

Report of:	Director of Finance (s151 Officer)
Relevant Executive Member:	Executive Member for Finance
Submitted to:	Executive
Date:	4 December 2024
Title:	Revenue and Capital Budget – Forecast Year-end Outturn position at Quarter Two 2024/25
Report for:	Decision
Status:	Public
Strategic priority:	All
Key decision:	Yes
Why:	Decision(s) will incur expenditure or savings above £250,000 and have a significant impact in two or more wards
Subject to call in :	Yes
Why:	

Proposed decision(s)

That the Executive approves budget virements within the revenue budget (Appendix 3), and revisions to the capital programme in relation to activity in Quarter Two (Appendix 8 and paragraphs 4.41 and 4.42) as set out in recommendations 2.1.1 to 2.1.3

That the Executive notes the key issues impacting the Council's financial performance as set out in recommendation 2.2.1 to 2.2.8.

Executive summary

This report advises the Executive of the Council's forecast year-end financial outturn as at Quarter Two 2024/25, and seeks approval of budget virements within the revenue budget and revisions to the capital programme in relation to activity in Quarter Two.

The report enables the Executive to discharge its financial management responsibilities by setting out the following position at Quarter Two (30 September 2024):

- General Fund Revenue Budget forecast outturn;
- Statement of the Council's reserves and provisions;
- Capital Programme forecast outturn;
- statement of the Council's borrowing and prudential indicators;
- statement of the level of debt owed to and to be recovered by the Council;
- actions that have been taken and are planned to be taken in order address the issues identified.

The main highlights of the report are :

- the forecast 2024/25 revenue outturn as at Quarter Two is a year-end overspend of £1.382m (0.97%), and whilst this is an improvement from the £3.742m reported at Quarter One there is a need to take further management action in consultation with Executive Members to control expenditure within the approved budget of £143.190m. Any underspend against the approved budget will reduce the Council's need to draw down Exceptional Financial Support (EFS) and avoid associated capital financing costs of borrowing.
- Financial Recovery Plan savings of £0.498m have currently been identified which if fully delivered could reduce the forecast year-end overspend to £0.884m
- the forecast year-end overspend of £1.382m currently includes £2.481m of net savings where there is a high risk that they will not be deliverable in 2024/25, which are offset by £1.099m of operational underspends.
- If these savings remain unachievable at year end, a proportion of the £3.5m Exceptional Financial Support (EFS) agreed in-principle for this purpose would be utilised to cover these unachieved savings up to a maximum of the total overspend at 31 March 2024. The cost of borrowing for this purpose is factored into the MTFP.
- If an element of any overspend at 31 March 2024 is not linked to savings delivery, this would fall to be met from revenue reserves.
- Based upon the Quarter Two forecast, the General Fund Balance is forecast to be £11.100m whilst the balance on usable unrestricted reserves is forecast to be £7.814m at 31 March 2025. This would be in line with that recommended by the Director of Finance in the Reserves Policy approved by Council on 8 March 2024 to rebuild the Council's financial resilience.
- The 2024/25 Capital Programme forecast year-end outturn of £72.546m at Quarter Two is a reduction of £34.165m from the revised £106.711m budget.
- This is largely due to slippage of planned expenditure from 2024/25 into 2025/26 and 2026/27. The Executive agreed measures to improve capital programme management and forecasting at its meeting on 13 November 2024.

1. Purpose

- 1.1 This report discharges the responsibilities of the Executive to manage and control the revenue budget, capital programme and overall balance sheet position of the Council.

2. Recommendations

- 2.1 The Executive is requested to **approve** recommendations **2.1.1 to 2.1.3** below:

- 2.1.1 The proposed revenue budget virements over £250,000 as detailed in Appendix 3.
- 2.1.2 The inclusion of additional expenditure budgets to the Capital Programme totalling £0.523m for 2024/25 which are externally funded (detailed in Appendix 8). Subject to approval this will increase the approved 2024/25 Capital Programme budget to £106.711m.
- 2.1.3 The proposed virements over £250,000 between schemes in the 2024/25 Capital Programme approved by Council in March 2024 which are funded from within existing Council resources (detailed in Appendix 8).

- 2.2 The Executive is requested to **note** the key issues impacting the Council's financial performance in 2024/25 set out at **2.2.1 to 2.2.8** below:

- 2.2.1 The forecast 2024/25 revenue outturn as at Quarter Two of £144.572m against an approved budget of £143.190m. This is an overspend of £1.382m (0.97%) as summarised below and detailed in Table 1. This is an improvement of £2.360m from the £3.742m forecast year-end overspend reported at Quarter One.

	£m
Adult Social Care – unachieved savings	0.417
Adult Social Care – other - mainly by maximising a one-off grant	(0.362)
Children’s Social Care – increased numbers and complexity of external residential placements	1.957
Children’s Social Care –unachieved savings	1.730
Other variances (ECS, Education & Partnerships, Regeneration, Legal and Governance, Finance, and Central)	(2.360)
Total	1.382

- 2.2.2 The progress on savings delivery set out in Tables 3 and 4 and Appendix 4.

- 2.2.3 The Council is dependent upon Exceptional Financial Support (EFS) in 2024/25 approved in principle by the Ministry of Housing, Communities & Local Government (MHCLG) of up to £13.4m of one-off borrowing, the costs which are factored into the MTFP. Of this sum £4.7m has been utilised to

achieve a balanced budget in 2024/25. The forecast use of EFS has been reduced to up to £8.2m (paragraph 4.5).

