

MIDDLESBROUGH COUNCIL	
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Report of:	Director of Finance (s151 Officer)
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Relevant Executive Member:	Elected Mayor of Middlesbrough Executive Member for Finance
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Submitted to:	Executive
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Date:	4 December 2024
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Title:	2025/26 Draft Budget and Medium Term Financial Plan 2025/26 to 2028/29
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Report for:	Decision
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Status:	Public
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Council Plan priority:	All
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Key decision:	Not applicable
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Why:	The decisions in this report present a draft budget for consultation as part of the budget development process. Final decisions on the 2025/26 budget and MTFP will be taken by Council in February 2025.
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Subject to call in?:	No
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Why:	The decisions in this report present a draft budget for consultation as part of the budget development process. The Executive will subsequently agree a proposed 2025/26 budget and MTFP to 2028/29 that will be presented to Council for approval in February 2025.
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Proposed decision(s)
<p>The report provides an update to the Executive on the budget and Medium Term Financial Plan (MTFP) development process for 2025/26 to 2028/29 that will conclude with consideration and approval of the budget by Council in February 2025. The recommendations in this report are for formal noting and endorsing by Executive of a range of budget proposals aimed to balance the budget to go out to public consultation. These are detailed in paragraph 2.</p>

Executive summary

On 4 September 2024, the Executive received an update on the Medium Term Financial Plan for 2025/26 to 2028/29 which set out the challenging financial and economic environment with the Council, like many local authorities, is operating within. The report set out the key assumptions upon which the budget and MTFP are calculated based upon the best information available at that time, which remain subject to review throughout the budget development and setting period as new information is available.

This report provides a further update on the financial and economic environment and sets out draft budget and associated proposals that present a legally balanced budget for 2025/26 and 2026/27. Sufficient savings and income proposals were made by officers to enable the Mayor and Executive to have options, including the ability to reinvest in some direct services to the community and reinvestment in the resilience of enabling services. These are proposed to meet the Mayor's priorities to deliver against his pledge of 'Recover, Reset, Deliver' for Middlesbrough.

There is a remaining budget gap over the period of the MTFP of £2.686m in 2027/28 and rising to £5.150m by 2028/29 based upon current modelling assumptions that will be revisited upon receipt of the Provisional Settlement on 19 December 2024. (paragraphs 4.124 and 4.125)

The Chancellor announced the Government's Budget on 30 October 2024 which contained a range of measures to support the local government sector in recognition of the critical state of local authority finances. Whilst the headline messages within Budget are welcomed by Middlesbrough and across the local government sector, there is currently insufficient information upon which to fully assess the implications for individual local authorities. This draft budget for Middlesbrough therefore adopts a broadly financially neutral assessment of the Government's announcements made to date. Further work will be required to fully assess the implications upon the Council's financial position once details are published in the Provisional Local Government Finance Settlement that will be made on the 19 December 2024. (paragraphs 4.43 to 4.50)

It is crucially important that members appreciate that the 2025/26 Local Government Finance Settlement is a one year only settlement and that a Government Spending Review will be announced in the Spring 2025, followed by a three-year Settlement for 2026/27 to 2028/29 which will be significantly tighter for the local government sector based upon published data. The Government's Budget provides a one-off 'front loading' of funding in 2025/26 combined with the continuation of the Exceptional Financial Support mechanism for those authorities facing a s114 scenario.

This will provide short term relief for authorities facing the most acute financial difficulty and buys time to develop the 2025 Spending Review, putting in place a three year settlement, combined with a fundamental review of the methodology for distributing government funding to local authorities (Funding Formula). This will take place in 2025 and will be subject to widespread consultation with the local government sector. (paragraph 4.47)

The current Funding Formula is widely recognised as being not fit for purpose and it is

expected that the review will result in significant redistribution of resources between local authorities with effect from the 2026/27 financial year. It is too soon to assess the impact for Middlesbrough, although the Government has recognised the significant financial challenges for areas like Middlesbrough which are subject to high levels of multiple deprivation and low council tax raising abilities to fund disproportionate costs.

No announcement has been made by Government at this stage in relation to the level of Council Tax referendum limits or the continuation of the Adult Social Care Precept beyond 2025/26. There is also no indication of any plan to review the Council Tax system which is widely recognised as being out of date and has resulted in significant anomalies in the level of council tax paid by residents in different areas of the country. Similarly, no announcement has been made in relation to intentions to reform the Business Rates system. These represent the largest proportion of the Council's income streams as a result of declining government grants over the last decade and therefore present significant uncertainty for budget setting in 2025/26 and over the MTFP period. (paragraphs 4.47 and 4.72 to 4.74)

The Council's financial position remains fragile given its low level of reserves resulting from historical spending in excess of annual income streams. It is essential that there is continued focus upon cost reduction and growth of income streams in the short term underpinned by a resolve to protect and rebuild revenue reserves in line with the Reserves Policy approved by Council on 8 March 2024.

The Council must continue to drive forward its plans for service transformation and redesign in order to achieve the Council Plan priorities:

- A successful and ambitious town
- A healthy place
- Safe and resilient communities
- Delivering best value

whilst operating within its financial means over the medium to long term.

Key to the Council's future success will be its commitment to underpin the delivery of its service transformation programme with a step change in its approach to integrated strategic financial and performance management to ensure financially sustainable service delivery. (paragraphs 4.127 to 4.129)

The Council's financial position is still fragile and there is uncertainty over medium term future funding levels which will not become clear until the announcement of a three year settlement following the Spring 2025 spending review and reform of the grant distribution methodology. Therefore, the Director of Finance advises the Executive to propose a Core Council Tax at the referendum limit notified by Government of 2.99% plus 2% for the Adult Social Care Precept in 2025/26. (paragraph 4.72)

This report sets out the draft 2025/26 budget and MTFP to 2028/29 to be endorsed by the Executive to progress to consultation and includes the following key updates:

- an update on the national and local context in which the Council is developing its Council Plan and MTFP (paragraphs 4.1 to 4.28)
- a summary of the headline announcements made in the Chancellor's Autumn Budget

on 30 October 2024 (paragraphs 4.49 and 4.50 and Table 5)

- The Council's financial performance at Quarter Two to 30 September 2024. (paragraphs 4.29 to 4.32)
- Financial planning assumptions based upon the best information available at the time of writing. (paragraphs 4.62 to 4.67)

The report recommends that Executive formally note key information and assumptions used in developing the draft budget and that Executive endorse a range of budget proposals including the proposed total council tax increase in order to progress to the next stage of the budget development process, including public consultation where appropriate.

The final draft MTFP report will be considered by the Executive on 5 February 2025 and recommended to Council for consideration and approval on 19 February 2025. This will also include an updated position for the Capital Programme, Capital Strategy, Treasury Management Strategy, and Flexible Use of Capital Receipts Strategy.

The Council's Director of Finance (Section 151 Officer) has a statutory duty to assess the robustness of the budget estimates and the adequacy of reserves in the form of a report under s25 of the Local Government Act 2003. This formal assessment will be provided in the MTFP report to the Executive and Council in February 2025.

1. Purpose

- 1.1 This report is a key stage in the budget development process for 2025/26 and the MTFP for the four year period to 2028/29. It presents budget and council tax proposals that will achieve a legally balanced budget for 2025/26, a balanced position for 2026/27 with a remaining budget gap in 2027/28 and 2028/29. Subject to endorsement by the Executive, the draft budget will progress to the consultation phase of the budget development process during the period 5 December 2024 to 8 January 2025.
- 1.2 Further work will be required to assess the Council's financial position more fully once the detail of significant Government Budget announcement is made in the Provisional Local Government Finance Settlement on 19 December 2024.

2. Recommendations

That the Executive **Notes** the key issues set out in paragraphs 2.1 to 2.4:

- 2.1 The update on the key budget assumptions upon which the 2025/26 budget and MTFP to 2028/29 is calculated. (paragraphs 4.62 to 4.67)
- 2.2 The proposed draft budgets for 2025/26 and 2026/27 are balanced, with a gap of £2.686m in 2027/28 and rising to £5.150m in 2028/29. (paragraphs 4.124 and 4.125)
- 2.3 Further work is required to fully assess the Council's financial position once the detail of the Provisional Local Government Finance Settlement is published.
- 2.4 Transformation Programme business cases must be robust, and adequately

assured to enable their inclusion in the proposed 2025/26 budget and MTFP. Work is continuing to develop detailed business cases within the Recover, Reset, Deliver Transformation Programme in relation to the cross cutting Programmes: Target Operating Model including Customer Services, Neighbourhoods, IT and Digital. These programmes will fundamentally modernise and redesign the Council's service delivery models to achieve improved outcomes for the community from a lower cost base. It is intended that these will be brought forward to the 5 February 2025 Executive for incorporation into the overall budget to be considered by Council on 19 February 2025.

That the Executive **Endorses** recommendations 2.5 to 2.9 as follows:

- 2.5 Total proposals for savings and income growth of £7.036m in 2025/26 rising to £8.686m in 2028/29, of which £0.249m are deemed to involve policy change and/or impact service delivery levels and will be subject to public consultation (Appendices 1 and 2).
- 2.6 Total budget growth for re-investment in services aligned to the Recover, Reset, Deliver plan of £2.361m in 2025/26 rising to £2.558m in 2028/29 (Appendix 3)
- 2.7 The proposed total Council Tax increase of 4.99% for 2025/26 comprising:
 - 2.99% increase in general Council Tax and
 - 2% Adult Social Care Precept,
- 2.8 The proposed arrangements to make financial provision against the risk of delivering the 2025/26 budget and MTFP which will enable the Council to set a robust budget without an application for reliance upon Exceptional Financial Support (EFS) from Government. (paragraph 4.65)
- 2.9 That where applicable, budget consultation will commence, on 5 December 2024 and conclude on 8 January 2025 prior to finalising the proposed budget by Executive on 5 February 2025 for consideration and approval by Council on 19 February 2025.

3. Rationale for the recommended decision(s)

- 3.1 The Council has a legal obligation to set a balanced budget by 11 March 2025 and a Best Value duty to demonstrate financial sustainability through a balanced Medium Term Financial Plan (MTFP). The setting of the budget is part of the budget and policy framework and therefore requires Full Council approval.
- 3.2 The recommendations in this report enable the Council to progress towards meeting its statutory responsibility to set a robust and balanced revenue budget in 2025/26 and a balanced position in 2026/27 working towards financial sustainability over the period of the MTFP.
- 3.3 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

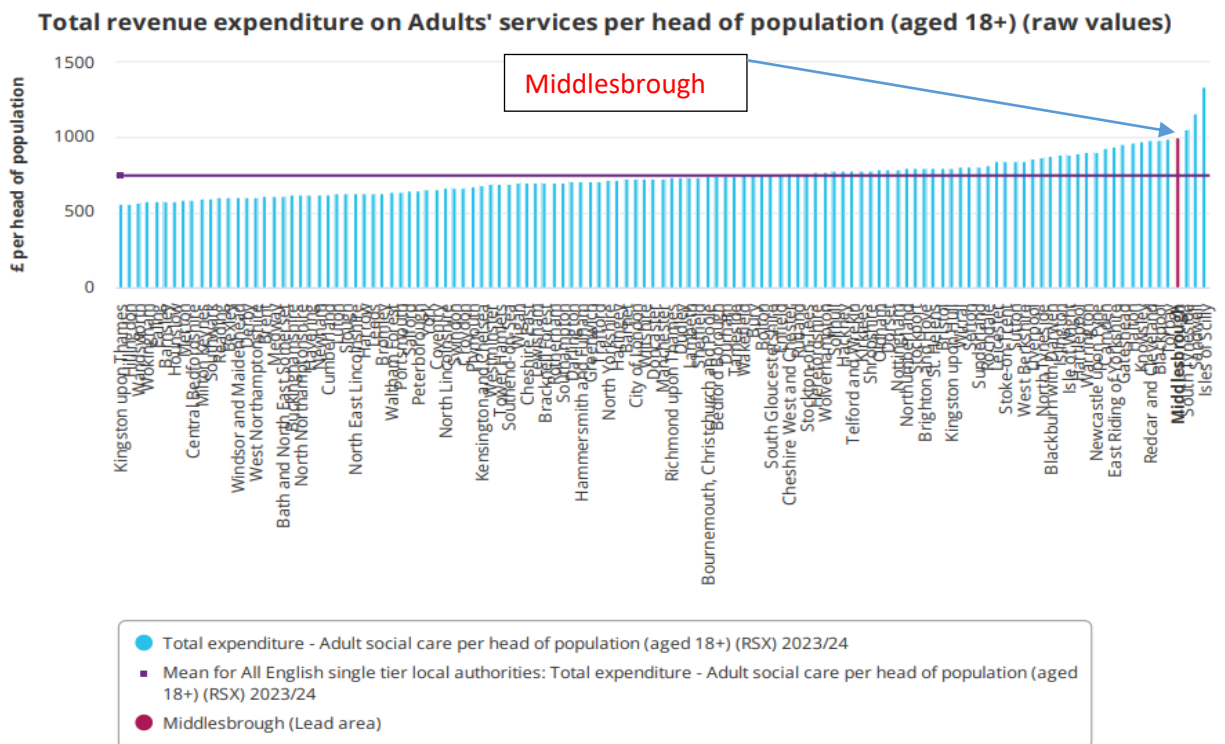
Middlesbrough Context

- 4.1 Middlesbrough is the business, culture, and education capital of the Tees Valley. Our location in the North East of England gives us access to stunning countryside, unrivalled coastline and the beautiful North York Moors. It is home to thriving companies who compete on the world stage and award-winning education institutions including Teesside University. With a population of 143,900 (as per the Census 2021) living across an area of around 7 miles by 5 miles, Middlesbrough is one the most densely populated and diverse towns in the Northeast. Approximately 18% of the town's population are from an ethnic minority background whilst a significant minority of Middlesbrough's total population (12.29%) were born outside of the UK.
- 4.2 Employment and Skills are long outstanding challenges, Middlesbrough is younger on average than the regional and national average, which means that there is a large proportion of the population (62.4%) in education or at working age (higher than the North East at 61.9%), which presents opportunities to shape the future workforce, to meet the needs of the town. However, one of our key challenges is ensuring that the current and future workforce have the skills to attract business to the town, for example, 23.9% of residents have no qualifications, compared with 18.1% nationally.
- 4.3 Middlesbrough ranks as the 5th most deprived area in England and 40% of wards are ranked as amongst the top 3% most deprived areas (as per the Index of Multiple Deprivation 2019). Local people face significant health inequalities, with men and women in some of our poorest areas are likely to live for 4 years and 3 years respectively less on average than those regionally and nationally.
- 4.4 Whilst living in Middlesbrough can be challenging, there is a real sense of community, and the town has been incredibly welcoming to new arrivals, based on the Council's Resident Surveys completed in 2017 and 2023 and has shown real community spirit to recover from the riots that occurred in the summer of 2024.
- 4.5 These characteristics represent long term challenges to the prosperity and wellbeing of Middlesbrough as a town and to the Council in meeting the needs of the community. There is significant and increasing demand for services for which the authority is required to meet its statutory responsibilities, such as adults and children's social care, which in 2024/25 account for 79% of the net revenue budget, a reduction of 4% from 2023/24 as a result of transformation and budget savings implemented in 2024/25.
- 4.6 The graph below shows that Middlesbrough spends 80% of its Core Spending Power on social care in 2023/24 and was the tenth highest of all single tier authorities in England.

Adult Social Care

- 4.11 Gross expenditure on Adult Social Care in 2024/25 is £121.7m which is the largest spending area of the Council. After taking account of grants and contributions from the NHS, clients and other third parties, the net budget is £52.075m (39%).
- 4.12 National comparative data for 2023/24 shows that Middlesbrough spent £1,006 per head of the population on Adults Services, which was the fourth highest of all English unitary authorities as shown in the graph below.

Figure 2: Total revenue expenditure on Adult Social Care per head of population (aged 18+) 2023/24 for all English single tier local authorities



Source: Total revenue expenditure on Adults' services per head of population (aged 18+)

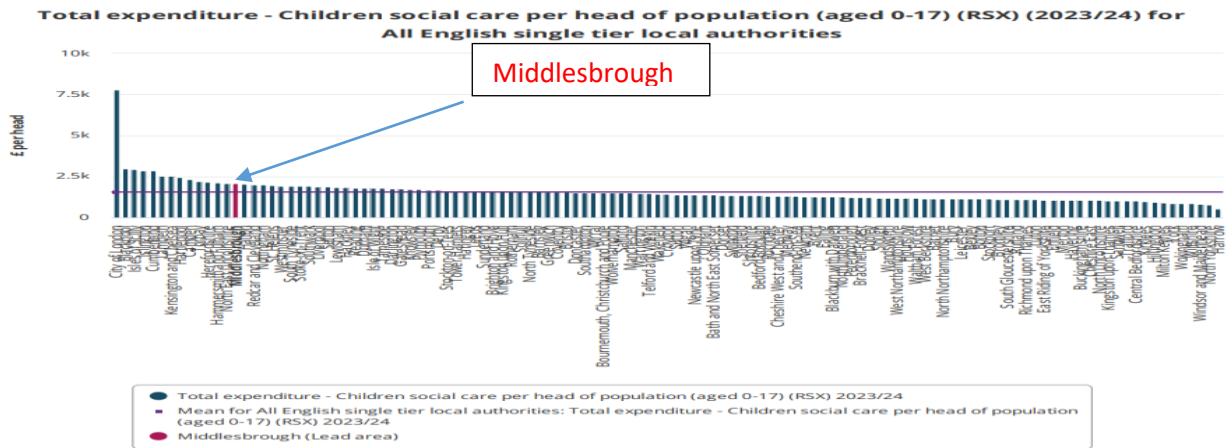
lginform.local.gov.uk

- 4.13 The measures being taken through the Council's Adults Transformation and savings programme seek to modernise social care through the development of "strengths based practice"; this will promote independence and support social care staff in meeting the assessed needs of individuals through a broader range of support mechanisms with less reliance on expensive commissioned care services. Additionally, the service will increase the use of digital technology to increase choice for service users in how their needs will be met and reduce the cost of care provision.

