028/29 and Capital Strategy 2025/26

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

5.1 The Council is required by law to set a balanced budget and this report sets out the development process and timeline for achieving that objective. Therefore, no other options are feasible.

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

### 6.1 *Financial (including procurement And Social Value)*

6.1.1 This report represents the first step in a budget process that will continue over the coming months with further detailed consideration of the outcomes being evaluated prior to the Executive considering and approving a draft budget for public consultation in December 2024.

6.1.2 The budget process will culminate in the Chief Finance Officer's assessment of the robustness of the proposed budget and adequacy of reserves statement contained within the final report presented to Executive and Council in February 2025, followed by approval of the Budget, MTFP, Treasury Management Strategy and annual council tax by Council.

### 6.2 *Legal*

6.2.1 The Council is required under legislation to set a balanced budget for each year. The Medium Term Financial Plan and revenue and capital budgets form part of the

Council's policy framework, as set out in its constitution. The approach outlined within the document will enable the Council to operate within the resources available and continue to meet its many statutory duties.

### **6.3 Risks**

- 6.3.1 The S151 Officer is required to provide statutory advice to the Council on the robustness of the budget estimates and adequacy of reserves, As such, an assurance was provided to Full Council at the time it set the 2024/25 budget it had been reasonably based on the best available information and assumptions.
- 6.3.2 However, the uncertainties of the economic environment over the short to medium term present a high risk to the authority as reflected in the pressures being experienced and reflected in the Quarter One forecast overspend in the 2024/25 financial year. It is essential that Chief Officers in consultation with Executive Members are focused upon developing and delivering financial recovery plans to control expenditure within the approved budget. Any actual overspend will increase the budget gap to be closed through savings and income proposals by the 2025/26 budget and MTFP to 2028/29.
- 6.3.3 The development of the Council's MTFP is periodically reviewed and will build upon projections for the current period and beyond as further details and analysis become available. Throughout the budget process a range of different options will be considered including various levels of council tax, investment, expenditure reductions and income generation proposals. These will be regularly reported and thoroughly considered as part of an iterative process involving LMT, the Elected Mayor and Executive Members. Impact assessments will be considered before final decisions are taken on whether to implement each proposal.

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

- 6.4.1 The Council must ensure that, in line with the Public Sector Equality Duty, that any budget saving proposals, other budget proposals, or proposed Council Tax increases thought to impact on those with protected characteristics are assessed, mitigated where possible and/or justified. As such impact assessments for any savings proposals will be undertaken as part of the budget process and included as part of the budget report to Council in February 2025.
- 6.4.2 The Public Sector Equality Duty (PSED) (as set out in the Equality Act 2010) places a statutory duty on the Council in exercising its functions, to have regard to the need to:
- eliminate discrimination, harassment and victimisation;
  - advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and
  - foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

- advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:
  - remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic;
  - take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it; and
  - encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

6.4.3 The protected characteristics are: age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation. Where proposed decisions may be relevant to one or more of these protected characteristics, the Council is obliged to assess the impact. If there is judged to be an adverse impact on these characteristics that is relevant to the duty above steps are taken to consider whether it can be avoided or mitigated. Where it cannot be avoided or mitigated, a decision can only be taken if it can be justified.

## **6.5 *Climate Change / Environmental***

6.5.1 There are no concerns that the proposals within the report will impact negatively on climate change or the environment.

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

6.6.1 There are no concerns that the proposals within the report will impact negatively on children and young people cared for by the Authority and care leavers.

## **6.7 *Data Protection***

6.7.1 There are no concerns that the proposals within the report will impact negatively on data protection or GDPR.

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

<b>Action</b>	<b>Responsible Officer</b>	<b>Deadline</b>
Leadership Management Team (LMT) in consultation with the relevant Executive Member to prepare detailed plans and budget proposals in accordance with the Council's priorities and proposed budget strategy (paragraphs 4.27 and 4.28) taking account of periodic updates in MTFP assumptions.	Leadership Management Team (LMT) / Executive Members	31/10/24



That a further report is submitted to Executive on 4 December 2024 updating the MTFP and starting the consultation on budget savings proposal	Director of Finance / Head of Financial Planning & Support	04/12/24
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## Appendices

1	Summary of legislation announced in His Majesty The King's Speech of 17 July 2024 impacting Local Government
2	Budget Timetable 2025/26 Budget Setting

## Background papers

Body	Report title	Date
Executive	2024-25 Budget and MTFP – Application for Exceptional Financial Support	17/1/24
Executive	Middlesbrough Independent Improvement Advisory Board: First Update Report	17/1/24
Council	Corporate Governance Improvement Plan and Section 24 Action Plan progress report	17/1/24
Council	Flexible Use of Capital Receipts Policy	17/1/24
Executive	2024/25 Revenue Budget, Medium Term Financial Plan, and Council Tax setting	28/2/24
Executive	Prudential Indicators and Treasury Management Strategy Report – 2024/25	28/2/24
Council	2024/25 Revenue Budget, Medium Term Financial Plan, and Council Tax setting, and Treasury Management Strategy 2024/25	8/3/24
Executive	2025/26 Budget and MTFP Approach and Timetable	22/5/24
Executive	2023/24 Revenue and Capital Outturn and development of MTFP	26/6/24
Executive	Revenue and Capital Budget – Forecast Year-end Outturn position at Quarter One 2024/25	4/9/24

**Contact:** Andrew Humble, Head of Financial Planning & Support  
(Deputy s151 Officer)

**Email:** [andrew\\_humble@middlesbrough.gov.uk](mailto:andrew_humble@middlesbrough.gov.uk)