- 2.2.3 it is essential that all available measures are taken by management to control revenue expenditure within the approved budget, given that the Quarter Two forecast overspend, if realised will potentially require further £1.382m of EFS borrowing to fund slippage in savings delivery. if the overspend increases in the remainder of 2024/25 this will require further use of EFS or reserves. Both EFS and reserves can only be used once, and the financial pressure will remain in 2025/26 to be addressed.
- 2.2.4 based upon the Quarter Two forecast outturn, the forecast revenue balances at 31 March 2025 would at £18.914m which is in line with that recommended in the approved Reserves Policy:
- General Fund Reserve of £11.1m (minimum recommended)
 - Council's unrestricted usable earmarked reserves of £7.814m
- 2.2.5 The 2024/25 Capital Programme forecast year end outturn of £72.546m at Quarter Two is a reduction of £34.165m (32.02%) from the revised Quarter One budget of £106.711m comprising:
- An underspend on projects of £8.720m
 - Slippage on projects of £25.445m into 2025/26 and 2026/27
- 2.2.6 The current forecast deficit of £5.935m for 2024/25 relating to the High Needs Block with the Dedicated Schools Grant which increases the forecast cumulative deficit to £20.228m at 31 March 2025. If the statutory override is removed by Government on 31 March 2026 without national funding solution in place for High Needs, then this presents a critical risk to the Council's financial viability, given that it will wipe out the Council's general fund reserves. The DSG recovery actions and risks to the Council's financial resilience are set out in paragraph 4.39 and Appendix 6.
- 2.2.7 The level of Middlesbrough's share of Collection Fund and General Fund Debtors at 30 September 2024 is as follows (paragraphs 4.56 to 4.58 and Table 11):
- | | |
|--------------------------------|----------|
| - Council Tax | £34.713m |
| - Business Rates | £6.592m |
| - Sundry Debt | £14.299m |
| - Housing Benefit Overpayments | £6.196m |
- 2.2.8 This report should be read together with the separate half yearly Treasury Management report elsewhere on this Executive agenda, in order to fully consider the Council's overall financial position.

3. Rationale for the recommended decision (s)

- 3.1 To enable the effective management of finances, in line with the Council's Local Code of Corporate Governance, the Scheme of Delegation and financial regulations.

4. Background and relevant information

- 4.1 The Council's Scheme of Delegation gives the Executive collective responsibility for corporate strategic performance and financial management, monitoring and control. Standing Orders and Financial Procedures require the Executive's approval for major virements between revenue budgets, and in-year changes to the Council's Capital Programme within approved Council resources within the approved policy framework.
- 4.2 This report enables the Executive to discharge its financial management responsibilities by setting out the Council's position at Quarter Two.
- 4.3 Financial Procedure Rule 18.38.3 of the Council's constitution requires the Executive's approval of revenue and capital programme budget virements over £250,000.

Revenue Budget

- 4.4 Section 25 of the Local Government Act 2003 requires the Chief Finance officer to report on the robustness of the budget estimates and the adequacy of the financial reserves to Council in agreeing its annual budget and precept for the forthcoming financial year. The Chief Finance Officer is as defined in S151 of the Local Government Act 1972 and is fulfilled by the Director of Finance.
- 4.5 The Director of Finance (S151 Officer) issued her Section 25 Report Council Members in presenting the 2024/25 Revenue Budget, Medium Term Financial Plan, and Council Tax setting report approved by Council on 8 March 2024. The report set out the basis upon which the revenue budget was considered to be robust and the basis upon which reserves were considered adequate, being dependent upon the approval of Exceptional Financial Support (EFS) by the Ministry of Housing, Communities and Local Government (MHCLG) (formerly DLUHC) as summarised below:

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
TOTAL	13.400

Only up to £8.2m of this will potentially be required in 2024/25, comprising of those elements relating to balancing the 2024/25 budget (£4.7m) and the contingency for non-delivery of budgeted 2024/25 savings risk (£3.5m).

- 4.6 The Council's financial position remains fragile and its ability to control expenditure within the approved 2024/25 budget whilst developing further savings and income

generating opportunities through the Recover, Reset, Deliver Transformation Portfolio in order to balance the MTFP will be crucial to stabilising the Council's financial position and rebuilding its financial resilience. This requires the delivery of all approved £13.9m of 2024/25 savings plans in full.

- 4.7 The Council has achieved significant improvement in its financial position from that which existed at the start of the 2023/24 financial year. However, it continues to spend above its available annual income sources as reflected by the forecast year end overspend of £1.382m for 2024/25, after using £4.7m of EFS to balance the budget which is £6m above annual revenue income streams.
- 4.8 The further challenges of delivering a balanced budget in 2025/26 to 2028/29 were initially set out in the Medium-Term Financial Plan (MTFP) report to Executive on 4 September 2024 agenda. The latest update is set out in the 2025/26 Draft Budget and Medium Term Financial Plan 2025/26 to 2028/29 report elsewhere on this agenda. Both reports should be read together to fully understand the context within which the Council is operating and the financial challenges that it faces.
- 4.9 The 2024/25 forecast year end outturn at 30 September 2024 (Quarter Two) is an overspend of £1.382m (0.97%) against the approved budget of £143.190m and is summarised by Directorate in Table 1. A summary of the key issues and variances is included in Appendix 1a with details of Directorate variances in Appendix 1b. Table 1 includes any potential non-delivery of required budget savings as detailed in paragraphs 4.19 to 4.25 and Appendix 4.

Table 1 - Summary of Revenue Budget Forecast Outturn 2024/25 at Quarter Two

All Directorates	Original Budget Full Year	Current Budget Full Year	Forecast Outturn	Forecast Variance	Movement from last quarter (Forecast Variance before Financial Recovery Plan)	MEMO FORECAST VARIANCE SPLIT			
						Financial Recovery Plan	Forecast Outturn Variance (if Financial Recovery Plan Assured)	Savings Delivery Variance	Other variances
						£m	£m	£m	£m
				Adv / (Fav)	Adv / (Fav)			Adv / (Fav)	Adv / (Fav)
Adult Social Care	52.075	52.481	52.536	0.055	(0.375)	(0.234)	(0.179)	0.417	(0.362)
Public Health	0.006	0.006	0.006	0.000	0.000	0.000	0.000	0.000	0.000
Children's Care	54.038	54.685	58.372	3.687	(0.065)	(0.264)	3.423	1.730	1.957
Education & Partnerships	7.992	7.221	6.373	(0.848)	(0.116)	0.000	(0.848)	0.000	(0.848)
Regeneration	2.023	2.037	1.471	(0.566)	(0.285)	0.000	(0.566)	0.080	(0.646)
Environment & Communities	20.176	19.027	19.676	0.649	0.566	0.000	0.649	(0.336)	0.985
Legal & Governance	10.387	10.755	10.724	(0.031)	(0.275)	0.000	(0.031)	0.148	(0.179)
Finance	3.121	3.767	3.767	0.000	(0.000)	0.000	0.000	0.198	(0.198)
Chief Executive	0.242	0.241	0.241	0.000	0.000	0.000	0.000	0.000	0.000
Total Directorates	150.060	150.220	153.166	2.946	(0.552)	(0.498)	2.449	2.237	0.709
Central Budgets	(6.870)	(7.029)	(8.593)	(1.564)	(1.808)	0.000	(1.564)	0.244	(1.808)
Total Budget	143.190	143.190	144.572	1.382	(2.360)	(0.498)	0.884	2.481	(1.099)

NOTE – In Quarter One growth provided for 24/25 but unused was included within the outturn projections for the relevant Directorate lines – namely £0.673m unused growth in ECS relating to Waste Disposal, £0.414m unused growth in ECS for Concessionary Fares, and £0.732m unused growth in Education & Partnerships relating to ITU. As approved at Quarter One this unused growth has since been vired and is now held centrally, and is reflected in the outturn projection for Central Budgets from P5.