Childrens Social Care

4.14 Childrens Social Care is the largest area of net expenditure for the Council at £54.038m (40% of the Council's total net revenue budget) for 2024/25. National comparative data shows that the Council spent £2,083 per head of the population on Children's Social Care in 2023/24. This is the fourteenth highest of all English single tier authorities.

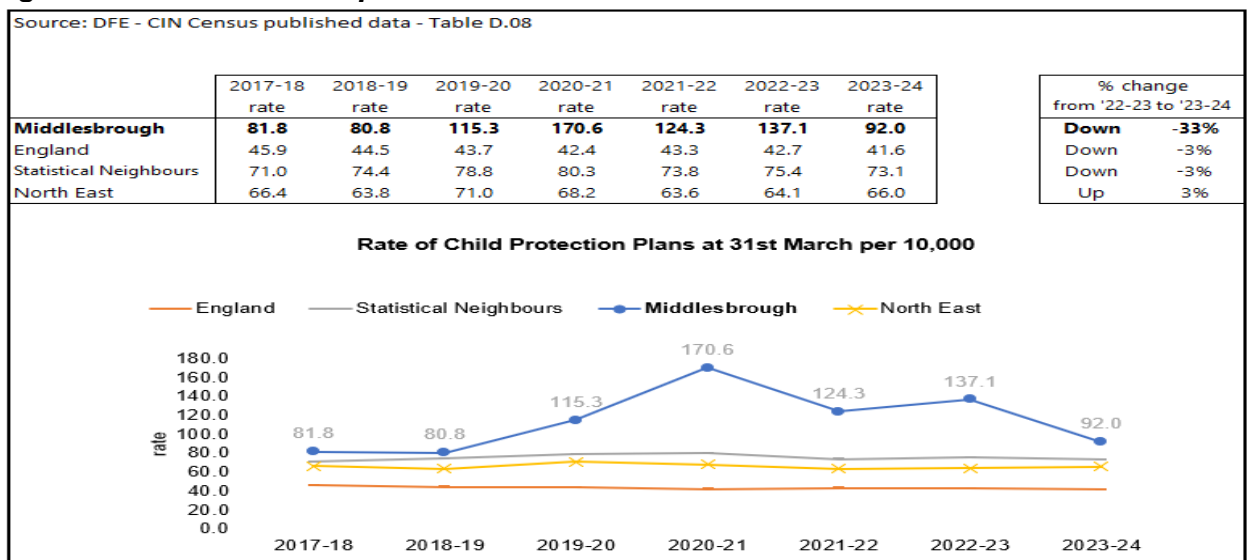
Figure 3: Total revenue expenditure on Children Social Care per head of population (aged 0-17) 2023/24 for all English single tier local authorities



Source: Ministry of Housing, Communities and Local Government
loginform.local.gov.uk

4.15 The number of Children aged 0-15 in absolute low income families was 31.8% compared to the England average of 15.3% (as per Department for Work and Pensions data). The number of young people, and those living in poverty directly impacts on the number of children requiring support from Children's Services. The level of demand is demonstrated in Figure 4 below, showing that for Child Protection plans in place for Middlesbrough there are 92.0 per 10,000 children whilst the England average was 41.6 in 2023/24.

Figure 4: Child Protection plan numbers for 2017/18 to 2023/24



4.16 The measures delivered during 2024/25 through the Children's Social Care Transformation and savings programme of £5.080m aims to create a stable and renewed workforce through its review of all Services across Children's Social Care which has identified a reduction of posts as part of its establishment review. The Children's programme aims to deliver best value through its reviews of Children in Care who are in high-cost external residential placements looking to step them down in to more appropriate and less expensive settings where safe to do so, also through its review of Children who have Special Guardianship Orders in place. The review ensured there was no duplication of support or overpayments that were made and that the right level of support was given to families. The transformation programme aims to carry out workforce development to reduce the number and reliance of interim and agency Social Workers. The project will ensure a sustainable and highly skilled workforce of permanent social workers being recruited is in place.

The further proposed projects in 2025/26 will look to create an Edge of Care Service which will support children to remain at home or at a family network, which otherwise without the service would come into our care. The Programme will transform and modernise the Fostering Service which is looking to increase the number of foster carers through a marketing campaign and creation of a Kinship Team which will provide training and intervention and support to carers to prevent placement breakdown and children re-entering care. Proposed savings arising in these areas are detailed in Appendix 1.

Waste Management

4.17 The 2024/25 net budget for Waste Collection is £2.210m. Waste disposal is a significant cost to the Council with a 2024/25 budget of £5.134m. In the medium to long term, the Council expects that the cost of disposing of residual waste will increase substantially. This is due to existing long term waste disposal contracts expiring and the new regional Energy from Waste Site and contract, which is in the process of procurement and is planned to become operational in 2029. It is important that the Council works with residents now in order to achieve improved rates of recycling to avoid significant future costs of disposal.

4.18 The Council implemented a new alternate fortnightly collection service for residual and recycled waste in 2024/25 as part of its transformation and savings programme, which aims to improve household recycling rates and reducing the amount of residual waste that is disposed of through the Energy from Waste facilities. The Council is actively working to enhance recycling efforts and address contamination issues to ensure waste management efficiency and environmental sustainability. Regular visits to the recycling facilities are conducted to inspect for contamination, identifying items that do not belong in the recycling stream. Through these visits, tailored feedback is provided to residents via the Council's social media teams, educating them on proper recycling practices to reduce contamination rates. Additionally in promoting good recycling the team carries out visits to schools, delivers roadshows, covering all areas of the town, linking with community groups, housing association and other council departments.

4.19 As well as contributing to the Council's environmental objectives, the cost of disposing of recycled waste (average disposal rate is £50.01 per tonne) is much

lower than the cost of residual waste (disposal rate is £75.01 per tonne). Further, it is important to note that there is a significant cost to disposing of waste incorrectly. Residual waste that is put in the recycling bin causes contamination to the recycled waste stream and is rejected by waste operators and diverted to the residual waste stream for which the Council has to pay to process twice (average residual waste disposal rate of £202.58 per tonne).

4.20 Table 1 below, summarises the percentage of household waste rejected from recycling streams due to contamination over the period 2018/19 to 2022/23 which is the latest available data. In 2022/23, Middlesbrough had 21.18% rejected, the third highest of all English single tier local authorities as shown in Figure 5. Improving household recycling behaviour is important for the environment and is capable of delivering significant savings.

Table 1: Percentage of household waste contaminated/rejected from 2022/19 to 2022/23 for Middlesbrough

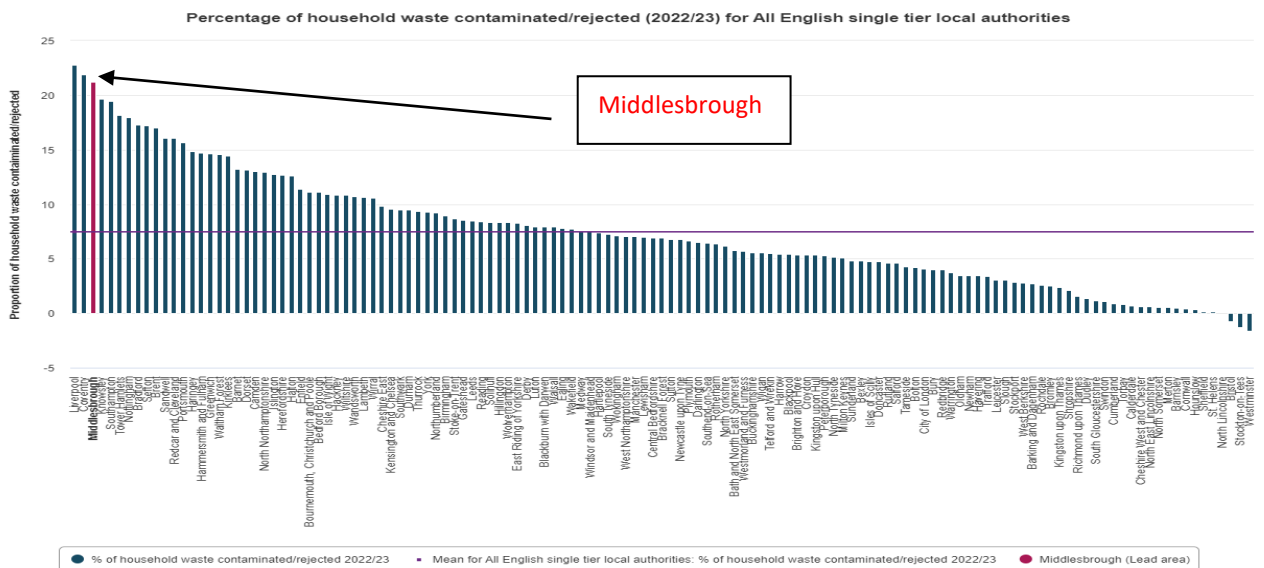
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Percentage of household waste contaminated/rejected (from 2018/19 to 2022/23) for Middlesbrough

Period	% of household waste contaminated/rejected			
	Middlesbrough	Minimum for All English single tier local authorities	Mean for All English single tier local authorities	Maximum for All English single tier local authorities
2018/19	7.66	-2.72	5.95	17.38
2019/20	9.15	-1.88	5.93	17.37
2020/21	15.73	-2.50	7.12	18.49
2021/22	16.38	-2.54	6.99	22.36
2022/23	21.18	-1.64	7.47	22.79

Source:
Department for Environment, Food and Rural Affairs
ginform.local.gov.uk

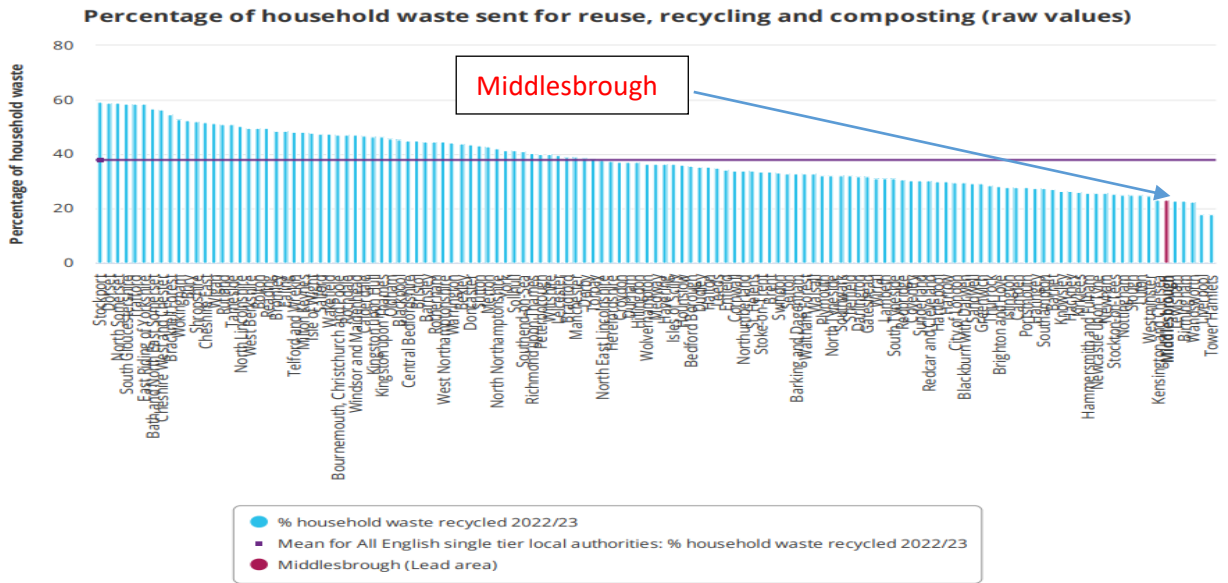
Figure 5: Percentage of household waste contaminated/rejected from 2022/19 to 2022/23 for All English single tier local authorities



Source:
Department for Environment, Food and Rural Affairs
ginform.local.gov.uk

4.21 National comparative data shows that in 2022/23 Middlesbrough had one of the lowest recycling rates of all single tier authorities at 23%, a reduction of 6.8% compared to 2021/22 and compared to a mean for all authorities of 38%.

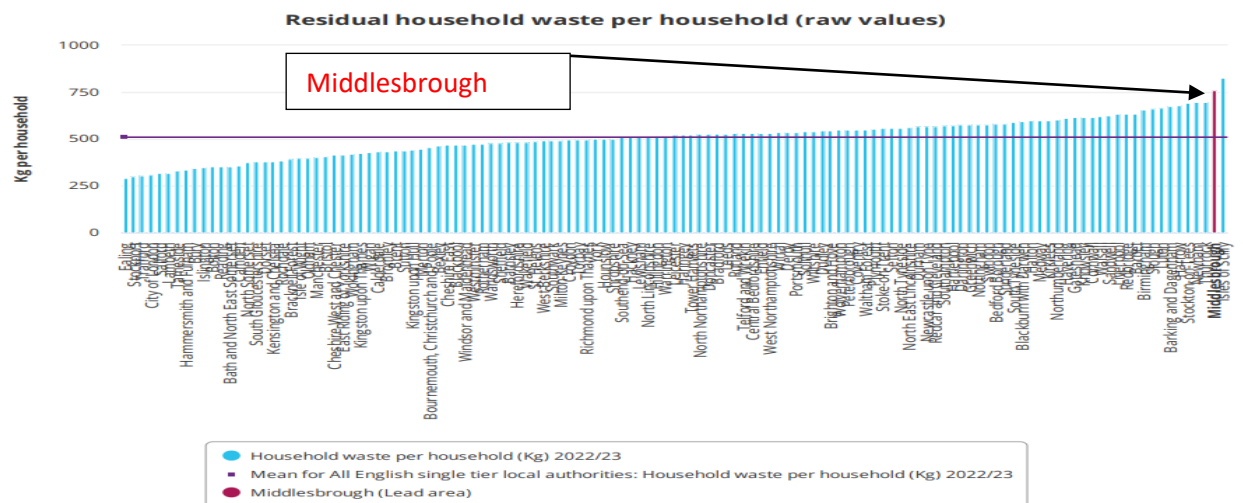
Figure 6: Percentage of household waste sent for reuse, recycling and composting 2022/23



Source:
 Percentage of household waste sent for reuse, recycling and composting
lginform.local.gov.uk

4.22 In 2022/23, the amount of residual waste was the second highest of all single tier authorities at 759kg per household, increased by 8.2% from 701kg per household compared in 2021/22.

Figure 7: Residual household waste per household 2022/23



Source:
 Residual household waste per household
lginform.local.gov.uk

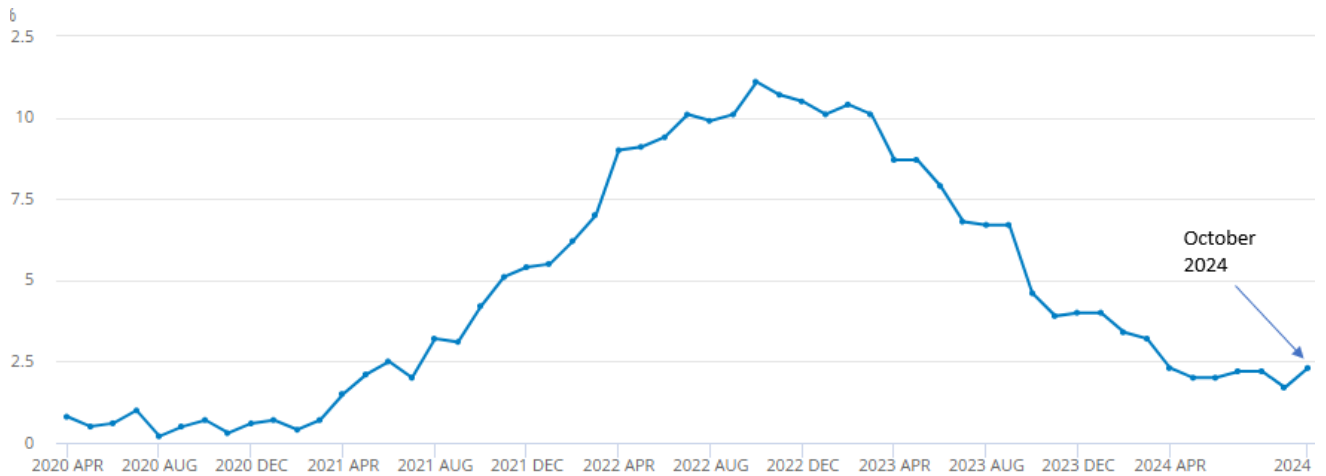
Corporate Governance Improvement Programme (CGIP) & s24 Recommendations

- 4.23 The Council was issued with a Best Value Notice by DLUHC in February 2023 which was subsequently extended in January 2024. In August 2023 it received 11 statutory recommendations relating to the need to improve its Best Value arrangements by the External Auditor Ernst & Young (LLP) (EY). By October 2024, the Council had successfully delivered:
- 91% of its planned CGIP actions with 8% on track by October 2024,
 - 98% of its s24 recommendations with the remaining 2% on track.
- 4.24 The Ministry for Housing Communities and Local Government (MHCLG) (formerly DLUHC) did not renew the Best Value Notice following its review of the Council's progress in September 2024, recognising the significant improvements made, but noting the significant risks remaining in relation to the Council's financial resilience.
- 4.25 EY ceased to be the Council's appointed external auditor with effect from the 2022/23 financial year ending 31 March 2023, but continues to report to the Audit Committee in relation to the conclusion of the financial statements for 2021/22 and 2022/23, which is expected by the 30 November 2024. EY issued its final VFM report to the Audit Committee in August 2024, in which it advised that under the Code of Audit Practice, it was not able to undertake audit work during 2023/24 and 2024/25 to form an opinion on the Council's progress in addressing the s24 recommendations as it was no longer the appointed auditor. It therefore provided no assessment of the Council's progress in addressing the 11 statutory recommendations.
- 4.26 Forvis Mazars LLP was independently appointed as the Council's auditor with effect from 1 April 2023 for the 2023/24 financial year onwards and is due to issue its Value For Money report for 2023/24 to the Audit Committee early in 2025. The findings will also subsequently be reported to Council given the criticality of this report in the context of the Council's improvement journey.

National Economic Context

- 4.27 Inflation as measured by the CPI (Consumer Prices Index) has fallen to over the twelve months to 2.3% at 31 October 2024. The CPI reached a 40 year high at 11.1% in October 2022. The rate of inflation measures the annual increase in prices and therefore the exceptionally high rate in 2022 effectively locked in higher prices that are paid for the Council's supplies of goods, works and services. Local authorities previously received no government support to meet the cost of inflationary pressures in the 2023/24 or 2024/25 finance settlements. The CPI rate between April 2024 and October 2024 is illustrated below:

Chart 1: CPI Monthly increase between April 2020 and October 2024



Source: Office for National Statistics Data Tables

4.28 The last Office for Budget Responsibility (OBR) prediction in May 2024 is for CPI to fall over the course of 2024 to 2.2% on average and reach 1.1% by Q1 of 2025. The latest forecast provided by the Council’s Treasury Management Advisers, Arlingclose indicates that this will not happen as quickly as forecast by the OBR. They state that inflation remains a key concern; CPI is projected to rise to approximately 2.75% by the end of 2024, as the previous year’s energy price reductions fall out of annual comparisons, revealing the underlying persistence of domestic inflationary pressures. Inflation is then expected to fall to the Bank of England’s target of 2% by the end of 2027. The Arlingclose forecast is demonstrated in Chart 2 below :

Chart 2 : Arlingclose outlook for UK CPI inflation



2024/25 Financial Performance

- 4.29 The delivery of a balanced budget and rebuilding reserves during 2024/25 is a critical stage in the Council's financial recovery and is necessary to establish the foundations required to achieve financial sustainability over the medium term.
- 4.30 In setting the 2024/25 budget, the Council provided for £20.764m of growth to meet demand pressures in key statutory service areas. After approving £13.910m of savings, it needed to rely upon one off Exceptional Financial Support of £4.7m in the form of a capitalisation direction in order set a legally balanced budget. However, unanticipated additional pressures primarily in Children's Social Care have resulted in a forecast overspend early in the financial year.
- 4.31 The Quarter Two position now forecasts an overspend of £1.382m which is an improvement of £2.360m compared to the Quarter One position. This is being driven primarily by savings slippage and increased number and complexity of children in external residential care resulting in a forecast overspend of £3.687m in Children's Social Care, offset by underspending in other directorates and central budgets. It is essential that transformation measures to improve social care practice and cost efficiency within the directorate are successfully delivered at pace to stabilise the Council's financial position.
- 4.32 Financial recovery plans continue to be developed and implemented in order to mitigate this further, with current plans totalling £0.498m, bringing the overspend down to £0.884m if delivered. Corporate contingencies that are held for unforeseen events outside the Council's control, will be reviewed and revised in light of financial performance at Period 9 (end of December 2024) to update the forecast outturn and preparation for final budget setting. Indications are that it is possible for the Council to deliver its financial outturn within the approved 2024/25 budget by 31 March 2025, providing that no material adverse events occur during the second half of the year.

Table 2 - Summary of Revenue Budget Forecast Outturn 2024/25 at Quarter Two

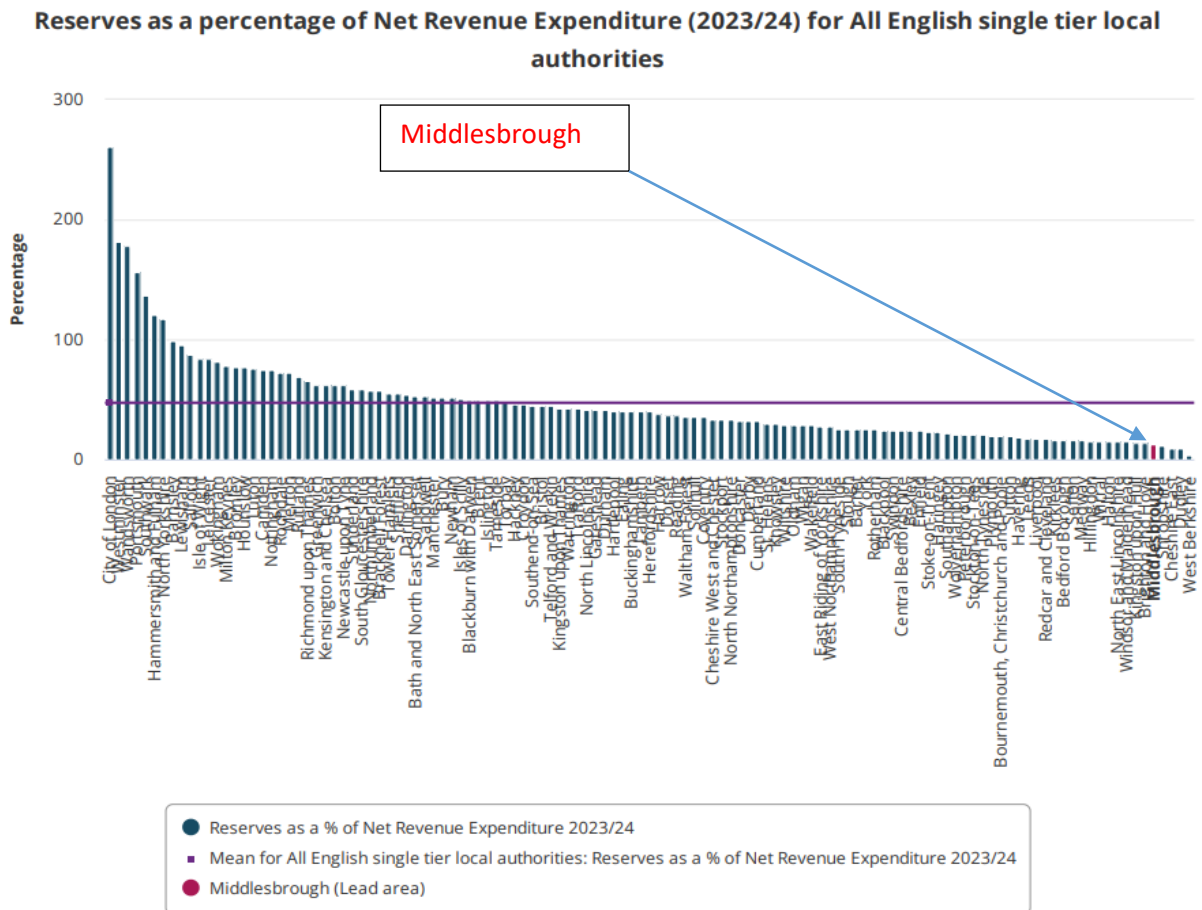
MEMO FORECAST
VARIANCE SPLIT

All Directorates	Original Budget Full Year	Current Budget Full Year	Forecast Outturn	Forecast Variance	Movement from last quarter (Forecast Variance before Financial Recovery Plan)	Financial Recovery Plan	Forecast Outturn Variance (If Financial Recovery Plan Assured)	Savings Delivery Variance	Other variances
	£m	£m	£m	£m	£m	£m	£m	£m	£m
				Adv / (Fav)	Adv / (Fav)	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)

Financial Resilience – Adequacy of Reserves

- 4.33 The Council’s revenue reserves fell to a critically low level of £10.986m on the General Fund and £1.069m on the Unrestricted Usable Earmarked Reserves at 31 March 2024, which was below the recommended minimum level advised by the s151 Officer, putting the authority at risk of a s114 Notice in 2023/24.
- 4.34 Figure 8 below illustrates the comparative level of reserves at the end of 2023/24 compared to all English single tier authorities which shows the Reserves as a percentage of Net Revenue Expenditure, with Middlesbrough having the fifth lowest level of reserves.

Figure 8: Reserves as a percentage of Net Revenue Expenditure for All English single tier local authorities 2023/24



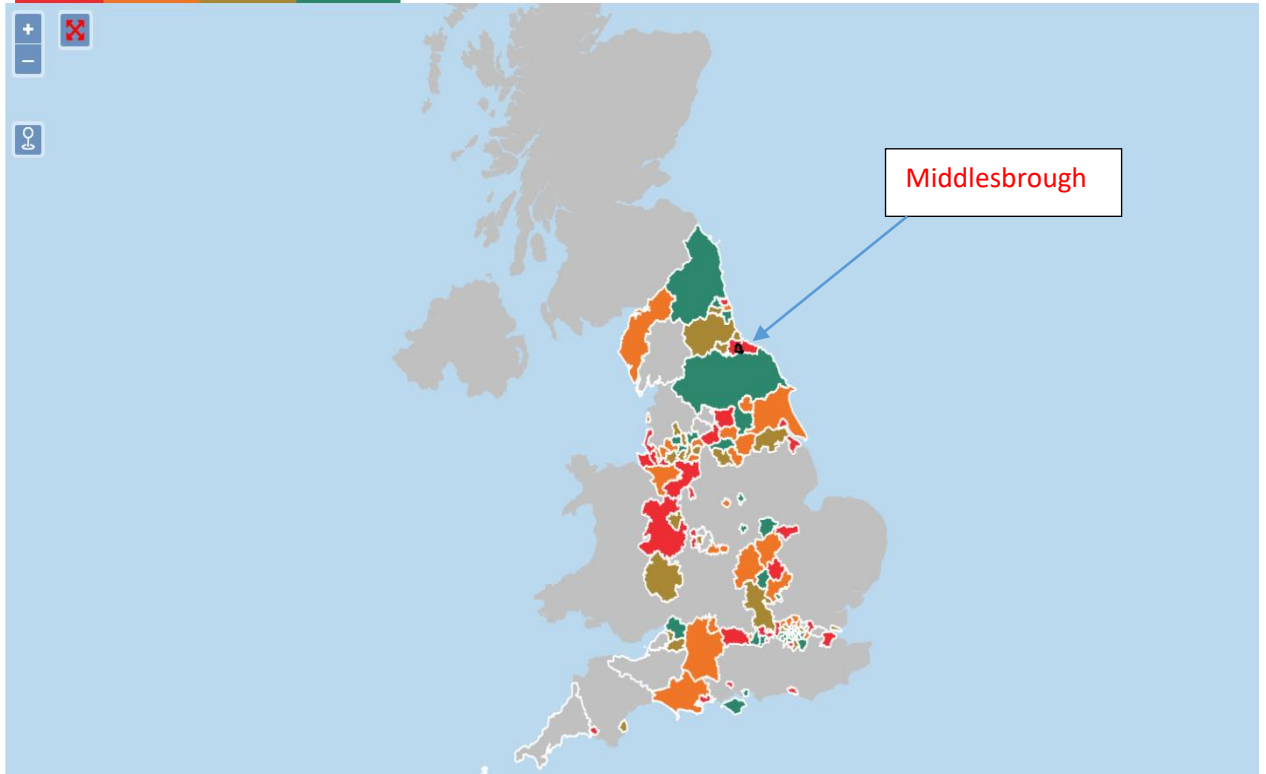
Source:
Ministry of Housing, Communities and Local Government

- 4.35 Figure 9 shows a RAG assessment by quartile of the level of reserves of all single tier authorities. Red indicates lower quartile.

Figure 9: Reserves as a percentage of Net Revenue Expenditure for All English single tier local authorities 2023/24 - quartiles

Reserves as a percentage of Net Revenue Expenditure (2023/24) for All English single tier local authorities

Quartiles for All English single tier local authorities



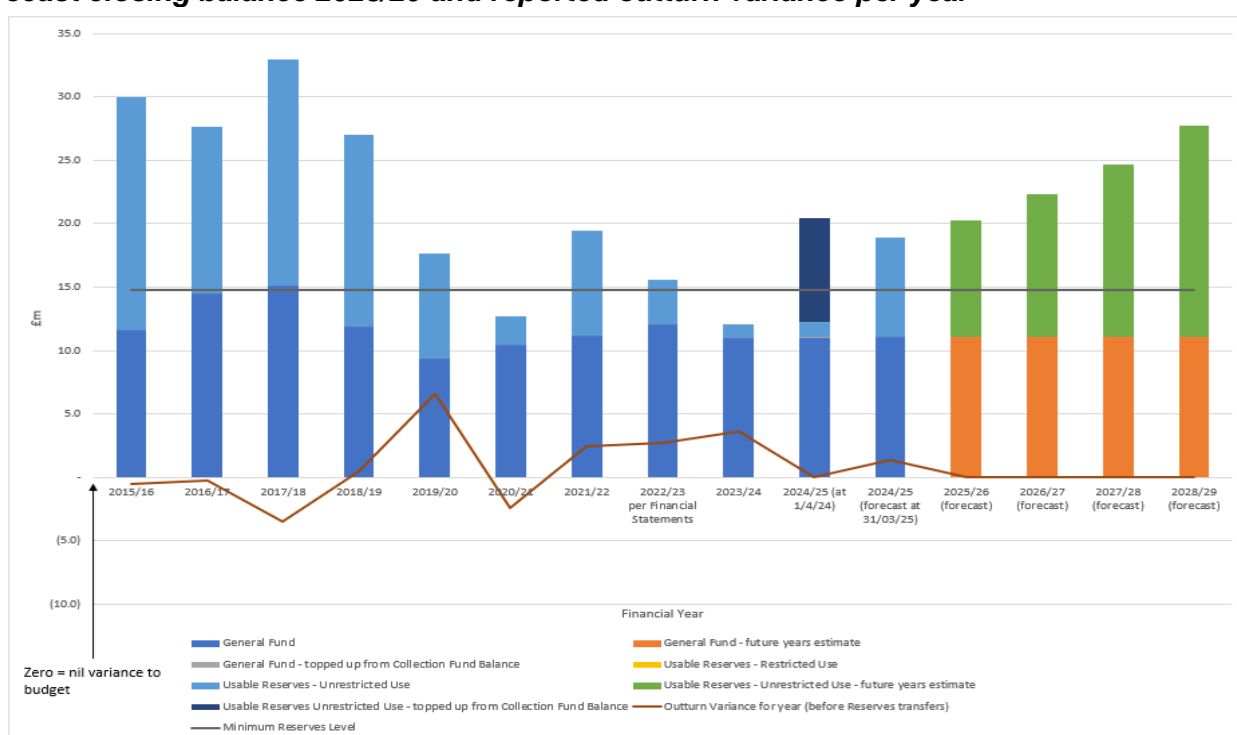
4.36 The level of usable revenue reserves forecast at Quarter Two 2024/25 is summarised below. It is essential that expenditure is contained within the approved budget to avoid a drawdown on reserves at the year end and to deliver in accordance with the approved policy and strategy.

Table 3: Unrestricted Usable Revenue Reserves

Unrestricted Usable Revenue Reserves				
Directorate	Closing Balance at 31/3/24 / Opening Balance at 1/4/24	Use of 23/24 Collection Fund Surplus	Revised Opening Balance 1/4/24	Q2 Forecast Balance at 31/03/25
	£m	£m		£m
General Fund Reserve	10.986	0.114	11.100	11.100
Unrestricted Usable Reserves	1.069	8.211	9.280	7.814
Total Unrestricted Usable Reserves	12.055	8.325	20.380	18.914
% of Net Revenue Budget				
General Fund Reserve	7.7%		7.8%	7.8%
Unrestricted Usable Reserves	0.7%		6.5%	5.5%
Overall	8.4%		14.2%	13.3%
Approved Net Revenue Budget 2024/25	143.190		143.190	
Estimated Net Revenue Budget 2025/26				142.301

4.37 The Reserves Policy approved by Council on 8 March 2024 set out the plan to protect and rebuild usable revenue reserves over the period of the MTFP. As shown in Table 3 above this included an immediate replenishment of reserves on 1 April 2024 utilising the 2023/24 estimated Collection Fund Surplus following a fundamental review of the balance sheet in 2023/24. This included a review of accounting arrangements for the Collection Fund and in particular the methodology for assessing the required Bad Debt provision on the Fund which was revised to comply with IAS37 (international accounting standard). Figure 10 summarises the reserves position and revenue outturn variances over the period from 2015/16 and the forecast to 2028/29 of £27.6m. This illustrates the plan to recover the reserves position over the period of the MTFP and return the Council to a financially sustainable position.