NOTE – Environment & Communities includes an overachievement of £0.515m against the savings for the implementation of Green Waste charging, and Adult Social Care includes an overachievement of £0.172m against the Fairer Funding saving. This reduces the savings delivery variance from £3.168m to £2.481m.

- 4.10 The forecast overspend of £1.382m comprises potential overspends due to delayed or undeliverable savings of £2.481m and other variances of (£1.099m). Further analysis of progress on savings delivery that is being managed through the Transformation Portfolio is set out at Tables 3 and 4 and Appendix 4.
- 4.11 Directorates have identified £0.498m of Financial Recovery Plans (see Appendix 2). These will require further Director and Finance assurance to confirm deliverability together with the identification of further mitigations to deliver the financial outturn within the approved budget by the year end. Subject to satisfactory assurance the recovery plans will be factored into the year-end forecast.
- 4.12 Containing expenditure within the approved budget remains a priority for the Leadership Management Team and the Executive for the remainder of the financial year in order to protect critically low reserves and provide an opportunity to start to rebuild them over the period of the MTFP as set out in the approved Reserves Policy.
- 4.13 £20.764m of budgetary growth was provided in setting the 2024/25 budget to Directorates presenting forecast demand pressures primarily in Adults, Children's Integrated Transport Unit, and Waste Disposal. Upon reviewing the 2023/24 financial outturn and performance during 2024/25, the requirement for this growth has been reviewed.
- 4.14 In the Quarter One report to Executive on 4 September 2024 the Director of Finance proposed and Executive agreed that where it is determined that the allocated growth was not required in full (and underspending within Directorates is arising directly from a surplus of budgetary growth provided) that the surplus budget is transferred (vired) from Directorates in 2024/25 to be held centrally. The Director of Finance will then assess how this budgetary provision can be applied to best effect in order to offset the financial pressures arising elsewhere in the Council to meet forecast pressures. The review will be undertaken quarterly throughout the year as refinements to demand and cost modelling are progressed. In the Quarter One report the following virements summarised below were approved to be transferred to central budgets and the Directorate budgets in Table 1 reflect these virements:
- Concessionary Fares £0.414m
 - Waste Disposal £0.673m
 - Integrated Transport Unit £0.732m

The above were actioned for 2024/25 only with any ongoing adjustments being included in the 2025/26 MTFP report to the Executive on 4 September 2024 and these will be reviewed in the 2025/26 Budget and MTFP report to Executive elsewhere on this agenda. Further virements will be considered at Quarter Three reporting.

- 4.15 As part of the approved 2024/25 budget a budget of £1.550m was provided to cover the effects of contractual inflation on a number of services and this was held centrally. A review of the requirements against this budget has been undertaken during Quarter Two and technical adjustments have been made to allocate this to Directorate

budgets as shown in Table 2, and Executive are requested to formally approve these virements as detailed in Appendix 3:

Table 2 - Allocation of central contractual inflation budget 2024/25

		<u>£m</u>	<u>£m</u>
AMOUNT AVAILABLE			1.550
Adult Social Care	Care Packages	0.440	
Childrens Care	External Residential Placements	0.274	
	Independent Fostering Agency	0.234	
	Internal Fostering allowances	0.116	
	Family & Friends allowances	<u>0.292</u>	
		0.916	
Legal & Governance	Mail and print	0.113	
Allocated to date			1.469
BALANCE REMAINING			0.081

- 4.16 Note that contractual inflation has only been provided where there is a contractually binding requirement for contract price increases and will not be provided for general inflation relating to supplies and services.
- 4.17 The local government pay award for 2024/25 was agreed between national employers and trade unions on 23 October 2024. It is initially estimated that this will create a saving of approximately £0.2m against the budget provided for this. This saving is included in the forecast outturn for Central Budgets in Table 1.
- 4.18 Adjustments for the pay award are included in Appendix 3 as virements which require Executive approval under Financial Procedure Rule 18.38.3. Directorate budgets will be revised in the Quarter Three budget monitoring report to account for this, subject to approval of the recommendations in the report. Any further adjustments to the budget virements for this will be included in future quarterly budget monitoring reports.

Budget savings delivery

- 4.19 The approved revenue budget includes savings totalling £15.302m in 2024/25, a further £5.151m in 2025/26 and a further £1.967m in 2026/27 arising from the 2023/24 and 2024/25 approved budgets. The savings tracker included in Table 3 summarises performance in 2024/25 and the impact upon delivery for 2024/25, categorising the current expected achievability of the savings. Table 4 shows performance for each Directorate against the 2024/25 approved savings. Savings delivery plans are monitored via the Thematic and Corporate Transformation Boards.
- 4.20 Table 4 shows that £2.964m (19%) of savings for 2024/25 categorised as “Red” within the savings tracker. There are also £0.244m (2%) of savings categorised as “Purple” within the savings tracker which have been deemed unachievable and require alternative proposals to be put forward. Those categorised as “Amber” £1.619m (11%) are not factored into the forecast overspend. They have mitigation in play, or in development and are being monitored through the Programme Management Office to get delivery back on track (“Green”).

- 4.21 Those categorised as “Green” £9.263m (60%) and considered to be on track are being further challenged to ensure delivery. £1.212m (8%) have been delivered and classed as ‘Blue’.
- 4.22 If the savings rated “Red” and “Purple”, where there is currently a high risk that they will not be deliverable in 2024/25, remain unachievable, they will contribute to an overspend unless fully mitigated by other underspends in “Business as Usual” operations. Up to £3.5m EFS is agreed in-principle to cover any final overspend driven by non-delivery of savings in order to protect critically low revenue reserves. There is a long-term cost of borrowing associated with use of EFS which is factored into the MTFP.
- 4.23 Directors are required to develop mitigation plans for those savings which are categorised as “Red” and “Purple” where there is significant risk to delivery, and “Amber” where there is medium risk to delivery. Also, there is a need to ensure full achievement of savings categorised as “Green”.