Figure 10 - Unrestricted Reserves Balances from closing balance 2015/16 through to forecast closing balance 2028/29 and reported outturn variance per year



Projected Year End balances On General Fund & Unrestricted Reserves per year and Reserves as % of Projected Net Revenue Budget					
	2024/25*	2025/26	2026/27	2027/28	2028/29
	£m	£m	£m	£m	£m
Projected Reserves Level (General Fund & Unrestricted Reserves)	18.914	20.234	22.304	24.561	27.631
Projected Net Revenue Budget	142.301	144.432	151.359	155.488	155.488
Reserves as % of Net Revenue Budget	13.3%	14.0%	14.7%	15.8%	17.8%

* based on Q2 24/25 reporting

Based on LG Inform Data, the mean % of Reserves as a % of Net Revenue Budget for English single tier authorities is 47%. This means that Middlesbrough reserves would need to be increased to approx. £73m to be in line with the mean. This is deemed to be unachievable in the medium term given the financial challenges faced by the Council and the need to restore levels of service provision. However, the Council should aim to achieve minimum reserves of around £40m (representing approx. 26% of the Net Revenue Budget), and the opportunity to achieve this should be examined on analysing the LGFS. This level of reserves will provide some resilience to be able to respond more effectively to unforeseen financial pressures.

Sources of Revenue Income

4.38 The source of local authority funding has altered in recent years with a greater proportion of overall funding coming from Council Tax and less from Revenue Support Grant (RSG). Figure 11 below shows the Council's Core Spending Power for 2013/14 to 2024/25, with Table 4 showing the absolute figures used for the chart to provide detail on the individual components. This shows a change in the mix of funding over the years including increasing percentage of overall funding from Council Tax and a reducing percentage from RSG.

Figure 11: Core Spending Power per year 2013/14 to 2024/25

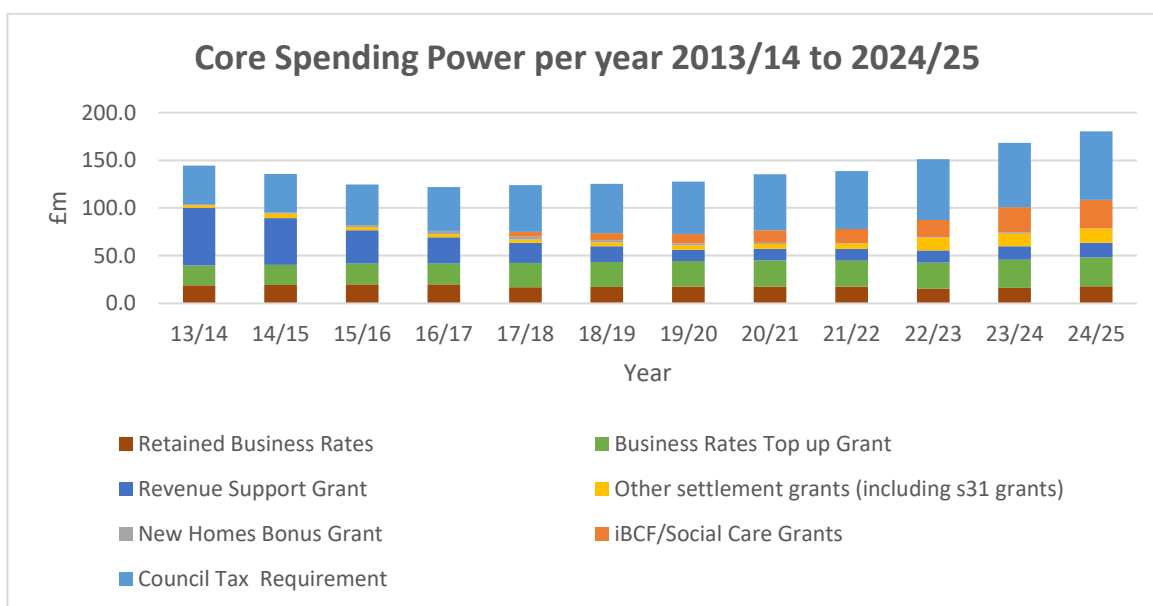


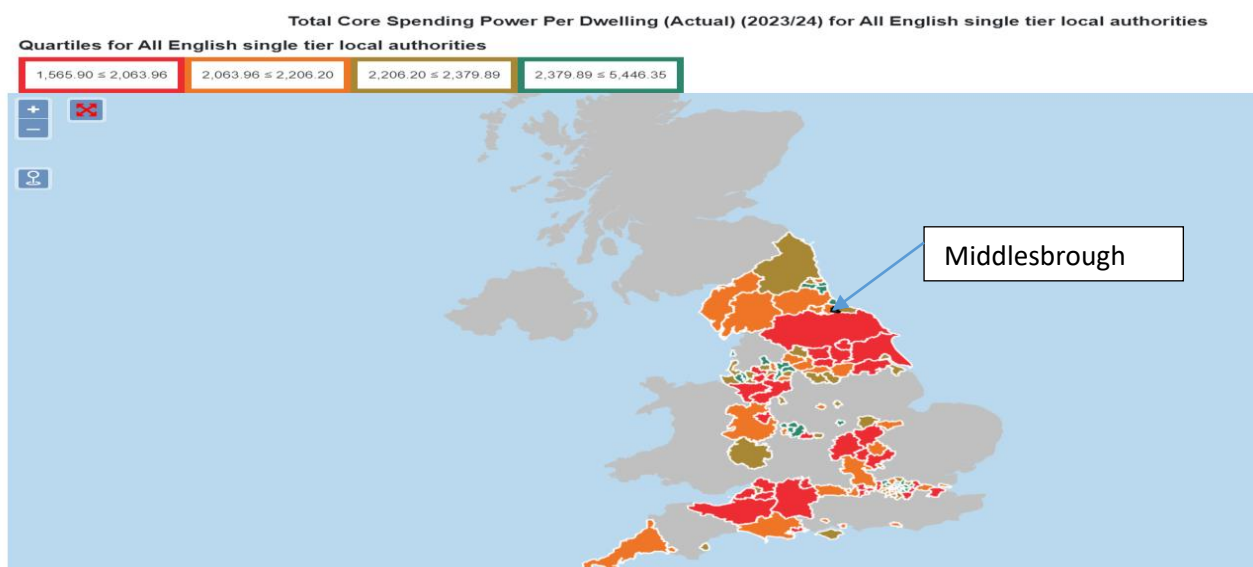
Table 4: Core Spending Power per year 2013/14 to 2024/25

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

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

- 4.40 Figure 12 shows the comparison of the Council’s Core Spending Power per dwelling of £2,547 (green – upper quartile) with all English unitary councils. The median of £2,273 for all single tier local authorities for 2023/24.

Figure 12: Core Spending Power per dwelling for 2023/24 for all English single tier local authorities



Central Government Funding

- 4.41 Government allocates grant funding to local authorities in a process called the ‘Local Government Finance Settlement’ (LGFS). These can be multi-year or single-year settlements, since 2015 these have been single year.
- 4.42 The 2025/26 MTFP report to Executive on 4 September 2024 provided an overview of the King’s speech and the Chancellor’s statement on public finances following the election of the new Labour Government in July 2024.
- 4.43 On 30 October 2024 the Chancellor announced the Government’s budget for 2025/26. The statement recognised the serious financial challenges that local authorities are facing as demand increases for critical services. Government stated that it has listened to voices across the local authority sector and as a result has prioritised local government in the budget. This is a welcome message for local authorities, although there is insufficient detail at this stage to make robust assessments of the impact on individual authorities, particularly as the LGFS will be for 2025/26 only.
- 4.44 A Policy Statement will be issued before the 30 November 2024, which may provide more information, but the full detail to enable s151 Officers to assess the implications fully will not be published until after the Provisional Local Government Finance Settlement (LGFS) on 19 December 2024. Therefore, the full implications will be factored into the final budget report to be agreed by the Executive and presented to Council for consideration and approval in February 2025.

- 4.45 Total departmental local government spending is predicted to grow by an average of 4.3% per year in real terms between 2023/24 and 2025/26. Total departmental spending is then forecast to grow annually at a real terms rate of 2.2% from 2023/24 to 2029/30. The Institute of Fiscal Studies have highlighted that under these plans, day-to-day public service funding is set to grow by just 1.3% per year following 2025/26. This will likely result in uncomfortably tight settlements for public services, especially unprotected departments.
- 4.46 The effect of the Budget is therefore to “front load” funding in 2025/26 to provide short term relief to local authorities who are struggling. However, the three year settlement from 2026/27 is likely to be much tighter for the sector as a whole. Therefore, the Council must not relax its transformation and cost reduction efforts to achieve financial sustainability. This will serve to provide financial flexibility to target priorities over the medium term, once the three year funding settlement is known.
- 4.47 Fundamental revision and updating to the funding distribution methodology is urgently required, having been delayed for several years and is widely recognised as not being fit for purpose. These changes will aim to ensure an up to date assessment of need and local resources and is likely to achieve a national rebalancing of funding that may be beneficial to Middlesbrough from 2026/27. However, this will be subject to complex work, modelling and consultation between central and local government over an at least 6-9 month period. Based upon previous experience of such changes, achieving implementation from 2026/27 will be extremely challenging. The Council will need to deploy external expert advice to support it through this process.
- 4.48 The Resource Departmental Expenditure Limits show an increase for MHCLG Local Government of £1.8bn between 2024-25 and 2025-26. This will include the £1.3bn increase in grant funding. Together with local income from council tax and locally retained business rates, this will provide a real terms increase in total core spending power of around 3.2%.
- 4.49 The Budget statement confirmed the following key issues:
- There will be a one-year financial settlement for 2025/26
 - There will be a Spending Review announced in the Spring of 2025 followed by a three-year settlement for local government implemented in 2026/27.
 - There will be a Policy Statement issued by MHCLG in November 2024.
 - The long-delayed review of the methodology for distribution of funding for local government will be progressed, with consultation starting after the Policy Statement and before Christmas, with further consultation stages in the new calendar year.
 - There is a recognition of the need to address inadequate funding in Children’s Social Care.
 - That there will be some limited targeting of funding in 2025/26 taking account of deprivation and council tax raising powers.
 - £1.3bn of new grant funding in 2025/26 for local government to deliver core services, of which £600m is for social care.
 - Councils considering that their position is unmanageable and in need of Exceptional Financial Support are expected to continue to liaise with MHCLG to pursue this option. There will be no alternative funding solution in 2025/26 for this situation.

- Headline announcement from the Budget is the increase to the rate of employer National Insurance Contributions (NICs) to 15% and a lowering of the threshold at which employers begin to NICs to £5,000 per year.
- Compensation to public sector organisations for this increase is included in the Budget, at a value of over £4bn every year. This may not cover the contracts for supplies and services entered into by local authorities such as for social care, which presents an adverse rise to the Council and could wipe out any gains in funding from the increase in social care funding listed above.
- There was no confirmation that the Adult Social Care Precept will continue beyond 2025/26 and therefore our prudent assumptions have been revised to reflect this and is consistent with most of our regional neighbours.

4.50 Table 5 summarises the key features of the announcement affecting local government and indicates where the item has been taken into account in the assumptions of the updated MTFP within this report. TBC indicates that it will be updated following analysis of the Local Government Finance Settlement on 19 December 2024 and will be updated for the final budget report in February 2025.

Table 5 – Summary of Budget announcements for local authorities for 2025/26

Key Government Announcements - October 2024	£m	Allocation basis and assumptions	Included in December 2024 MTFP	Estimated Middlesbrough Share £m
Social Care additional grant	600	Estimate based on 24/25 formula expected that it will be applied to 25/26 allocation	Yes	(1.895)
Additional Local Government Grant	700	Basis of allocation unknown. It is possible that this could be applied to fund compensation for Employers National Insurance.	No	TBC
Increase in Employer National Insurance Contributions to 15% and lowering threshold at which Employers National Insurance Contributions are paid to £5,000 per year	TBC	Government commitment to fund impact on staffing costs in public sector although unclear where this will be funded from - assumed cost neutral for MBC. Creates a risk of adverse impact upon Council contracts for supplies and services with private providers. This is likely to impact cost of council services through higher contract prices. An estimate made for adult social care and leisure contract. No basis of reasonable estimate can be made for potential impact on children's social care. Could wipe out the benefit from additional social care grant.	Yes	1.075
Extended Producer Responsibility (Packaging - distributed to support Local Authority Waste Disposal, basis of allocation to be confirmed)	1,100	Basis of allocation and conditions unknown. May result in additional obligations that will result in increased expenditure which is not factored into MTFP.	No	TBC
Household Support Fund (HSF) and Discretionary Housing Payments (DHPs) for 25-26	1,000	N/A for General Fund revenue position. Funding received is passed to members of public who are eligible less a small administration fee	NA	N/A
Special Educational Needs and Disability (SEND) and Alternative Provision funding	1,000	Basis of allocation unknown. There is a £3bn national deficit on DSG reserves due to High needs. This may stem the rate at which the Council's DSG deficit grows. Currently a risk by end of 25/26 when the statutory override ends in relation to Council GF needing to fund DSG deficit. projected £20m by 31/3/25. There is a revenue cost of the GF providing cashflow to meet the deficit. this is not material to balancing the MTFP model on an ongoing basis.	No	TBC
UK Shared Prosperity Fund (UKSPF), will be extended to 2025-26 in advance of wider local growth funding reform	900	Capital Funding does not affect the revenue MTFP model	No	N/A
Bus Service Improvement Plans funding	640	Basis of allocation unknown. Distribution via TVCA and to bus companies. May be capital or revenue	No	N/A
Local Roads Maintenance	500	Basis of allocation and conditions unknown	No	TBC
Affordable Homes Programme	500	Capital Funding - does not affect the revenue MTFP model	No	N/A
Homelessness Pressures (including Prevention in Rough Sleeping) taking total in 2025-26 to £1bn	233	Basis of allocation and conditions unknown	No	TBC
Investment into the Planning system to support capacity and capability in local planning authorities	50	Basis of allocation unknown	No	TBC
Kinship Allowance (pilot in 10 Local Authorities to help increase the number of children taken in by family members and friends)	40	Middlesbrough is not part of the current pilot of 10 local authorities.	No	N/A
Create hundreds of new foster placements by ensuring that every local authority has access to a regional recruitment hub	4	Does not directly impact the revenue MTFP model	No	N/A

Council Tax Income

4.51 Council Tax income has increased as a proportion of total income over the last 10 years as the level of RSG has reduced. This presents a particular financial challenge for the Council given it has a particularly low Council Tax base with 50.0% of dwellings in Band A, and 17.4% in Band B. This is a higher proportion than the national Band A and B percentage and means that a greater proportion of our residents pay a Band A and B than comparable Councils. Every 1% of Council tax raises approximately £0.700m per year.

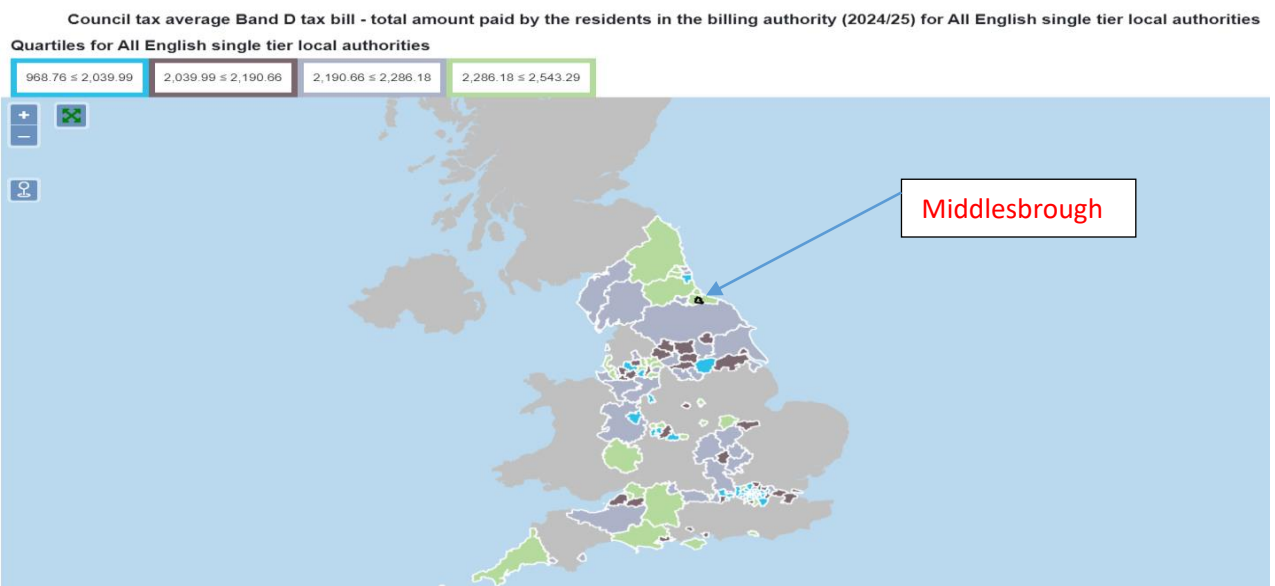
4.52 This means that a higher rate of Council Tax is needed to raise the same income yield compared with many other councils. Table 6 below shows the number of dwellings on the valuation list in each band of Council Tax as at 15 September 2024. The value of the increases in Council Tax being proposed are detailed in the Council Tax section of this report at paragraphs 4.72 to 4.77.

Table 6 – number and percentage of dwellings by Council Tax Band as at September 2024

Number and percentage of dwellings by Council Tax Band as at September 2024									
Council Tax Band	A	B	C	D	E	F	G	H	TOTAL
Total number of dwellings on the Valuation List	33,207	11,533	11,557	5,603	2,796	1,030	599	54	66,379
% in each band	50.0%	17.4%	17.4%	8.4%	4.2%	1.6%	0.9%	0.1%	100.0%

4.53 In 2024/25, the Council had a Band D council tax of £1,976 which is in the upper quartile (highest) for all single tier authorities. However, 85% of Middlesbrough households fall in Band A to C and pay less than this amount. Figure 13 below shows the quartiles by geographical region. The lowest Band D Council Tax being Wandsworth at £968.78.

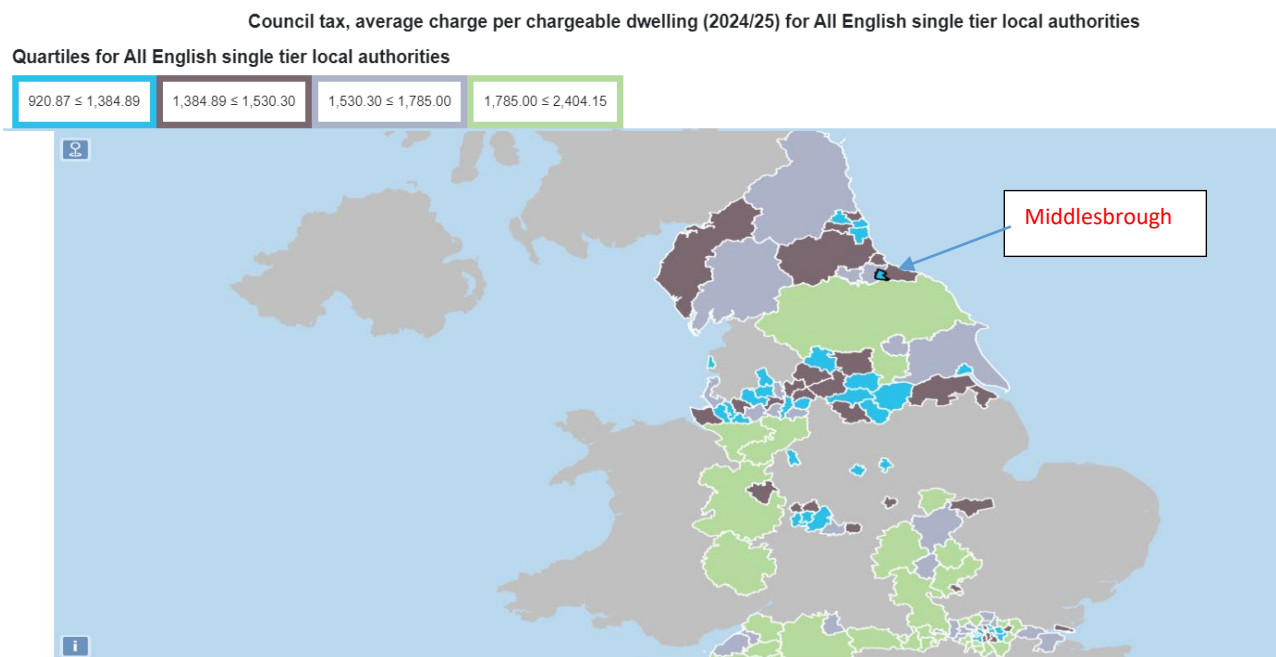
Figure 13: Average Band D Council Tax bill 2024/25



Source MHCLG via inform.local.gov.uk

4.54 A more accurate comparison of the level of Council Tax paid by Middlesbrough households is the Average Charge per dwelling in 2024/25 as shown in figure 14 below and was £1,357 in the lower quartile compared to all single tier authorities presented geographically. The lowest average council tax per dwelling was Wandsworth at £920.87.

Figure 14: Average Band D Council Tax bill per dwelling 2024/25



Source:
Ministry of Housing, Communities and Local Government

4.55 There are significant anomalies in the current council tax system which result in extreme variances in council tax levels both regionally and nationally. It is not yet clear if or when the Government intend to address this issue which is key to achieving fair distribution of funding for local authorities.

4.56 Table 7 below shows the history of Council Tax increases over the period 2013/14 to 2024/25, with Table 8 showing the Band D Council Tax each year from 2013/14 to 2024/25.

Table 7: Council Tax increases from 2013/14 to 2024/25

Council Tax increases - percentage and value of increase												
	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25
Percentage increase												
Core	1.99%	1.82%	1.85%	1.99%	1.99%	2.99%	2.99%	1.99%	1.99%	0.00%	1.99%	2.99%
ASC	0.00%	0.00%	0.00%	1.99%	2.00%	2.00%	2.00%	2.00%	0.76%	2.99%	2.00%	2.00%
Increase	1.99%	1.82%	1.85%	3.98%	3.99%	4.99%	4.99%	3.99%	2.75%	2.99%	3.99%	4.99%

Table 8: Band D Council Tax 2013/14 to 2024/25

Band D												
	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25
Base	1,305.17	1,330.78	1,355.03	1,380.12	1,435.10	1,491.93	1,566.40	1,644.51	1,710.13	1,757.11	1,809.67	1,881.86
Core	25.61	24.25	25.09	27.49	28.34	44.62	46.80	32.73	34.00	0.00	36.00	56.26
ASC	0.00	0.00	0.00	27.49	28.49	29.85	31.31	32.89	12.98	52.56	36.19	37.64
Increase	25.61	24.25	25.09	54.98	56.83	74.47	78.11	65.62	46.98	52.56	72.19	93.90
Band D	1,330.78	1,355.03	1,380.12	1,435.10	1,491.93	1,566.40	1,644.51	1,710.13	1,757.11	1,809.67	1,881.86	1,975.76

4.57 Over the period since 2013/14, Middlesbrough Council has been required to make cumulative savings of £111m in order to balance its budget as shown in Table 9 below.

Table 9: Budget savings per year from 2013/14 to 2024/25

Budget savings per year 2013/14 to 2024/25													
	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	TOTAL
£m	12.657	14.847	14.077	13.163	7.362	6.934	9.908	6.403	2.321	0.000	9.383	13.910	110.965

Medium Term Financial Plan

4.58 The MTFP is based on a number of assumptions that are subject to change prior to final budget setting by the Council in February 2025. The report reflects some of the announcements made in the Chancellors Budget of 30 October 2024. However, as referenced in Table 5 above, there are a number of high-level announcements which, whilst they appear favourable, are not possible to factor into the Council’s MTFP model at this stage of the process.

4.59 The full extent of the impact upon the Council’s finances will only become clearer after the Provisional Finance Settlement for Local Government is analysed following the expected announcement, on or around 19 December 2024.

4.60 Any change in assumptions following the settlement will be reflected and updated in the MTFP for presentation to the Executive on 5 February 2025 and will inform the final budget proposals at Full Council on 19 February 2025. The revenue element of the MTFP is set out in the context of:

- A period of reducing inflation, following a 40 year high in 2022 which locked in high prices for many of the Council’s suppliers and services.
- The continuation of a cost of living crisis impacting on citizens;
- a challenging employment market, with recruitment and retention issues internally within the Council and generally across the wider public sector;
- increased demand for services, in particular those relating to Adults Social Care and Children’s Social Care, Home to School Transport, and Homelessness which is expected to continue over the life of the plan;
- the need to secure financial recovery by protecting the current level of revenue reserves and rebuilding them to strengthen the Council’s financial resilience.
- continued lack of certainty over future Government funding that impacts adversely upon the Council’s ability to carry out any long term financial planning.

4.61 The Council maintains a MTFP which sets the financial envelope that is available within which the aims of the Council Plan are to be achieved. The Draft 2025/26 budget and MTFP to 2028/29 report to Executive on 4 September 2024 provided an update on the financial position. This report provides a further update and is based upon the following key assumptions.

Key MTFP assumptions

4.62 The following key assumptions have been used in balancing the budget and updating the MTFP:

- The MTFP has been amended to reflect relevant announcements where possible that were made in the Chancellor's Budget announced on 30 October 2024 (as detailed in Table 5).
- A range of apparently favourable Budget announcements contained insufficient information to factor into this update and will be incorporated into the February report to Executive following analysis of the Provisional LGFS on or around 19 December 2024.
- It is currently assumed whilst the Council will be compensated for the effect of the increase in Employer's National Insurance contributions on its own staff, it will not be compensated for the effect of the increase for staff employed by providers of services to the Council and that there will be cost to the Council associated with this.
- That energy prices will decrease in line with current forecasts provided by NEPO (North East Purchasing Organisation). These will be updated as further information is received.
- An affordability limit has been applied to the annual revenue capital financing costs associated with any new capital investment as follows:
 - The total annual cost of repayment of principal and interest on Council borrowing shall not exceed 10% of the Net Revenue Budget over the period of the MTFP to 2028/29.
 - This affordability limit has been factored into the MTFP model and any lower cost arising from the confirmation of new capital investment shall be updated in the revised model in February 2025.
- That there will be no increase or decrease to the current levels of RSG and Business Rates Retained and Business Rates Top up Grant in 2025/26 and future years, apart from the application of inflationary increases, which have currently been assumed to be 1.7% for 2025/26 (based on CPI for September 2024). This will be fully considered and updated as part of the February 2025 MTFP Executive report following analysis of the provisional LGFS.
- It is assumed that New Homes Bonus Grant is discontinued or rolled into RSG for 2025/26 without additional funding as a prudent assumption, given that Government have recognised that the system is flawed.
- There are no other major changes to other grant assumptions outlined in the report to Executive in September 2024.
- The Government has confirmed the referendum limit of 4.99% for 2025/26 comprising 2.99% core council tax and a 2% Adult Social Care Precept.
- An assumed increase in the core council tax in 2025/26 to 2028/29 of 2.99%.
- An increase of 2% in the Adult Social Care Precept to fund the pressures in Adult Social Care in 2025/26 only.
- In the absence of Government confirmation of the continuation of the ASC precept beyond 2025/26 when it is due to end, a revised assumption to remove the 2% increase previously assumed has been taken with effect from 2026/27.
- A council tax base for 2025/26 of 36,513.9 assuming a council tax in year collection rate of 98.3% for 2025/26 as outlined in the separate report to this

Executive. Currently similar levels of growth have been assumed for 2026/27 to 2028/29.

- Assumed pay inflation of 3% for 2025/26 and 2% for 2026/27 onwards.
- Assumed inflationary uplift of 2% for 2025/26 on discretionary fees and charges as set in the 2024/25 MTFP. A 2% increase has also been assumed for 2026/27 to 2028/29.
- Income the Council receives from commercial developments has been amended to reflect latest information regarding occupancy and leases, and also lost income from the sale of assets approved by Executive on 21 November 2023 as part of the Asset Review report.

4.63 The Council's usable revenue reserves remain low and must be protected and rebuilt as a minimum in line with the Council approved Reserves Policy in order to achieve financial sustainability over the medium term. They are insufficient to meet unplanned overspends resulting from failure to deliver the financial outturn within the approved budget. The Council must avoid unplanned use of reserves in order to secure its financial recovery going forward.

4.64 In 2024/25, the application for £13.6m of EFS incorporated a sum of £3.5m as a risk sum to cover any overspend arising from delayed or failed saving delivery. This was to protect against the risk of unplanned use of reserves given that reserves remain extremely low.

4.65 Alternative measures are able to be taken in 2025/26 to manage this risk and to avoid the need to seek an application to MHCLG to reprofile unused EFS in 2024/25 to cover savings delivery risk in 2025/26. The s151 Officer recommends that:

- It is estimated that £2m of the forecast surplus on the Collection Fund for 2024/25 will be available to support the 2025/26 budget, and that this, shall be applied on a one-off basis in 2025/26 to establish a Delivery Risk Budget within the 2025/26 base budget.
- Should the Final LGFS be sufficiently favourable, the Delivery Risk Budget will be partially or fully established at £2m on an ongoing basis as a priority over future decisions to :
 - include any further growth in services within the base budget
 - review/revise approved or proposed budget savings

The Delivery Risk Budget shall then remain until the Council's delivery of its planned transformation and savings is proven.

- Any Collection Fund surplus which can be released as a result of the measures described above, will be applied to the Financial Resilience Reserve.
- The utilisation of the Delivery Risk Budget shall be managed within the delegated authority of the s151 Officer.

- Applications for use of the Delivery Risk Budget shall be subject to the following in order to justify allocation of funding from the risk budget:
 - the submission of a business case by the relevant service director and
 - be subject the requirement for a zero base exercise to revise the affected service budgets

4.66 The cost drivers of the budget gap (mainly demand growth and inflationary pressures) reported to the Executive in September 2024 have been reviewed and revised in light of financial performance in 2024/25 and work to model demand and unit cost across children's and adult social care and the Integrated Transport Unit. Further work will take place in relation to waste management costs and homelessness prior to the February 2025 budget report.

4.67 The assessed impact of the Chancellor's budget is currently assumed to be broadly financially neutral and further work will be required to analyse the impact of announcements summarised in Table 5 above following the Provisional LGFS on or around 19 December 2024.

4.68 Based upon the above assumptions, the 2025/26 and 2026/27 budgets are balanced, whilst a budget gap of £2.686m in 2026/27 rising to £5.150m by 2028/29 remains to be addressed. Table 10 summarises the movement in the budget gap since the report to Executive in September 2024.

4.69 Table 10 summarises the movement in the budget gap since the report to Executive in September 2024

Table 10: movement in budget gap since September 2024 report

Item	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	Cumulative £m
25/26 MTFP Report to Executive 4/9/24	7.864	0.169	0.490	0.226	8.749
Growth/Service Demand pressures					
<u>Regeneration</u>					
Reduction in energy budget due to falling prices	(0.957)	(0.343)			(1.300)
<u>Environment and Community Services</u>					
Additional income from green waste implementation	(0.050)				(0.050)
<u>Education</u>					
Reduction in growth previously provided for Integrated Transport Unit	(1.500)	0.500			(1.000)
<u>Adult Social Care</u>					
Additional Fairer Charging Income	(0.500)				(0.500)
	(3.007)	0.157	-	-	(2.850)
Government Announcements					
<u>Regeneration</u>					
Grant Funding Changes - New Homes Bonus Grant removal	0.580				0.580
<u>Adult Social Care</u>					
Adult Social Care National Living Wage changes	0.029	(0.073)	(0.059)		(0.103)
Effect of National Insurance employers increase on ASC providers	0.995				0.995
<u>Public Health</u>					
Effect of National Insurance employers increase on Leisure Services provider (SLM)	0.080				0.080
<u>Central & General Fund</u>					
Grant Funding Changes - additional Social Care Grant	(1.895)				(1.895)
	(0.211)	(0.073)	(0.059)	-	(0.343)
Changes in Assumptions					
<u>Adult Social Care</u>					
Review of triple lock pensions linked income	(0.162)				(0.162)
<u>Central & General Fund</u>					
Capital Financing changes (estimate)		0.067	0.499	0.329	0.895
Grant Funding Changes - Business Rates s31 Grant		(0.780)			(0.780)
Estimated Collection Fund Surplus 24/25	(2.000)	2.000			-
Savings Delivery Risk Budget (only for 25/26) - funded from Collection Fund surplus 24/25	2.000	(2.000)			-
	(0.162)	(0.713)	0.499	0.329	(0.047)
Net Budget movements	(3.380)	(0.629)	0.440	0.329	(3.240)
Changes in Assumptions					
Council Tax - assumed increase of 2.99% p.a. from 26/27	-	1.516	1.652	1.797	4.965
Business Rates Retained - updated inflation estimate (based on CPI)	0.054	0.055	0.058	0.059	0.226
Business Rates Top Up Grant - updated inflation estimate (based on CPI)	0.091	0.095	0.099	0.102	0.387
Revenue Support Grant - updated inflation estimate (based on CPI)	0.045	0.047	0.049	0.051	0.192
Funding movements	0.190	1.713	1.856	2.009	5.769
TOTAL MOVEMENT IN GAP	(3.189)	1.084	2.296	2.338	2.529
Updated Budget Gap + / Surplus () before savings proposals and Reinvestment in Recover, Reset and Deliver	4.675	1.253	2.786	2.564	11.278

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

4.70 The following provides further detail of the changes made:

- Energy budgets have been reduced in line with forecast decreases in energy costs provided by NEPO (North East Purchasing Organisation). These will be updated as further information is received.
- Additional income above that forecast received from implementation of previously agreed savings for Green Waste Charges, and additional Adult Social Care Fairer Charging Income.
- Growth for Service Demand Pressures in Integrated Transport Unit has been reviewed and reduced.
- New Homes Bonus grant has been assumed to be nil.

- Adult Social Care Living Wage calculations have been updated to reflect the increase in national living wage to £12.25 per hour from 1 April 2025 as announced by the Government on 29 October 2024
- Amendments to reflect relevant announcements where possible that were made in the Chancellor's Budget announced on 30 October 2024 (as detailed in Table 5).
- Adult Social Care triple lock pensions linked income has been reviewed in line with updated information and inflation rates.
- Capital Financing requirements have been revised and updated.
- Business Rates s31 Grant income has been reviewed.
- Inflation assumptions on RSG and Business Rates have been updated in line with inflation rates for September 2024.

4.71 Table 11 below shows the major components of the revised budget gap before any savings proposals or reinvestment in Recover, Reset and Deliver Transformation programme, with further detail being provided in the following paragraphs.