Table 3 – Savings Programme Assurance Summary

RAG	Savings	24/25 (£m)	25/26 (£m)	26/27 (£m)	Total (£m)	Total (%)
	Approved Budget	(15.302)	(5.151)	(1.967)	(22.420)	
Blue	Benefits and / or saving(s) realised, with evidence provided.*	(1.212)	0.000	0.000	(1.212)	5%
Green	Benefits and / or saving delivery on-track, with assured plans in place.	(9.263)	(2.930)	(0.240)	(12.433)	55%
Amber	Medium-risk to benefits and / or saving(s) delivery. Mitigation in-play, or in development.	(1.619)	(0.756)	(0.162)	(2.537)	11%
Red	High-risk to benefits and / or saving(s) delivery. Limited scope for mitigation.	(2.964)	(1.465)	(1.565)	(5.994)	27%
Purple	Benefits and / or saving(s) are undeliverable. Alternative plan / saving required, for Executive approval.	(0.244)	0.000	0.000	(0.244)	1%
	Total Savings	(15.302)	(5.151)	(1.967)	(22.420)	100%

Table 4 – Savings Programme Assurance for 2024/25 by Directorate

		Benefits and / or saving(s) realised, with evidence provided.	Benefits and / or saving delivery on-track, with assured plans in place.	Medium-risk to benefits and / or saving(s) delivery. Mitigation in-play, or in development	High-risk to benefits and / or saving(s) delivery. Limited scope for mitigation.	Benefits and / or saving(s) are undeliverable. Alternative plan / saving required, for Executive approval.
		£m	£m	£m	£m	£m
Directorate	Approved Budget	Blue	Green	Amber	Red	Purple
Adult Social Care	(5.757)	(0.902)	(3.260)	(0.924)	(0.671)	0.000
Children's Care	(5.080)	(0.067)	(2.722)	(0.591)	(1.700)	0.000
Education and Partnerships	(0.285)	0.000	(0.285)	0.000	0.000	0.000
Environment and Community Services	(1.522)	(0.105)	(1.196)	(0.042)	(0.179)	0.000
Regeneration	(0.607)	0.000	(0.527)	0.000	(0.080)	0.000
Finance	(1.379)	(0.138)	(0.993)	(0.050)	(0.198)	0.000
Legal and Governance	(0.672)	0.000	(0.280)	(0.012)	(0.136)	(0.244)
TOTAL (£m)	(15.302)	(1.212)	(9.263)	(1.619)	(2.964)	(0.244)
Overall Percentages		8%	60%	11%	19%	2%

NOTE – Tables 3 and 4 above do not include overachievement of savings whereas Table 1 includes a reduction in the savings delivery variance due to the fact that Environment & Communities has an overachievement of £0.515m against the savings for the implementation of Green Waste charging, and Adult Social Care has an overachievement of £0.172m against the Fairer Funding saving.

- 4.24 A detailed savings tracker of savings categorised as “Red” and “Purple” by Directorate is attached at Appendix 4. “Red” and “Purple” savings are factored into the forecast year-end overspend for the year together with any in-year mitigations to offset the resultant overspend.
- 4.25 A number of savings initiatives required the removal of posts and therefore a budget is in place to cover any redundancy costs that may have to be incurred. The capital budget for redundancy costs was estimated at £6.5m covering £2.9m for a planned Management Review (estimated 60.8 FTE) and £3.6m for approved 2024/25 Savings Initiatives (75.4 FTE). The Management Review has been rephased into 2025/26, and therefore the allocation of £2.9m remains unspent. The Savings Initiatives have progressed whereby 52.4 FTE are concluded with the removal of posts through vacant posts and redeployment to other posts within the Council. A further 7 posts incurred redundancy and pension costs of £0.492m, and the remaining balance of £3.097m (16 FTE) are in the progress of restructure and reorganisation.

Table 5 – Redundancy costs budget

Estimated Redundancy Costs	Planned Management Review	2024/25 Savings initiatives	Total
Budget £m	£2.894m	£3.589m	£6.483m
Budget FTE	60.8 FTE	75.4 FTE	136.2 FTE
Posts Closed FTE	0	52.4 FTE	52.4 FTE
Redundancy incurred £m	0	£0.492m	£0.492m
Redundancy incurred FTE	0	7 FTE	7 FTE
Budget provision £m	£2.894m	£3.097m	£5.991m
Post Remaining FTE	60.8 FTE	16 FTE	76.8 FTE

Quarter Two Budget challenge agreed actions

- 4.26 During Budget Challenge Sessions held up to the end of Quarter Two, it was agreed that a number of fundamental reviews be required in order to develop plans to address forecast financial pressures and control expenditure within the approved budget.
- Children’s Social Care (see summary of progress at 4.27 to 4.30)
 - Adult’s Social Care – Develop and assure financial recovery plan (see Appendix 2)
 - Crematorium - Reduced income due to falling demand for service, to consider options for reducing operational costs to align to reduced activity and to assess the business case for replacement cremators which are approaching the end of their useful life. (outstanding)
 - Waste Services - zero based budget to be prepared reflecting the change in service operations following implementation of fortnightly collection. (outstanding)
 - Fleet Services - review of strategic options for sustainable service delivery arising from operation due to recruitment and retention issues and other financial pressures. (outstanding)

- Integrated Transport Unit / Special Educational Needs & Disabilities (SEND) transport – completed baseline budget and development of MTFP forecast to assess demand and unit cost modelled using Special Educational Needs (SEN) data – this work has been updated to reflect the start of the new academic year in September 2024

4.27 The Children’s Services budget challenge meetings have reviewed, analysed and challenged financial performance with a particular focus upon the identified cost pressures in external residential care placements budget. The service faces a significant challenge in year which is summarised as follows

- The approved saving **CC02 ‘ Review of Placements’** is required to deliver £1.1m budget reduction in 2024/25. This plan was based upon a net reduction in the number of children in high-cost placements of 11 (from 66 to 55).
- The work programme to achieve the saving, involves the operation of regular care placement panels which are being successful in transferring existing children in placements from high-cost external residential care into more suitable placements to meet their needs. This work aims to improve the outcomes for those children and can be delivered at lower cost for the Council. It is proving successful with 16 children so far this year being transferred from high cost external residential placements into more suitable care settings (called ‘step down’) to meet their needs, avoiding cost of approximately £2.4m to date.
- However, the cost reductions achieved through placement panels are being more than offset by increased expenditure due to an additional 28 children being assessed as requiring external residential care provision.
- Therefore, the financial benefits of current activity in CC02, are exceeded by the additional cost of new placements, resulting in an overspend against the budget of £2.7m and an assessment as red in terms of delivering the financial objective.
- Table 6 below summarises the number and forecast cost of children in different types of external residential care to the year end, based upon activity to 30 September. The forecast outturn is for a total spend on residential care of £17.776m for 78 children across different care categories representing an average of £0.228m per child. However, there are significant variations in cost, with the three highest cost placements totalling £2.596m in 2024/25 and a £3.145m full year effect.