Table 11: updated MTFP 2025/26 to 2028/29 before budget savings proposals or reinvestment in Recover, Reset and Deliver Transformation programme

Budget Item	See Paragraph Number(s)	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	Cumulative £m
Net Budget brought forward		134,865	142,301	144,432	148,673	570,271
Pay Inflation / change in NI rate & employers pension rate	4.88 - 4.91	3,575	1,778	1,778	1,778	8,909
Contractual inflation	4.92	1,550	1,550	1,550	1,550	6,200
Other Inflation	4.93	(0,830)				(0,830)
Fees & Charges inflation	4.96 - 4.98	(0,648)	(0,648)	(0,648)	(0,648)	(2,592)
Inflation subtotal		3,647	2,680	2,680	2,680	11,687
Service Demand pressures						
Regeneration		(0,367)	(0,343)	-	-	(0,710)
ECS		0,630	-	-	-	0,630
Education		(1,500)	0,500	-	-	(1,000)
Children's Care		3,500	1,500	1,500	1,500	8,000
ASC		2,824	1,770	1,848	1,907	8,349
Public Health		0,080	-	-	-	0,080
Finance		-	-	-	-	-
LGS		0,214	-	-	-	0,214
Central & General Fund		-	-	-	-	-
Service Demand pressures subtotal	4.105 - 4.108	5,381	3,427	3,348	3,407	15,563
Exceptional Financial Support (removal)	4.109	4,700	-	-	-	4,700
Capital Financing	4.113 - 4.116	2,099	0,774	0,499	0,329	3,701
Increased Reserves contributions for financial resilience	4.94	0,750	1,250	0,500	0,500	3,000
Grant Funding adjustments		(1,315)	(0,780)	-	-	(2,095)
Savings - approved in previous years	6.1.6	(5,151)	(1,967)			(7,118)
Other adjustments subtotal		1,083	(0,723)	0,999	0,829	2,188
Projected Net Budget Requirement		144,976	147,685	151,459	155,589	599,709
Delivery Risk Budget (one off budget 25/26)	4.65	2,000	(2,000)	-	-	-
Projected Net Budget Requirement before new savings proposals and Reinvestment in Recover, Reset and Deliver		146,976	145,685	151,459	155,589	599,709
Projected Net Budget Requirement funded by:						
Estimated Collection Fund Surplus	4.65	(2,000)	-	-	-	(2,000)
Council Tax	4.72 - 4.77	(75,770)	(78,803)	(81,928)	(85,146)	(321,647)
Business Rates	4.78	(49,152)	(49,988)	(50,838)	(51,702)	(201,680)
Revenue Support Grant	4.62	(15,379)	(15,641)	(15,907)	(16,177)	(63,104)
Assumed Funding		(142,301)	(144,432)	(148,673)	(153,025)	(588,431)
Updated Budget Gap + / Surplus () before new savings proposals and Reinvestment in Recover, Reset and		4,675	1,253	2,786	2,564	11,278

Local funding increases – Council Tax and Business Rates

- 4.72 Given the Council’s fragile financial position and the uncertainty over the medium term pending the Spending Review and Funding Reform in the Spring 2025, the s151 Officer has advised the Mayor and Executive to adopt the current assumed maximum permissible Council Tax increase of 4.99% p.a. for 2025/26. This provides the ability to make limited investment in the reset of the Council’s transformation journey. Any reduction in planned council tax will be a permanent loss in future funding.
- 4.73 A 2.99% increase in the core council tax is recommended for 2026/27 to 2028/29. The 2% ASC Precept is assumed to end with effect from 1 April 2026 given the Government has not confirmed its continuation. This will be reviewed upon receiving the Policy Statement and LGFS.
- 4.74 This advice also reflects the fact that the Government assumes that local authorities will increase the Council Tax by the maximum permissible in their calculation of the Council’s Core Spending Power, which is a measure of how much the Government believes local authorities can raise from Council Tax and that they have available to spend. This will be key to assumptions in the Funding Reform that is to take place in order to inform the distribution of government funding from 2026/27.
- 4.75 It should be noted that each 1% increase in Council Tax based on the current council tax base of households produces estimated additional income to the Council of approximately £0.7m per annum.
- 4.76 The effect of the proposed total Council Tax increase is set out in Table 12 below on the Middlesbrough Council only element of the Council Tax (excluding Fire, Police and Parish precepts) for all bands.

Table 12: effect of proposed 4.99% p.a. Council Tax increase on Middlesbrough only element in 2025/26 followed by 2.99% in 2026/27 to 2028/29.

Band	% of dwellings per band*	2025/26 4.99% increase**			2026/27 2.99% increase**			2027/28 2.99% increase**			2028/29 2.99% 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	50.0%	1,382.90	65.73	1.26	1,424.25	41.35	0.80	1,466.83	42.58	0.82	1,510.69	43.86	0.84
B	17.4%	1,613.38	76.68	1.47	1,661.62	48.24	0.93	1,711.30	49.68	0.96	1,762.47	51.17	0.98
C	17.4%	1,843.87	87.64	1.69	1,899.00	55.13	1.06	1,955.78	56.78	1.09	2,014.26	58.48	1.12
D	8.4%	2,074.35	98.59	1.90	2,136.37	62.02	1.19	2,200.25	63.88	1.23	2,266.04	65.79	1.27
E	4.2%	2,535.32	120.50	2.32	2,611.13	75.81	1.46	2,689.20	78.07	1.50	2,769.61	80.41	1.55
F	1.6%	2,996.29	142.41	2.74	3,085.88	89.59	1.72	3,178.15	92.27	1.77	3,273.17	95.03	1.83
G	0.9%	3,457.25	164.32	3.16	3,560.62	103.37	1.99	3,667.08	106.46	2.05	3,776.73	109.65	2.11
H	0.1%	4,148.70	197.18	3.79	4,272.75	124.05	2.39	4,400.50	127.76	2.46	4,532.08	131.58	2.53

* Based on number of dwellings on the Valuation List

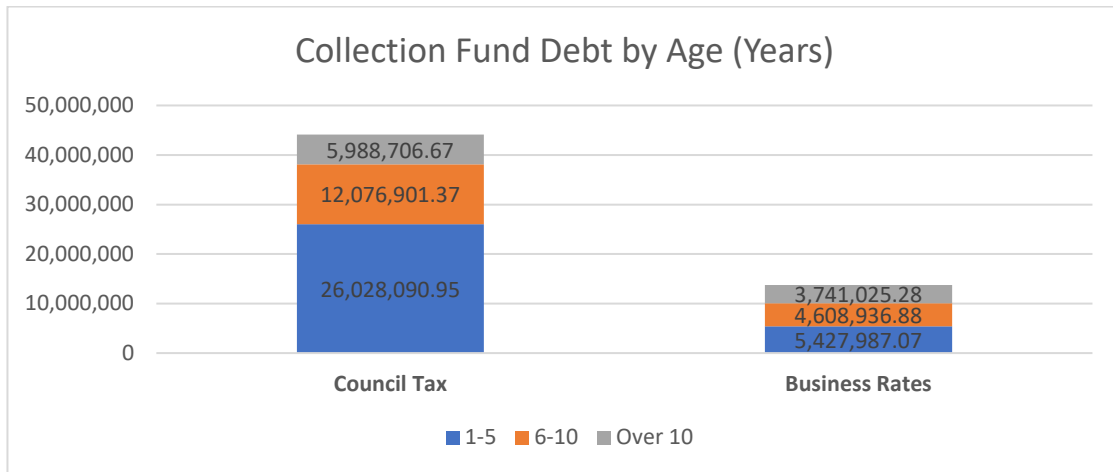
** Based on applying maximum increase without a referendum

- 4.77 There is estimated to be an increase in Council Tax income of approximately £0.750m in 2025/26 and on an ongoing basis due to a predicted increase in the Council's Tax Base resulting from net projected Housing Growth over the period. In addition, it is currently assumed that there will be an increase of a similar amount each year in the MTFP from 2026/27 onwards. These estimates have been reviewed as part of the Council Tax Base return submitted to Government in October 2024. These estimates will continue to be reviewed on a regular basis and will be updated as part of the budget report to Full Council in February 2025 when further information is available.
- 4.78 No growth above an amount for inflation, has been assumed in the Local Share of Business Rates estimated to be received by the Council in 2025/26 to 2028/29.
- 4.79 The Executive recognises the financial challenge faced by many households due to the cost of living crisis and provides financial support in the form of reductions to Council Tax for the most financially vulnerable households in addition to grants under the Household Support Fund and its Welfare Strategy.
- 4.80 Whilst the Council takes a very firm and fair approach to collection there are a number of support solutions which are available to assist financially vulnerable households. Through the Council's Council Tax Reduction Scheme a maximum of 90% support which equates to an overall level of expenditure to support financially vulnerable households of approximately £21.3m per year is provided to 18,439 households across the town.
- 4.81 In addition to the Council Tax Reduction Scheme a number of other support solutions exist. The Council provides a welfare strategy which is designed to support households who may be struggling financially. The range of support is extensive and can include such things like maximising benefits, support with any shortfall in rent, as well as help with white goods, furniture, food, and energy referrals. Assistance is also provided through the Household Support Fund subject to qualifying criteria. The Council were again provided with around £3.3m of Government grant and through a comprehensive plan, many households across the town have benefited from additional financial support made available by the Council. The Council takes a firm but fair and persistent approach to collection of debt including full benefit and welfare checks to ensure that households have access the right level of support to help them meet their council tax obligations.

Debt Recovery

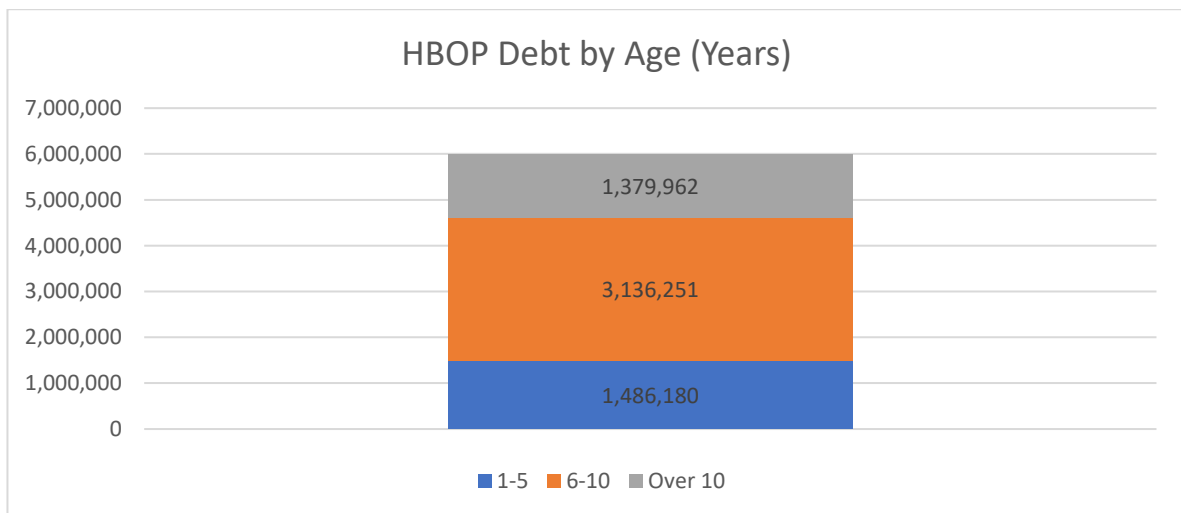
- 4.82 There is a level of debt relating to Council Tax (£44.1m) and Business Rates (£13.8m) (Collection Fund), Housing Benefits Overpayments (£6.0m) and Sundry Debt (£9.6m) as detailed below in Figures 15, 16 and 17.

Figure 15: Total Collection Fund debt by age (years) at 31 March 2024



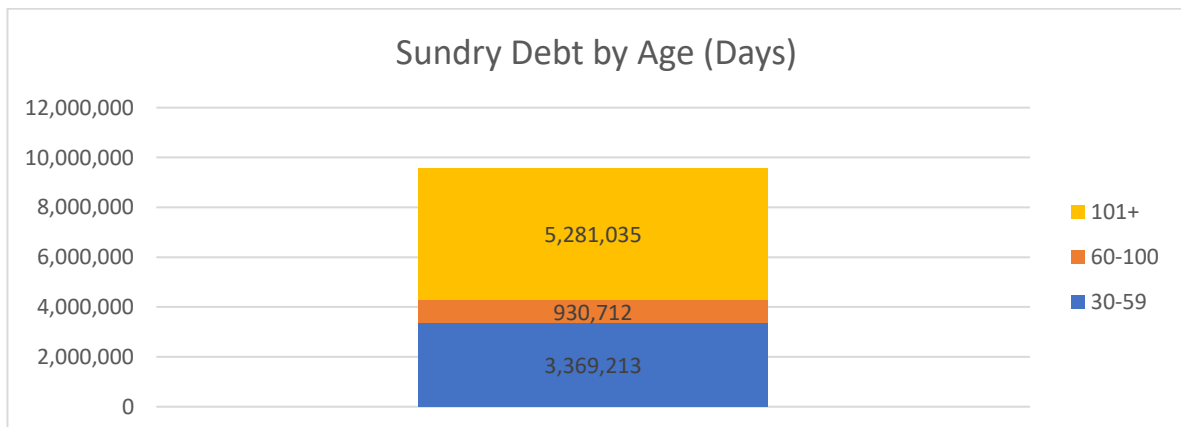
Totals: Council Tax £44,093,698.99 (of which Middlesbrough's share is approx. 83%)
 / Business Rates £13,727,785.46 (of which Middlesbrough's share is 49%)

Figure 16: Net Housing Benefit Overpayments debt by age (years) at 31 March 2024



Total: £6,002,392.17

Figure 17: Sundry Debt over 30 days - due by age (days) at 31 March 2024



Total: £9,580,959.81

- 4.83 The Council will take a firm but fair approach to recovery of debt and this is particularly important given the increasing reliance upon local tax revenues in the wake of reducing Government financial support. In year collection remains challenging, with collection rates from households in receipt of Council Tax Reduction (CTR) at around 80%, with overall collection in year hovering around 93%. However, due to the ongoing focus and commitment of resources to collect all income due to the Council, the collection rate over the long-term averages at 87% for households in receipt of CTR and 98.8% for all income due to the Council. This performance is currently being reflected in the review of the level of provision made for bad debt referred to earlier in this report.
- 4.84 During and following the Covid pandemic and in response to the cost-of-living crisis, staff resources usually involved in debt collection were prioritised to support the payment of covid related grants and latterly the Household Support Fund. This has resulted in a temporary reduction in collection in recent years. Therefore, to recover this position and to further improve debt collection performance, additional resource was assigned to target specific areas as part of the 2024/25 budget setting. This investment will this lead to an increase in net collectable debt and will serve to provide further scope to reduce amounts provided for bad debt in the future. Investing additional resource in the service has already and will in the future provided the following advantages.
- ensuring appropriate support to those who cannot afford to pay whilst allowing the service to take more prompt action in relation to households who won't pay
 - investing additional capacity in maximising the Council's net collectable debt whilst also ensuring the integrity of discounts and exemptions for council tax and business rates. Any fraudulent claims will be acted upon promptly and diligently giving a clear message that the Council will not tolerate fraud.
 - proactive recovery of income for charged for services and other general debts will improve the Council's cash flow and ensure that services provided for by the Council are paid for promptly.

Inflation

- 4.85 As mentioned in paragraphs 4.27 and 4.28, inflation as measured by the Consumer Prices Index (CPI) is falling from a 40 year high of 11.1% in October 2022. Inflation is expected to fluctuate around the Bank of England target of 2% in the medium term.
- 4.86 It is important to note that the inflation rates incurred and forecast in recent years and over the foreseeable future have resulted in unprecedented cost increases for local authorities which thus far have not attracted central government support through the Settlement.
- 4.87 In common with most local authorities, the combination of high inflation, the cost of living crisis and high energy and food prices have significantly impacted the local and national economy and put significant pressure upon demand for Council services and the cost of providing them.

Pay Inflation

- 4.88 Table 13 below summarises the pay and pension items included in the MTFP, which are unchanged from that in the September report. These form a significant driver to the increased MTFP gaps.

Table 13: Pay and pension inflation

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

- 4.89 The local government pay award for 2024/25 was agreed between national employers and trade unions on 23 October 2024. The estimated full year 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 provision already set aside in the MTFP.
- 4.90 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 the 2025/26 pay award in the September 2024 MTFP update.
- 4.91 Employee pension contributions, based on a draft triennial pension valuation, are as included in the 2024/25 MTFP. The next triennial pension valuation will apply from 2026/27 onwards and is currently planned to remain static.

Non Pay Inflation

- 4.92 Contractual inflation is provided for in the MTFP period, with £1.550m p.a. being provided for in relation to specific contracts, mainly around Adult Social Care purchasing budgets and Children's Care external residential and fostering contracts. The level of contractual inflation will be reviewed further in the budget report to Full Council in February 2025.

Other Inflation

- 4.93 Central inflation budgets previously provided for the effects of risk around potential additional inflation across a wide range of areas due to uncertainty around levels of inflation have been reduced by £0.830m due to assumptions for energy prices being revised downwards based upon advice from NEPO.

Risk Management

- 4.94 An amount of £0.750m p.a. in 2025/26 and 2026/27 and £0.500m p.a. in 2027/28 and 2028/29 has been provided to top up the Financial Resilience Reserve to meet

unforeseen financial pressures that cannot ultimately be managed within directorate budgets. Also an amount of £0.500m in 2026/27 has been provided to top up the Change Fund Reserve to meet potential future costs of Transformation.

- 4.95 A one-off Delivery Risk Budget of £2m has been provided for 2025/26 only from the estimated surplus on the Collection Fund for 2024/25 in order to cover savings delivery risk in 2025/26. This will be revised to establish a £2m budget within the base budget as set out in paragraph 4.65, should the LGFS be sufficiently favourable. These measures enable the Council not to need to rely upon EFS whilst its reserves are rebuilt to a sustainable level.

Income Policy and Fees and Charges

- 4.96 A Fees and Charges Policy was adopted in the 2024/25 MTFP and is proposed to continue over the course of the 2025/26 MTFP. This recognises a range of different factors in setting a price including legislative requirements and constraints, the cost of delivering a service, benchmarking with other organisations and achieving policy objectives. The review focuses on discretionary services to residents and businesses and has initially focused on the areas with the highest level of income from Fees and Charges which are incorporated into Directorate budget proposals. An initial composite Fees and Charges booklet, comprising proposed prices across the Councils services for 2025/26 is included at Appendix 4, and this will be finalised as part of the final budget report to Council in February 2025.
- 4.97 Under the Income Policy, the Director of Finance will determine the minimum percentage increase in fees that will apply as part of the annual budget process unless separately addressed in a specific budget proposal. The proposed inflationary increase adopted in the 2024/25 MTFP was 2% for 2025/26 and 2% for 2026/27 onwards and will be revised as appropriate dependent upon inflation forecasts.
- 4.98 Directors should utilise the Fees and Charges Toolkit to regularly review the full cost of discretionary services and to set future discretionary fees and charges.

Commercial Income

- 4.99 The Council receives income from a number of Commercial developments. The March and September MTFPs outlined the assumptions made relating to these and these have not been changed at this stage but are being constantly 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, in excess of the cost, in previous years and this is expected to continue in the future.
- 4.100 Income the Council receives from commercial developments has been amended to reflect the revenue costs arising from lost income less running costs from the sale of assets approved by Executive on 21 November 2023 as part of the Asset Review report. This totalled £1.527m in 2024/25 and a further £0.188m in 2025/26.

Living Wage

- 4.101 Increases in the National Living Wage will impact upon organisations – principally adult social care providers – who are contracted to carry out functions on behalf of the Council. Currently increases in the National Living Wage do not have an impact on Council employed staff as the current pay rates paid to Council staff are above the current National Living Wage rates.
- 4.102 The Government announced on 29 October 2024 that the National Living Wage (NLW) for 21 year old and over will increase by £0.77 to £12.21 from £11.44 per hour (a 6.7% increase) from 1 April 2025. The amounts that are allocated in the MTFP to cover the increases in cost expected as a result of this have been revised in line with current available information, and an amount of £2.351m has been allocated for this within Adult Social Care in 2025/26 and £7.876m over the MTFP.
- 4.103 As with future pay awards there is a high level of uncertainty around this and whether the Government will further change the levels of increase for future years, and therefore this will be reviewed again in the budget report to Full Council in February 2025.
- 4.104 A number of years ago, the Council made a commitment to align to the Living Wage Foundation recommended levels for pay which aim to provide a real living wage based on the cost of living. This will be reviewed on a regular basis in line with the Council's financial position to ensure this is affordable to the Council.

Service Demand pressures

- 4.105 As reported in the September 2024 report to the Executive and quarterly reporting, growth provisions have been reviewed over the course of the financial year through budget challenge meetings and associated work to develop more robust demand and cost models. Some of the estimates provided in the 2024/25 MTFP have been revised in light of 2024/25 financial performance and the assessment of the impact of savings and transformation workstreams upon future growth requirements that were not known when the 2024/25 MTFP was approved.
- 4.106 Table 14 summarises the ongoing Service Demand Pressures (including those mentioned above for Commercial Income in Regeneration and in Adult Social Care for the effect of the National Living Wage increase) and these form a significant driver of cost within the MTFP.

Table 14 : Service Demand Pressures

Directorate	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	Cumulative £m
Regeneration					
- Commercial income	0.590	-	-	-	0.590
- Reduction in energy budget due to falling prices	(0.957)	(0.343)	-	-	(1.300)
	(0.367)	(0.343)	-	-	(0.710)
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	(0.500)	-	-	-	(0.500)
	0.630	-	-	-	0.630
Education & Partnerships					
- Reduction in growth previously provided - Integrated Transport Unit (ITU)	(1.500)	0.500	-	-	(1.000)
Children's Care					
- Demand	3.500	1.500	1.500	1.500	8.000
Adult Social Care					
- Living Wage; external commissioned services	2.351	1.770	1.848	1.907	7.876
- Changes to means tested income generation assumptions	(0.022)	-	-	-	(0.022)
- Additional Fairer Charging income	(0.500)	-	-	-	(0.500)
- Effect of National Insurance increase on ASC providers	0.995	-	-	-	0.995
	2.824	1.770	1.848	1.907	8.349
Public Health					
- Effect of National Insurance employers increase on Leisure Services provider (SLM)	0.080	-	-	-	0.080
Legal & Governance					
- Staffing	0.214	-	-	-	0.214
Service Demand pressures	5.381	3.427	3.348	3.407	15.563

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

- Children's Care - this area is continuing to experience increased demand for care and cost increases due to provider rates and complexity of cases and in the updated MTFP an amount of £3.500m has been included for this in 2025/26 and a further £1.500m p.a. for 2026/27 to 2028/29.
- Adult Social Care – as mentioned earlier in addition to the effect of the National Living Wage there are expected to be increased costs from providers due to the increase in Employers National Insurance contributions.
- Integrated Transport Unit (Home to School and Adults Transport) – the growth previously provided as part of the 2024/25 budget setting has been reviewed and reduced in line with updated levels of demand for service, and an amount of £1.500m has been removed from the budget in 2025/26 with £0.500m additional budget being provided from 2026/27 in line with forecast levels of demand. This will continue to be reviewed and any updates will be included in the February report.
- Waste Disposal – as previously reported £1.500m has been provided from 2025/26 due to increases in the price of residual waste disposal under the extension of the current contract until the new Energy from Waste (EfW) Site is complete, which is currently expected in 2029. An assessment of future EfW costs will be made when the procurement and contract negotiation reach an appropriate stage.

4.108 Whilst all directorates have been required to put forward budget proposals to balance the budget, further fundamental review of service models in the main areas of Children’s and Adults Social Care and Waste will be necessary in order for the Council to achieve a financially sustainable budget position in the medium term.

Technical Adjustments

4.109 A technical adjustment is required to reflect the £4.7m of one-off Exceptional Financial Support (EFS) borrowing used to balance the budget in 2024/25 dropping out in 2025/26.

Dedicated Schools Grant

4.110 The Dedicated Schools Grant (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 was planned to end on 31 March 2023, however Government has extended the arrangement to at least 31 March 2026 given that available funding is not meeting the cost of high needs in particular, with significant pressures being experienced across many local authorities. MHCLG has signalled that additional funding will be made available and that further information will be available in the Policy statement. It is highly likely that the statutory override will continue beyond 2025/26 whilst a long term sustainable funding solution is achieved.

4.111 The deficit on the DSG reserve is forecast to be £20.228m by the end of 2024/25 (as detailed in Table 8 of the Revenue and Capital Budget – Forecast Year-end Outturn position at Quarter Two 2024/25 report to this Executive) and is projected to grow even further to £26.7m by the end of 2025/26. This is considered to be a potential major risk to the Council’s financial resilience in the medium term unless a Government led solution is achieved. The scale of the negative DSG reserve in the context of the Council’s low General Fund reserve is of significant concern and will be recorded as a strategic risk and recognised in the Annual Governance Statement for 2024/25.

4.112 The DSG deficit has potentially resulted in a capital financing cost to the Council. The effect of expenditure being greater than income on this grant has depressed overall cash balances, incurring an opportunity cost of the investment income that could have been earned. It is estimated that the cost related to this is £1.475m over the last three financial years (see Table 15 below). Representations are being made to the Government to allow the borrowing costs incurred in the General Fund to be charged to the DSG. An update will be provided as part of the budget report in February 2025.

Table 15: DSG – negative balance and potential interest lost

DSG - negative balance & potential interest lost	2022/23 £M	2023/24 £M	2024/25 £M
Average Balance (£M)	5.160	10.429	17.044
Average rate on new external debt (%)	3.50	4.65	4.75
Interest on avg DSG bal	0.181	0.485	0.810
Total Income due			1.475

Capital Financing

4.113 The Capital Financing Costs associated with borrowing for capital investment have been subject to detailed review during the 2024/25 financial year. The s151 Officer has issued an affordability threshold that the cost of principal and interest repayments should not exceed 10% of the Net Revenue budget over the period of the MTFP to 2028/29. This means that the Council will need to seek to fund its capital programme primarily through grants and contributions and capital receipts, or restrict borrowing to investments that will deliver ongoing income or cost reductions in its operating costs. The Council must seek to deploy a strategy within the MTFP period to 2028/29 in order to reduce its revenue budget exposure to escalating MRP costs which are set out below.

4.114 Table 16 below sets out the medium to long term impact of funding the current capital programme from 2024/25 to 2034/35, with no further prudential borrowing beyond 2026/27. Any further capital investment thereafter would need to be by grants and contributions or capital receipts. It should be noted that the capital financing costs increase sharply up to the 2027/28 financial year. This is a result of the borrowing factored into the approved programme, plus the costs of exceptional financial support (total increase on capital financing costs from £10.391m to £14.526m). This increases the percentage of the net revenue budget from 7.26% to 9.77%. Although these costs have been factored into the MTFP resource allocation, they are now getting very close to the S151 Officer threshold.

Table 16: DSG – Capital Financing Costs profile – 2024/25 to 2034/35

Capital Financing Costs profile - 2024/25 to 2034/35						
Financial Year	Principal (MRP) (£M)	Interest (£M)	Income (£M)	Capital Fin Net Cost (£M)	Net Revenue Budget (£M)	% of NRB
2024/25	4.316	8.467	(2.392)	10.391	143.190	7.26%
2025/26	4.700	10.412	(2.392)	12.720	140.301	9.07%
2026/27	5.323	11.096	(2.392)	14.027	144.432	9.71%
2027/28	5.561	11.357	(2.392)	14.526	148.672	9.77%
2028/29	5.890	11.357	(2.392)	14.855	153.025	9.71%
2029/30	6.135	11.357	(2.392)	15.100	153.025	9.87%
2030/31	6.383	11.357	(2.392)	15.348	153.025	10.03%
2031/32	6.634	11.357	(2.392)	15.599	153.025	10.19%
2032/33	6.889	11.357	(2.392)	15.854	153.025	10.36%
2033/34	7.148	11.357	(2.392)	16.113	153.025	10.53%
2034/35	7.430	11.357	(2.392)	16.395	153.025	10.71%

4.115 A further factor to consider on the above table relates to the principal repayment of the historic debt used to fund previous capital programmes. This is also known as Minimum Revenue Provision (MRP). In 2022/23, the Council under the direction of the previous S151 Officer, changed its MRP policy from a straight line to annuity basis. This reduced the annual MRP charge by £2.3m as principal repayments are lower in earlier years on an annuity basis. However, what this advice did not factor in is that over the life of the debt, principal charges increase as the annuity is based on fixed repayments and interest payments reduce.

4.116 Even if the Council stopped investing in long term assets from 2026/27, there would be an upward incremental drift on the MRP charge from £5.561m (2027/28) to £7.430m (2034/35), which would breach the 10% S151 threshold from 2030/31 onwards. It is recommended that the Council consider moving back to a straight-line basis on MRP as soon as this is feasible, along with the strategy on funding outlined in 4.113 above.

Measures to Balance the Budget 2025/26 to 2028/29

4.117 The Mayor, Executive Members and the Leadership Team have worked closely since May 2023 to implement measures to control expenditure within the approved budget and develop proposed solutions to achieve a financial recovery and a balanced budget in 2025/26 and over the period of the MTFP to 2028/29. A range of measures have been taken which include:

- Review of previously approved savings
- Review and refinement of demand and cost models for the areas of significant spending pressure to assure and refine the demand growth projections.
- Development of a combination of prioritised budget proposals which:
 - Generate income
 - Manage service demand more effectively
 - Deliver efficiency (do things differently)
 - Deliver transformation (do different things)
 - Service reduction discretionary services
 - Reduce/Realign service provision with statutory requirements

Proposed Budget Savings

4.118 Budget proposals totalling £7.036m in 2025/26 rising to £8.686m in 2028/29 have been categorised as set out in Table 19 in paragraph 4.120 and are summarised by Directorate in Table 17 below.

Table 17: Summary of proposed budget savings by Directorate

Analysis of savings by Directorate	2025/26	2026/27	2027/28	2028/29	TOTAL
	£m	£m	£m	£m	£m
Adult Social Care	(0.750)	-	-	-	(0.750)
Children's Services	(1.853)	(0.768)	-	-	(2.621)
Education & Partnerships	(0.359)	-	-	-	(0.359)
Environment & Community Services	(1.013)	0.460	-	-	(0.553)
Regeneration	(0.348)	-	-	-	(0.348)
Finance	(1.170)	0.015	-	-	(1.155)
Legal & Governance	(0.186)	-	-	-	(0.186)
Council Wide	(1.357)	(1.357)	-	-	(2.714)
Total Directorate	(7.036)	(1.650)	-	-	(8.686)

4.119 Table 18 analyses the savings by type of saving. This shows that in deriving the budget proposals the Mayor and Executive have sought to transform how front line services are delivered rather than make cuts to services.

Table 18: Summary of proposed budget savings by type

Analysis of savings by type	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	TOTAL £m
Income	(0.624)	0.260	-	-	(0.364)
Efficiency	(2.578)	(1.142)	-	-	(3.720)
Service Reduction / Stop	(0.331)	-	-	-	(0.331)
Transformation	(0.900)	-	-	-	(0.900)
Demand Management	(2.603)	(0.768)	-	-	(3.371)
Total	(7.036)	(1.650)	-	-	(8.686)

4.120 The proposals have been categorised into those that require consultation and those that do not using the same categories as previous years as summarised in Table 19 below. Details are provided of the budget savings proposals in Appendices 1 and 2, including the potential numbers of staff affected and the current number of vacant posts for those proposals with staffing implications, with further details being provided in Appendices 1a and 2a. The proposals will be discussed in detail throughout the consultation process, which will be undertaken as detailed in paragraphs 4.131 to 4.135.

Table 19: Analysis of savings by consultation requirements

Appendix		2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	Cumulative £m
1 and 1a	Budget Savings Proposals that are considered to have minimal or no effect on front line service delivery levels These proposals do not have a direct impact on the services for the public and do not therefore require public consultation. Where proposals involve a reduction in staffing, a consultation with Trade Unions and Staff will be required.	(6.787)	(1.650)	-	-	(8.437)
2 and 2a	Budget Savings Proposals considered to potentially affect front line service delivery levels These proposals will form part of the 2025/26 revenue Budget and requires public consultation	(0.249)	-	-	-	(0.249)
Total		(7.036)	(1.650)	-	-	(8.686)

4.121 Further due diligence will be undertaken on the budget proposals over coming weeks to provide assurance of their robustness. In addition, sensitivity analysis will be undertaken on the estimated level of savings in order to review the requirement for contingencies and reserves in the event of estimated savings not being fully achievable (including a review of the proposed £2m Delivery Risk Budget for 2025/26).

4.122 Following consultation and due diligence, if any of the proposed budget savings are deemed to not be achievable then alternative budget savings will have to be found or growth proposals reduced in order to replace the quantified saving (subject to the assessment of the LGFS).