Table 6 – Children’s Care External Residential Budget 2024/25 Q2 Forecast

Detail	Budget		Forecast		Pressure /
	£m	Numbers	£m	Numbers	(saving) £m
External	6.453	13	9.162	23	2.710
Supported	0.817	5	2.219	15	1.402
Semi-support	0.317	8	0.627	16	0.310
Mother & baby	0.000	0	0.117	0	0.117
Block	2.688	12	2.688	12	0.000
School Residential	3.262	7	1.785	4	(1.476)
Secure	0.480	1	0.635	2	0.155
Contingency/Growth	0.784	9	0.544	6	(0.240)
Inflation (Q2)	0.274				(0.274)
Total	15.074	55	17.776	78	2.702

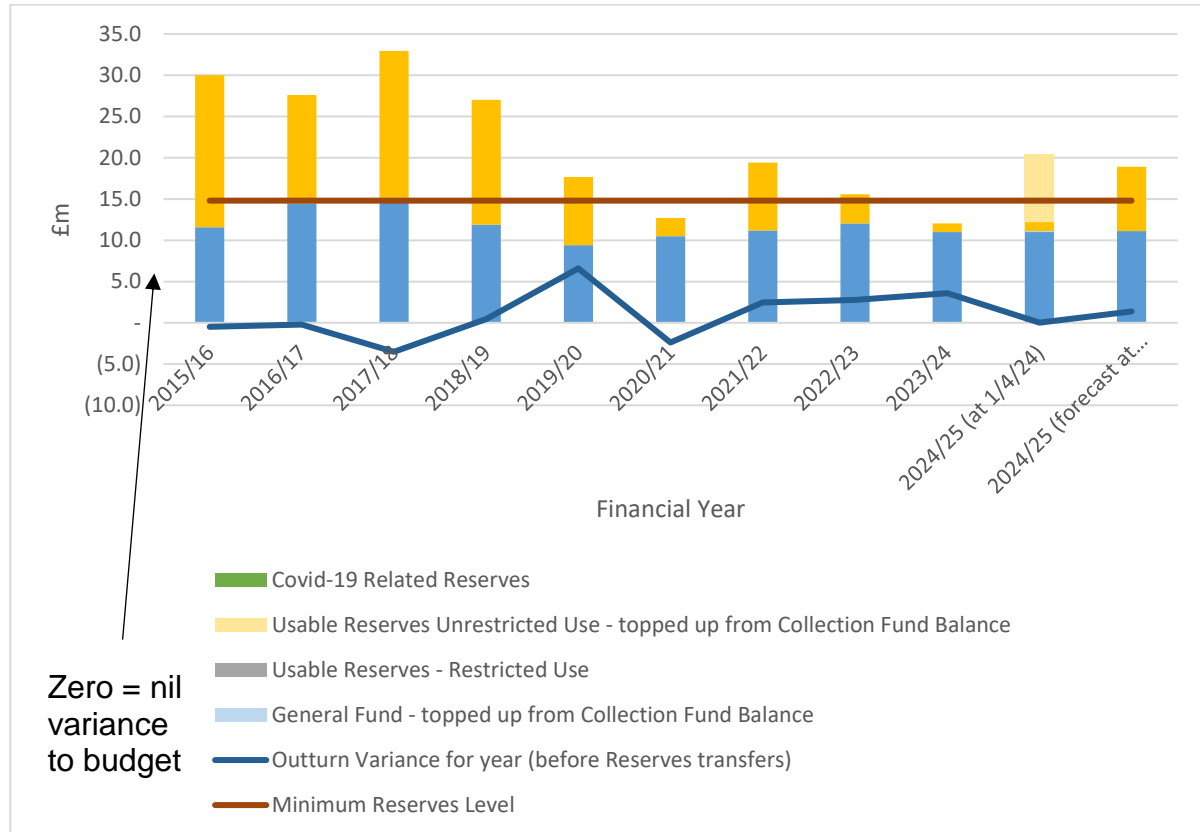
- 4.28 The plan for CC02 needs to be revised in order to deliver the planned net reduction in the number of children in external residential care and/or a reduction in the cost of placements. Additional measures are required which deliver improved social care practice in order to prevent children escalating through the social care system to require external residential care. In addition, more appropriate (and lower cost) categories of care should be used wherever possible.
- 4.29 Whilst existing measures have reduced the level of forecast overspending compared to no management action being taken, the planned savings delivery for CC02 is at high risk of not delivering the required saving against the budget within 2024/25. Additional measures to address social care practice to prevent the need for residential care are required, but this will take time and will more likely take effect in financial terms in 2025.
- 4.30 The Service is putting additional measures in place to address these pressures which will be incorporated into the Transformation Portfolio as appropriate:
- Development of a business case to increase Edge of Care provision to prevent more children from needing to be brought into care
 - Development of a business case to extend the reunification pilot project which is funded via the Department for Education (DfE) which will support children to return to their family members which is likely to reduce the number and cost of children in care.
 - Ongoing recruitment of permanent staff is taking place to replace agency staff by using specialist recruiting agencies and some agency staff have committed to convert to permanent posts.
 - Reviewing the plans for internal residential provision to ensure that these are utilised effectively to meet the needs of children within Middlesbrough.
 - Development of a business case around fostering arrangements to increase internal capacity to support children to live locally at a reduced cost compared to other Children's Care placements.
 - Potential expansion of the SHIFT project

Council Reserves and Provisions

- 4.31 It is essential for the Council's financial recovery that expenditure is contained in 2024/25 within the approved budget of £143.190m and that there is no unplanned drawdown upon critically low revenue reserves to meet overspending. It is essential that the Council's financial position is stabilised and reserves are protected and rebuilt over the course of the MTFP. The Reserves Policy was approved by Council on 8 March 2024 and set out the plan to recover the reserves position.
- 4.32 At Quarter Two the General Fund Balance is forecast to be £11.100m whilst the balance on usable unrestricted reserves is forecast to be £7.814m at 31 March 2025. This gives a forecast total on unrestricted usable revenue reserves of £18.914m at 31 March 2025 which is in line with the planned recovery. Appendix 5 provides an analysis of restricted and unrestricted reserves together with General Fund Provisions. It should be noted that reserves could potentially be reduced if the overspend increases in the remainder of 2024/25.

4.33 Figure 1 below shows the trajectory of Middlesbrough’s unrestricted usable Reserves from 2015/16 through to 2024/25 forecast closing balance against both the recommended minimum reserves level and the reported outturn position.

Figure 1 - Middlesbrough Council - Unrestricted Reserves Balances from closing balance 2015/16 through to forecast closing balance 2024/25 and reported outturn variance per year



Contingency Budget and Change Fund

4.34 Table 7 summarises the 2024/25 budget and commitments against the central budgets controlled under the delegated powers of the s151 Officer (and deputy s151 Officers) in relation to the Contingency Budget and the Change Fund Reserve at 30 September 2024. A summary of the expenditure approved for utilisation of these budgets is set out at Appendix 7.

Table 7 – Summary of 2024/25 budget and commitments against central budgets

	Corporate Contingency	Corporate Contingency - unused growth	Change Fund Reserve
	£m		£m
Starting Budget 2024/25	1.422		1.053
Budgeted contribution 2024/25	-		0.730
Additional contributions in year	-		1.000
Permanent adjustment to Regeneration budget (New Homes Bonus grant adjustment)	(0.081)		-
Permanent adjustment to LGS (previous years' savings adjustment)	(0.014)		-
Temporary adjustment from ECS - growth not required in 2024/25 (Waste Disposal)		0.673	-
Temporary adjustment from Education & Partnerships - growth not required in 2024/25 (Integrated Transport Unit)		0.732	-
Available for use	1.327	1.405	2.783
Approved use to date	(0.655)	(0.147)	(0.017)
Declared as saving against 24/25 outturn - net savings remaining at Q2 from Waste Disposal and Integrated Transport Unit		(1.258)	-
Allocated/committed to date	(0.655)	(1.405)	(0.017)
BALANCE REMAINING UNCOMMITTED	0.672	-	2.766

Dedicated Schools Grant (DSG)

4.35 Local authorities receive a ring-fenced grant from central government each year, which can only be used to fund education – Dedicated Schools Grant (DSG). The DSG budget is accounted for separately to the main Revenue Budget. The Council's allocation in July 2024 is to receive £197.453m (before deductions and recoupment) of Dedicated Schools Grant (DSG) for 2024/25. The funding comprises of a number of blocks:

- Schools Block
- Central School Services Block
- High Needs Block
- Early Years Block

A large proportion of the Schools Block is passported directly to academies (known as recoupment). Alongside this, agreed place funding for academies and FE colleges is also deducted from the High Needs block for specialist places. Currently after deductions and recoupment the Council will receive DSG of £63.776m in 2024/25 including an agreed disapplication of £0.699m transfer from Schools Block to High Needs Block.

4.36 The forecast expenditure of £69.711m is a year-end overspend of £5.935m on DSG within 2024/25 as summarised in Table 8.

Table 8 - Dedicated Schools Grant (DSG) after recoupment and deductions

	2024/25 Forecast Income	2024/25 Forecast Expenditure	2024/25 Forecast Year-end Overspend	Balance as at 31/03/2024	Forecast Cumulative DSG Deficit as at 31/03/2025
	£m	£m	£m	£m	£m
Early years	17.692	17.692	(0.000)	(0.467)	(0.467)
Schools Block	14.387	14.387	(0.000)	(0.298)	(0.298)
High Needs	30.651	36.586	5.935	15.079	21.014
Central school services block	1.046	1.046	0.000	(0.021)	(0.021)
TOTAL	63.776	69.711	5.935	14.293	20.228

*(** July 2024 issued allocations for 2024-25 –note these figures can change post these allocations)*

4.37 There was a £14.293m total cumulative deficit on the DSG reserve at the end of 2023/24, which included £15.079m attributed to the High Needs Block. The DSG deficit is forecast to increase during 2024/25 and there is a forecast cumulative DSG deficit of £20.228m at 31 March 2025. This includes £21.014m relating to the High Needs Block which is partly offset by £0.786m of surpluses across the other blocks.

4.38 The DSG is subject to a statutory override by central Government which instructs Councils to account for the DSG deficits and resulting negative balance in a separate reserve and not to fund it by using its General Fund resources. This is planned to end on 31 March 2026 whilst measures to resolve the national issues with expenditure and funding were implanted. There is limited impact of measures taken to date and if the statutory override is removed without a government led solution in 2025, this presents a significant risk to the Council's financial position. The size of the forecast DSG deficit at 31 March 2025, £20.288m, exceeds the total forecast usable revenue reserves £18.914m. Like many local authorities, this could result in the Council being subject to a s114 Notice.

4.39 The position that the new Government plans to takes on this national issue which presents significant financial risks for many local authorities needs to be made clear, and it is essential that a solution is provided early in 2025. This risk will be added to the Strategic Risk Register and will be reflected in the Annual Governance Statement for 2024/25. Further information relating to DSG and the work being undertaken by the Council with the DfE is set out in Appendix 6.

2024/25 Capital Programme Forecast Outturn as at Quarter Two

- 4.40 On 8 March 2024 Council approved a capital programme for 2024/25 of £88.549m (the original 2024/25 capital budget). This was revised to £97.215m as approved by Executive within the 2023/24 Revenue and Capital Outturn and Development of MTFP report of 26 June 2024 to take account of 2023/24 programme slippage and some new externally funded schemes. The budget was further revised at Quarter One by the addition of a total of £8.973m in 2024/25 in order to add new externally funded schemes / additional external funding to existing schemes
- 4.41 The budget has been further revised at Quarter Two by the addition of a total of £0.523m in 2024/25 in order to add new externally funded schemes / additional external funding to existing schemes (detailed in Appendix 8). Subject to Executive approval of incorporating these within the Capital Programme, the revised budget for 2024/25 is £106.711m as summarised in Table 9.
- 4.42 There are also some virements requested for approval by Executive between schemes in the 2024/25 Capital Programme approved by Council in March 2024 which are funded from within existing Council resources and where there is no increase in planned expenditure above that approved by Council for funding by capital receipts and borrowing (details are provided in Appendix 8). For information, virements that are fully grant funded are also included within Appendix 8.
- 4.43 The 2024/25 projected outturn on capital expenditure is £72.546m at Quarter Two, the revised projection includes new and additions to existing schemes, reductions in existing schemes and programme slippage.
- 4.44 The £72.546m of planned expenditure is expected to be funded by:
- £40.108m (55%) grants and external funding
 - £12.544m (17%) capital receipts
 - £19.894m (28%) borrowing
- 4.45 Table 9 summarises the capital programme approved budget, outturn, and variance for 2024/25.