Proposed Budget Growth proposals to support and deliver the ‘Recovery and Reset’ elements of the Transformation journey and the Mayor’s priorities

4.123 Sufficient savings have been identified to enable reinvestment to be made into a number of service areas that contribute to the Recover and Reset phases of the Council’s Transformation journey. These proposals aim to reinvest in a range of services to the community identified as priorities by the Mayor as well as investing in rebuilding resilience in some service areas that are fundamental to delivering and sustaining transformation and delivering priorities set out in the Council plan. A summary of the proposed reinvestment is set out in Table 20 below and further details are provided in Appendices 3 and 3a:

Table 20: Analysis of reinvestment in ‘Recovery and Reset’ elements of the Transformation journey and the Mayor’s priorities

Analysis of Reinvestment by Directorate	2025/26	2026/27	2027/28	2028/29	TOTAL
	£m	£m	£m	£m	£m
Adult Social Care	0.239	0.080	-	-	0.319
Children’s Services	0.353	0.084	-	-	0.437
Education & Partnerships	-	-	-	-	-
Environment & Community Services	0.685	-	(0.100)	(0.100)	0.485
Regeneration	0.200	-	-	-	0.200
Finance	0.558	0.233	-	-	0.791
Legal & Governance	0.126	-	-	-	0.126
Council Wide	0.200	-	-	-	0.200
Total Directorate	2.361	0.397	(0.100)	(0.100)	2.558

Revised budget gap

4.124 After taking account of the budget proposals and proposed growth for reinvestment, currently the budgets for 2025/26 and 2026/27 are balanced, with a gap of £2.686m in 2027/28 and rising to £5.150m in 2028/29, as summarised in Table 21 below:

Table 21: Revised budget gap after budget proposals and growth for reinvestment

Item	2025/26	2026/27	2027/28	2028/29	Cumulative
	£m	£m	£m	£m	£m
Revised gap before new budget savings proposals and Reinvestment in Recover, Reset and Deliver	4.675	1.253	2.786	2.564	11.278
New savings proposals - Appendices 1 and 2	(7.036)	(1.650)	-	-	(8.686)
Revised gap after new savings proposals	(2.361)	(0.397)	2.786	2.564	2.592
New growth to support transformation - Appendix 3	2.361	0.397	(0.100)	(0.100)	2.558
Reinvestment in Recover, Reset and Deliver	2.361	0.397	(0.100)	(0.100)	2.558
Refreshed Budget Gap + / Surplus ()	0.000	0.000	2.686	2.464	5.150

4.125 The revised MTFP can be categorised into the major components as shown in Table 22 below:

Table 22: Revised MTFP 2025/26 to 2028/29

Budget Item	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	Cumulative £m
Net Budget brought forward	134,865	142,301	144,432	148,673	570,271
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)
Inflation subtotal	3,647	2,680	2,680	2,680	11,687
Service Demand pressures					
Regeneration	(0,367)	(0,343)	-	-	(0,710)
ECS	0,630	-	-	-	0,630
Education	(1,500)	0,500	-	-	(1,000)
Children's Care	3,500	1,500	1,500	1,500	8,000
ASC	2,824	1,770	1,848	1,907	8,349
Public Health	0,080	-	-	-	0,080
Finance	-	-	-	-	-
LGS	0,214	-	-	-	0,214
Central & General Fund	-	-	-	-	-
Service Demand pressures subtotal	5,381	3,427	3,348	3,407	15,563
Exceptional Financial Support (removal)	4,700	-	-	-	4,700
Capital Financing	2,099	0,774	0,499	0,329	3,701
Increased Reserves contributions for financial resilience	0,750	1,250	0,500	0,500	3,000
Grant Funding adjustments	(1,315)	(0,780)	-	-	(2,095)
Savings - approved in 24/25 and prior budget rounds	(5,151)	(1,967)	-	-	(7,118)
Savings proposals - 25/26 budget process	(7,036)	(1,650)	-	-	(8,686)
Other adjustments subtotal	(5,953)	(2,373)	0,999	0,829	(6,498)
Projected Net Budget Requirement after new savings proposals	137,940	146,035	151,459	155,589	591,023
Delivery Risk Budget (one off budget 25/26)	2,000	(2,000)	-	-	-
Reinvestment in Recover, Reset and Deliver	2,361	0,397	(0,100)	(0,100)	2,558
Projected Net Budget Requirement after new savings proposals and Reinvestment in Recover, Reset and Deliver	142,301	144,432	151,359	155,489	593,581
Projected Net Budget Requirement funded by:					
Estimated Collection Fund Surplus	(2,000)	-	-	-	(2,000)
Council Tax	(75,770)	(78,803)	(81,928)	(85,146)	(321,647)
Business Rates	(49,152)	(49,988)	(50,838)	(51,702)	(201,680)
Revenue Support Grant	(15,379)	(15,641)	(15,907)	(16,177)	(63,104)
Assumed Funding	(142,301)	(144,432)	(148,673)	(153,025)	(588,431)
Updated Budget Gap + / Surplus () after new savings proposals and Reinvestment in Recover, Reset and Deliver	0.000	0.000	2.686	2.464	5.150

Further work required to balance the budget

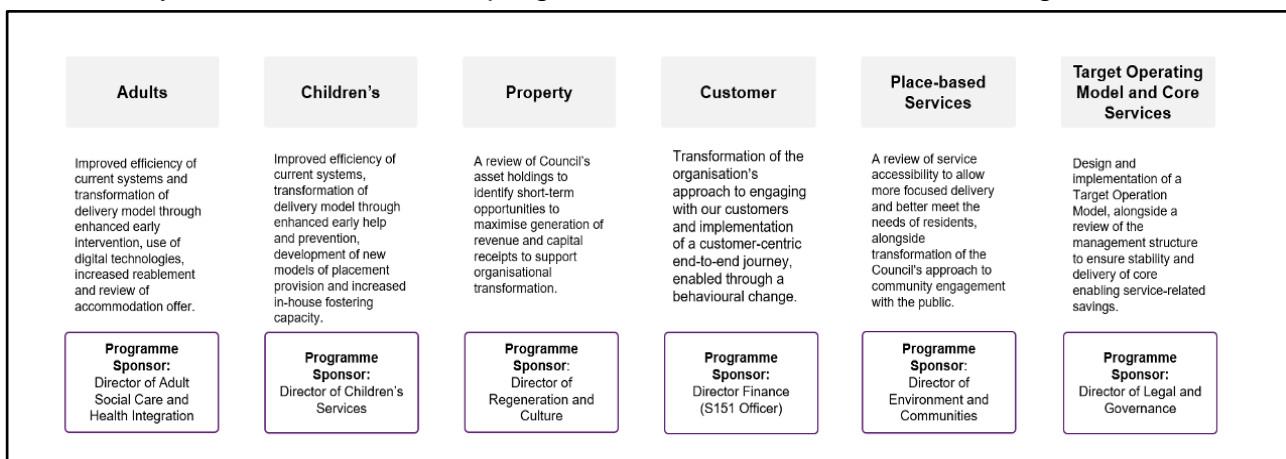
4.126 Further work will continue to assess the impact of the Provisional LGFS and to deliver a balanced position for over the period of the MTFP to 2028/29 ahead of the final budget report that will be considered by the Executive on 5 February and by Council on 19 February 2025.

Transformation Programme

4.127 Integral to the delivery of a financially sustainable Council Plan as reflected by a balanced MTFP to 2028/29 will be the development and implementation of the organisation wide Transformation Programme which commenced in April 2024. The aim of the programme will be to modernise and redesign service delivery models, drive improved control and efficiency and implement effective service demand management measures.

4.128 These measures will enable the Council to deliver improved outcomes for the community from a significantly lower cost base that is financially sustainable over the medium to long term. It will provide the financial stability to enable robust long term planning that will enable the Council to focus upon future investment to secure improved services and outcomes for the community within Middlesbrough.

4.129 A summary of the transformation programme themes is shown in the diagram below.



During 2024/25, work has been undertaken to design and develop the Target Operating Model, Customer Programme and Neighbourhood Programme and the enabling programme for IT and digital. These thematic programmes are to be further progressed over the period leading to the February 2025 budget report and will be aligned to present a new model of operations that will aim to deliver improvement in quality of service and outcomes for the community from a lower cost base over the medium to long term. It is expected that cashable savings will be profiled to deliver from the latter periods of 2025/26 and through into 2026/27 onward. No savings from these cross cutting programmes are currently factored into the MTFP model. Investment plans were contained within the approved investment set out in the 2024/25 budget and MTFP and the Transformation of Middlesbrough Council report approved by Council in April 2024.

4.130 A further review of the budget and MTFP position will be undertaken following consideration and analysis of the expected announcement for the Local Government Finance Settlement which is due on/around 19 December 2024.

Consultation

4.131 Consultation in respect of the proposed budget savings for 2025/26 detailed in Appendix 2 and the proposed Council Tax increase for 2025/26 will commence on 5 December 2024 and conclude on 8 January 2025, with appropriate impact assessments undertaken considering responses to the consultation.

4.132 It is planned that the budget consultation will closely involve elected members in proactively engaging stakeholders. It will have a clear brand identity and be promoted across social media and other channels, gathering both quantitative and qualitative information that will provide both real insight for the Council and real influence for

respondents. The aim is to encourage more people to take part in the annual budget consultation.

4.133 It is planned that the consultation will be politically led and will include:

- a general public survey on the Council's website, with hard copies on request
- a general consultation email address
- public consultations led by the Executive at locality/community hubs
- consultation with the Council's Scrutiny Panels and Overview and Scrutiny Board
- consultation with the Council's partners and the local business sector, including a specific consultation meeting with the town's Chamber of Commerce

4.134 Due to consultation requirements, some proposed budget savings where staff are affected may require a longer consultation than the budget consultation period and therefore there will be need to ensure that a consultation plan is developed, along with an appropriate final decision making point for these proposals.

4.135 The output of the consultation process will then be reported to Executive on 5 February 2025 and then to Full Council on 19 February 2025, which will:

- again refresh the MTFP following the Local Government Finance Settlement, set the 2025/26 budget and any required associated budget savings and targets, and set the Council Tax level for 2025/26;
- comply with the Public Sector Equality Duty and set out any impacts identified from the proposals for 2025/26 and future years.

Capital Programme

4.136 The Council's Capital Programme is reviewed each quarter via the quarterly budget monitoring reports. A comprehensive review of the capital programme, its profiling and forecast outturn including financing has been undertaken to 30 September 2024 as part of the Quarter Two 2024/25 budget monitoring report.

4.137 The Capital Programme will be further reviewed at Quarter Three, and also a full revision of the Capital Programme for the MTFP period including a review of existing schemes and any potential capital investment, will be included in the budget report to Full Council in February 2025 along with a Capital Strategy Report. The Corporate Capital Board and Strategic Capital Board which has been created as part of the Capital Programme Governance Improvement report approved by Executive on 13 November 2024 will play a key role in this.

4.138 Provision has been made in the MTFP in respect of the maximum affordable capital financing costs arising from the Capital Programme. As detailed in paragraph 4.113 an affordability limit has been set by the Council's S151 Officer and this will need to be adhered to in any decisions made regarding capital investment.

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

- 5.1 The Council is required by law to set a balance 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 The Council is required by law to set a legally balanced budget by 11 March 2025. Failure to do so would result in the statutory requirement for the s151 Officer to issue a s114 Notice under s114(3) of the Local Government Finance Act 1988.
- 6.1.2 In order to demonstrate that it is meeting its Best Value duty, the Council is required to demonstrate financial sustainability through setting a balanced MTFP and securing a level of reserves that considered to be adequate in the context of the risks facing the Council in delivering its planned services.
- 6.1.3 As set out in the main body of the report, the Council's financial position remains fragile and its revenue reserves remain low and are required to be rebuilt in line with the approved Reserves Policy over the medium term.
- 6.1.4 Whilst the Government's Budget announcement indicates that the 2025/26 local government finance settlement is likely to be better than widely anticipated, uncertainty over the medium term remains. The Council is strongly advised to continue to progress with its transformation and savings programme, to secure more cost effective services in the medium to long term. This action will serve to provide greater financial flexibility in the future to further invest in the Council and Mayor's priorities.
- 6.1.5 The proposed draft budgets for 2025/26 and 2026/27 are balanced, with a gap of £2.686m in 2027/28 and rising to £5.150m in 2028/29. Details of the revised MTFP are shown in Tables 21 and 22 in paragraphs 4.124 and 4.125.
- 6.1.6 The proposed budget and MTFP presents a significant challenge, building upon the progress made in delivering savings during 2024/25. A summary of the £31.105m of total savings delivered / to be delivered over the period 2024/25 through to 2028/29 is summarised in Table 23 below and this shows that in 2025/26 a total of £12.2m of savings and a further £3.6m of savings in 2026/27 will be required to be made. This will be in addition to £15.3m of savings required in 2024/25.

Table 23: Summary of approved budget savings in 2024/25 and proposed savings for 2025/26 and 2026/27

Directorate	23/24 Savings Yr 2	24/25 Savings Yr 1	TOTAL 2024/25	24/25 Savings Yr 2	25/26 Savings Proposals Yr 1	TOTAL 2025/26	24/25 Savings Yr 3	25/26 Savings Proposals Yr 2	TOTAL 2026/27	Cumulative
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Regeneration	(0.056)	(0.551)	(0.607)	(0.794)	(0.348)	(1.142)	(0.200)	-	(0.200)	(1.949)
ECS	(0.062)	(1.459)	(1.521)	(0.670)	(1.013)	(1.683)	(0.120)	0.460	0.340	(2.864)
Education	(0.153)	(0.132)	(0.285)	-	(0.359)	(0.359)	-	-	-	(0.644)
Children's Care	(0.826)	(4.254)	(5.080)	(1.400)	(1.853)	(3.253)	(0.715)	(0.768)	(1.483)	(9.816)
ASC	-	(5.757)	(5.757)	(1.283)	(0.750)	(2.033)	(0.750)	-	(0.750)	(8.540)
Public Health	-	-	-	-	-	-	-	-	-	-
Finance	-	(1.379)	(1.379)	(0.959)	(1.170)	(2.129)	(0.182)	0.015	(0.167)	(3.675)
LGS	(0.050)	(0.378)	(0.428)	(0.045)	(0.186)	(0.231)	-	-	-	(0.659)
Central & General Fund	(0.244)	-	(0.244)	-	-	-	-	-	-	(0.244)
Council Wide	-	-	-	-	(1.357)	(1.357)	-	(1.357)	(1.357)	(2.714)
Total	(1.391)	(13.910)	(15.301)	(5.151)	(7.036)	(12.187)	(1.967)	(1.650)	(3.617)	(31.105)

6.1.7 Measures are set out to mitigate the risks of failure to deliver expenditure within the proposed 2025/26 budget are set out in paragraph 4.65 of the report. These are primarily focused upon savings delivery risk, but will apply to other otherwise unmanageable pressures that may arise in year. Provided these measures are deployed, the Council should not require assistance from Government in the form of EFS to mitigate the risk exposure presented by its low level of reserves.

6.1.8 The Council needs to develop a more robust and focused approach to financial management and control during 2025/26. In particular stronger control over the main budget categories of pay, non-pay, and income budgets. It is proposed that refinements to financial regulations and further training for Directors and finance staff will be brought forward as part of planned revisions to the constitution in order to drive increased compliance of budgetary control and use of budget virement mechanisms to track and control the movement of financial resources subject to the delegation limits set out in financial regulations.

6.1.9 The detailed financial implications associated with this report are set out throughout the main body of the report.

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.

6.2.2 Elected members (individually and collectively) have a fiduciary duty to local taxpayers and so duty to facilitate, rather than frustrate, the setting of a lawful budget, and not to do so would bring damaging legal, financial, operational, and reputational consequences for the Council, and precepting authorities such as the police, fire service and local parish councils. It may also give rise to personal liability for individual members for misfeasance in public office, negligence, or breach of statutory duty, should they be found to be purposely failing to set a lawful budget.

6.3 Risk

- 6.3.1 The revision of the Council's Medium Term Financial Plan for 2025/26 to 2028/29 plays a fundamental role in ensuring that the Council Plan is delivered effectively.
- 6.3.2 The proposed approach will ensure a positive impact on the strategic risk (SR01) that the Council fails to maintain a balanced budget and Medium Term Financial Plan. The proposed approach also aligns with legal requirements around consultation and assessing the impact of proposals. It therefore impacts positively on the risks that the Council could fail to achieve good governance or comply with the law (SR01 and SR04).
- 6.3.3 There is a risk that the financial position of the Council will be adversely affected by any non-achievement of the proposed budget savings for 2025/26 outlined in the report and failure to deliver expenditure within the proposed 2025/26 budget. However, this risk has been mitigated by the measures set out in paragraph 4.65 of the report and mitigating actions that are captured in the Council's Strategic Risk Register. Progress against these actions is reported to Executive on a quarterly basis within the performance outturn report.

6.4 Human Rights, Public Sector Equality Duty and Community Cohesion

- 6.4.1 As stated in paragraph 4.120, savings proposals for 2025/26 and beyond have been initially assessed and categorised in Appendices 1 and 2.
- 6.4.2 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 specific proposals and the proposed Council Tax increase will be completed prior to consideration by the appropriate decision-making body, where required. This will be either prior to the presentation of the 2025/26 budget report to Full Council in February 2025, or during 2025/26 prior to the decision to implement the proposed budget saving being taken.

6.5 Climate Change / Environmental

- 6.5.1 The proposal REG08 Reduction in Energy Usage should have a positive impact on the Council's aspirations for Climate Change.

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

- 6.6.1 A number of the proposals within the 2025/26 proposed budget are relevant to these groups. One of the proposals, EDC05 Remove or Recharge Discretionary Home to School Transport, may impact these groups. Other proposals will ensure that service provision is reviewed to ensure it is fit for purpose and should not directly impact on the service provided to these groups. Any potential impact of the proposals will be assessed during the consultation period and the findings from that process will be set out within the report to Council in February 2025 and the supporting Impact Assessment.

6.7 Data Protection / GDPR

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)

Action	Responsible Officer	Deadline
Consultation on the proposed budget savings and Council Tax increase will commence on 5 December 2024 and conclude on 8 January 2025, with appropriate impact assessments undertaken considering responses to the consultation	Head of Financial Planning & Support	8/1/25
The output of the consultation process will be reported as part of the Revenue Budget, Council Tax, Medium Term Financial Plan, and Capital Strategy 2024/25 report to Executive on 5 February 2025 and Full Council on 19 February 2025	Head of Financial Planning & Support	19/2/25

Appendices

1	Budget Savings proposals that are considered to have minimal, or no effect on front line service delivery levels
2	Budget savings proposals considered to potentially affect front line service delivery levels
3	Proposed Budget Reinvestment in Recover, Reset and Deliver
4	Initial Proposed Fee and Charges Schedule 2025/26

Background papers

Body	Report title	Date
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
Council	Transformation of Middlesbrough Council	24/4/24
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
Executive	2025/26 Medium Term Financial Plan	4/9/24
Executive	Capital Programme Governance Improvement	13/11/24
Executive	Revenue and Capital Budget – Forecast Year-end Outturn position at Quarter Two 2024/25	4/12/24
Executive	Treasury Management Mid-Year review – 2024/25	4/12/24
Executive	Calculation of Council Tax Base for 2025/26	4/12/24

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