Table 9 - Summary of capital programme approved budget, outturn, and variance for 2024/25

Directorate	2024/25	2024/25	2024/25	2024/25	2024/25	2024/25	2024/25	MEMO Explanation of Forecast Outturn Variance	
	Capital Programme Budget (as approved by Council 8/3/24)	Revised Capital Programme Budget (as per Execuitve report 26/6/24)	Revised Capital Programme (as at Quarter One)	Revised Capital Programme (as at Quarter Two)	Forecast Outturn	Forecast Outturn Variance	Forecast Outturn Variance % Against Budget		
	£m	£m	£m	£m	£m	£m	%		
Regeneration	21.582	27.428	29.578	29.578	22.623	(6.955)	(23.51)	Slippage £m	Underspend £m
Environment and Community Services	17.396	17.294	21.297	21.637	16.102	(5.535)	(25.58)	(6.943)	(0.012)
Public Health	0.043	0.519	0.689	0.689	0.689	-	-	(5.504)	(0.031)
Education and Partnerships	12.040	13.912	14.036	14.159	10.045	(4.114)	(29.06)	-	-
Children's Care	2.035	2.026	2.026	2.026	0.584	(1.442)	(71.17)	(3.939)	(0.175)
Adult Social Care	1.213	1.351	3.877	3.937	3.616	(0.321)	(8.15)	(1.440)	(0.002)
Legal and Governance Services	2.350	2.795	2.795	2.795	3.333	0.538	(19.25)	(0.321)	-
Finance	4.790	4.790	4.790	4.790	0.810	(3.980)	(83.09)	0.538	-
Transformation Programme	13.700	13.700	13.700	13.700	6.544	(7.156)	(52.23)	(0.680)	(3.300)
Exceptional Financial Support	13.400	13.400	13.400	13.400	8.200	(5.200)	(38.81)	(7.156)	-
Total	88.549	97.215	106.188	106.711	72.546	(34.165)	(32.02)	(25.445)	(8.720)

- 4.46 Capital slippage results from a delay in delivery of projects compared to the planned delivery. Whilst expenditure remains within the approved project budget, this results in an in year underspend which is required to be carried forward to the new financial year. This is called slippage. The amount of slippage (currently forecast at £25.445m) is reprofiled and carried forward to 2025/26 and 2026/27 to reflect revisions to the expected delivery and expenditure timescale. £22.178m of the stated £25.445m slippage has been identified following reviews of the status of the projects within the capital programme during Quarter Two. Details of capital slippage for 2024/25 as at Quarter Two are shown in Appendix 9.
- 4.47 The major reasons for the forecast underspend of £8.720m is that there is a reduction of £5.2m relating to Exceptional Financial Support which was planned to be funded from borrowing. These funds were set aside as contingency for capital receipts delivery risk (£4.6m) which is not required as sufficient planned capital receipts have been realised to fund the forecast transformation expenditure in the year, and the general contingency (£0.600m) will not be required based upon the revenue outturn forecast. Also, as outlined in the Quarter One report there was an underspend of £3.100m of Council resources due to the Capitalisation of Property Finance Lease Arrangements scheme.
- 4.48 Table 10 summarises and Appendix 10 details updated forecast expenditure for the period 2024/25 to 2026/27 split over the various schemes and the proposed funding. Since the Capital Programme for the period 2024/25 to 2026/27 was approved by

Council on 8 March 2024, there has been forecast slippage from 2024/25 and increased externally funded schemes as detailed above, and there is therefore a need to revise the forecasts for the period 2024/25 to 2026/27. Any changes to the budgets approved by Council in March 2024 for 2025/26 and future years, will be formally approved by Council as part of 2025/26 budget setting in February 2025.

Table 10 – Summary of Forecast Capital Programme 2024/25 to 2026/27

Directorate	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m	TOTAL £m
Regeneration	22.623	48.233	7.785	78.641
Environment and Community Services	16.102	21.426	8.172	45.700
Public Health	0.689	-	-	0.689
Education and Partnerships	10.045	7.765	0.996	18.806
Children's Care	0.584	1.200	2.603	4.387
Adult Social Care	3.616	0.981	0.660	5.257
Legal and Governance Services	3.333	1.647	2.185	7.165
Finance	0.810	0.430	0.150	1.390
Transformation Programme	6.544	14.856	5.300	26.700
Exceptional Financial Support	8.200	-	-	8.200
Total EXPENDITURE	72.546	96.538	27.851	196.935
Funded by				
Borrowing	11.694	28.803	8.282	48.779
EFS Borrowing	8.200	-	-	8.200
Capital Receipts	6.000	6.000	6.000	18.000
Flexible Use of Capital Receipts	6.544	14.856	5.300	26.700
Grants	38.813	44.241	3.404	86.458
Contributions	1.295	2.638	4.865	8.798
Total FUNDING	72.546	96.538	27.851	196.935

4.49 The Director of Finance has led the development of strengthened governance and reporting arrangements during 2024/25. These were detailed in the Capital Programme Governance Improvement report which was approved by Executive on 13 November 2024. The revised arrangements for capital governance, management and reporting will be implemented by the newly appointed Director of Finance and Transformation and Director of Regeneration as soon as possible. The Corporate Capital Board and Strategic Capital Board will be created and operational for Quarter Three monitoring and to develop the 2025/26 capital programme.

Treasury Management - Borrowing & Prudential Indicators

4.50 The Council's investment and borrowing activity is managed in accordance with the Treasury Management Strategy (TMS) which is a key element of the MTFP alongside the annual revenue budget and capital programme which are approved by Council annually before the start of the financial year.

4.51 Treasury Management activity is governed by the Prudential Indicators which are set within the TMS. The Council uses external expert treasury advisers (Arlingclose) to

inform the development of its strategy and operational in year decisions. A half yearly review of the Council's TMS and prudential indicators has taken place at Quarter Two and a specific report is submitted to Executive elsewhere on this agenda.

- 4.52 The half yearly review of the Council's TMS shows that the forecast capital financing cost in 2024/25 is £11.154m, which is in line with the budget set.

Collection Fund - Council Tax and Business Rates income

- 4.53 Income received from Council Tax and Business Rates (NNDR) is a major source of revenue income for the Council and funds around 62% of its annual net budget in delivering all Council services. It is accounted for separately from the General Fund in the Collection Fund which is heavily regulated by Government. Due to the prescribed mechanisms for operating the Collection Fund, the financial impact of any 2024/25 income collection variances do not immediately affect the General Fund position. By illustration, the impact of any estimated surplus or deficit variance on the Collection Fund for 2024/25 is fed into the development of the 2025/26 budget and MTFP and any cost / benefit does not impact the 2024/25 financial year.
- 4.54 There is currently an estimated forecast surplus on the Collection Fund for 2024/25. This will be subject to further assurance work before the figure is confirmed and this will be reported as part of the Budget report in February 2025. The estimated surplus is unavailable in 2024/25, but becomes available to support the development of the 2025/26 budget, and currently it is estimated that potentially £2m of this will be available to support the 2025/26 budget.
- 4.55 Paragraph 4.65 of the 2025/26 Draft Budget and Medium Term Financial Plan 2025/26 to 2028/29 report to this Executive details the proposed use of the estimated Collection Fund surplus for 2024/25 in the 2025/26 budget setting.

Debt Recovery Performance

- 4.56 A key workstream within the plans to recover the Council's financial position is the renewed focus upon recovering monies owed to the Council from the following sources
- Council Tax
 - Business Rates
 - Sundry (general) debt
 - Housing Benefit Overpayments
- 4.57 The Council's approach to improving debt recovery performance whilst maintaining appropriate support to residents and businesses who are entitled to available help, advice and support, is set out in Appendix 11. Progress will be incorporated into quarterly monitoring reports throughout 2024/25, with the position at Quarter Two 2024/25 (30 September 2024) shown in Table 11 in paragraph 4.58. An exercise to review uncollectable debt for write off will be completed during Quarter Four.
- 4.58 The debt collection performance for 2024/25 together with the movement in debt balances between 31 March 2024 to 30 September 2024 is summarised below:

Table 11 – Debt Collection Performance Quarter Two 2024/25 (as at 30 September 2024)

Category of Collectable Debt	Balance at 1/4/24 (£m)	Movement in-year (£m)	Balance at 30/9/24 (£m)
Council Tax	36.773	(2.060)	34.713
Business Rates	8.391	(1.799)	6.592
Sundry Debt	15.516	(1.217)	14.299
Housing Benefits Overpayments	6.535	(0.339)	6.196
Total	67.215	(5.415)	61.800

Note that the figures for Council Tax and Business Rates are Middlesbrough’s share of the Collection Fund debt (Council Tax 83% and Business Rates 49%).

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

5.1 Not applicable.

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

6.1 Financial (including procurement And Social Value)

6.1.1 This report sets out the implications associated with the financial performance of the Council in managing its revenue, grant and capital resources for the financial year 2024/25 and the financial implications are incorporated throughout. The report should be read in conjunction with the Treasury Management Half Year Review report elsewhere on this agenda to fully understand the financial position of the Council.

6.2 Legal

6.2.1 The proposed recommendations are consistent with and will promote the achievement of the Council’s general legal duty to achieve Best Value in accordance with Section 3 of the Local Government Act 1999 (as amended by s137 of the Local Government & Public Involvement in Health Act 2007).

6.3 Risks

6.3.1 In line with the Council’s Risk Management Policy, the corporate Strategic Risk Register will be reported to this Executive as part of the Corporate Performance Update: Quarter Two 2024/25 report.

6.4 Human Rights, Equality and Data Protection

6.4.1 The complete overall impact assessment included in Appendix 3 of the budget report to Council on 8 March 2024 , along with all the individual impact assessments found that there was a justified adverse impact from these proposals in order to ensure the Council is able to maintain a balanced budget and continue to meet its statutory obligations.

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)

Action	Responsible Officer	Deadline
Corporate revenue budget spending controls set out in the main body of the report will continue to be applied to Directorates as stated.	Director of Finance	31/3/25
Service Reviews to be undertaken in following areas as detailed in para. 4.26 to 4.30 <ul style="list-style-type: none">Children's CareAdults Social CareCrematoriumWaste ServicesFleet ServicesIntegrated Transport Unit / SEND transport	Director of Childrens Services Director of Adult Social Care Director of Environment & Community Services Director of Environment & Community Services Director of Environment & Community Services Director of Education & Partnerships	31/12/24
Revenue budget virements detailed in Appendix 3 to be actioned, subject to approval	Head of Financial Planning & Support	31/12/24
Review Debt for potential write off	Head of Resident & Business Support Director of Finance	31/3/25
Amendments to the capital programme for 2024/25 to be actioned, subject to approval	Head of Financial Planning & Support	31/12/24

Appendices

1a	Summary of key variances and financial recovery plans Quarter Two 2024/25
1b	Details of Directorate variances Quarter Two 2024/25
2	Directorate Financial Recovery Plan Savings Quarter Two 2024/25
3	Proposed revenue budget virements above £250,000 at Quarter Two 2024/25
4	Detailed savings tracker of savings categorised as "Red" and "Purple" by Directorate at Quarter Two 2024/25
5	Reserves and Provisions
6	Summary of projects approved for utilisation of Contingency Budgets and Change Fund at Quarter Two 2024/25
7	Dedicated Schools Grant
8	Capital Programme Quarter Two 2024/25 - additional external funded schemes / additional external funding to existing schemes, and transfers between schemes
9	Capital Programme Quarter Two 2024/25– details of capital slippage

10	Revised Capital Programme Forecasts 2024/25 to 2026/27
11	Council's approach to debt recovery

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	2025/26 Medium Term Financial Plan	4/9/24
Executive	Revenue and Capital Budget – Forecast Year-end Outturn position at Quarter One 2024/25	4/9/24
Executive	Capital Programme Governance Improvement	13/11/24
Executive	2025/26 Draft Budget and Medium Term Financial Plan 2025/26 to 2028/29	4/12/24
Executive	Treasury Management Mid-Year review – 2024/25	4/12/24

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