

## **Appendix 1 - S151 Officer Section 25 Report**

### **The robustness of the 2025/26 budget and adequacy of reserves**

#### **1 Purpose of the report**

- 1.1 This is an important report which provides the context within which the entire suite of the 2025/26 budget and MTFP and Treasury Management Strategy Reports on this agenda must be considered when making decisions in relation to setting the annual budget and Council Tax.
- 1.2 The report advises Elected Members of the Council of the Director of Finance and Transformation's (s151 Officer) report on the robustness of estimates made for the purposes of the budget calculations and the adequacy of proposed financial reserves as required by statute.

#### **2 Legal Framework**

- 2.1 Section 25 of The Local Government Act 2003 (the Act) includes the following statutory duty in respect of the budget report to Council:

*'the Chief Financial Officer (CFO) of the authority must report to it on the following matters:*

- a) the robustness of the estimates made for the purpose of the calculations;*
- and*
- b) the adequacy of the proposed financial reserves.'*

- 2.2 The Act also requires the Authority to which the report is made to have regard to the report when taking decisions about the budget and setting the Council Tax. The Chief Finance Officer is as defined in Section 151 of the Local Government Act 1972 and is fulfilled by the Director of Finance.
- 2.3 Section 26 of the Local Government Act 2003 places an onus on the CFO (the Director of Finance and Transformation and s151 Officer) to ensure the Council has established a minimum level of reserves to be retained to cover any unforeseen demands that could not be reasonably defined within finalising the proposed budget. For the purpose of the Act 'reserves' include the 'General Fund Balance.
- 2.4 This report has been prepared by the CFO to fulfil this duty and gives the required advice relating to the 2025/26 financial year. This includes a consideration of the budget proposals as a whole and the key financial risks facing the Council.
- 2.5 In accordance with s31A of the Local Government Finance Act 1992, the Council is required to have regard to this report when making decisions on

agreeing the budget and setting the Council Tax for the financial year 2025/26.

### **3 Chief Finance Officer Overall Opinion**

- 3.1 At 2024/25 budget setting the Council's financial position was deemed critical by the previous s151 Officer due to demand pressures, a critically low level of revenue reserves, and it was unable to set a balanced revenue budget for 2024/25 without recourse to Exceptional Financial Support (EFS) from the Department for Levelling Up, Housing and Communities (DLUHC) - now renamed Ministry of Housing, Communities and Local Government (MHCLG).
- 3.2 Whilst the Council financial position has substantially improved through actions undertaken during 2024/25 and is now on a firmer setting, it is still fragile for the following major reasons and there needs to be a continuing focus on the Council's finances.
- 3.3 The Council is forecast to slightly underspend by £0.006m against its budget of £143.190m in 2024/25 (as per the Quarter Three budget monitoring), however it has still not been able to fully mitigate its financial pressures during 2024/25 mainly in relation to children's social care expenditure and has had to rely on underspends on central budgets to create an underspend position. It also has net savings totalling £3.048m which are forecast to be unachieved in 2024/25. It should also be noted that even if the Council breaks even against the budget of £143.190m it will still have to borrow or use capital receipts to fund the £4.7m used to balance the 2024/25 budget.
- 3.4 Whilst the Council reserves have improved during 2024/25 and now the balance on usable unrestricted reserves are forecast to be £21.369m at 31 March 2025, they are still at a relatively low position compared to other local authorities. However, the Council reserves are adequate to support the budget for 2025/26 having regard to the assessment of current financial and other risks and the implementation of recommended management control measures as set out in this report. Provided these assessed risks do not increase substantially and beyond those that have been reasonably assumed in developing the budget the Council is capable of delivering an increase in its financial resilience over the MTFP period. The Council must aim to rebuild its usable unrestricted revenue reserves over the period of the MTFP as outlined in Section 11 of this report and the Reserves Policy in Appendix 4 of the budget report.
- 3.5 Given the Council's financial position and the uncertainty over the medium term pending the Spending Review and Funding Reform in 2025/26, the s151 Officer advised the Mayor and Executive to adopt the current assumed maximum permissible Council Tax increase of 4.99% p.a. for 2025/26 and this

has been recommended in the proposed budget for 2025/26. Any reduction in planned Council Tax will be a permanent loss in future funding.

- 3.6 There is also a high level of budget savings planned to be made over the MTFP period to 2028/29 with £15.4m savings required over the period from 2025/26 to 2028/29, and these are on top of £15.3m of savings required for 2024/25. This creates a risk in that these are not fully achieved or replaced with alternative savings of a similar value creating pressures on the budget and requiring the use of already low levels of reserves.
- 3.7 Whilst the budget is balanced for 2025/26 and 2026/27 there are still gaps in balancing the budget for 2027/28 and 2028/29. This will necessitate the need for the Council's Transformation Programme to generate savings to help bridge the budget gaps.
- 3.8 On the basis of the risks and issues set out in this report, in my opinion as Director of Finance and Transformation (s151 Officer), the budget estimate of £143.362m and a council tax requirement of £75.783m for 2025/26 to be presented for approval by Council is robust on the basis that:
- a) All Members and Officers will work collaboratively together with an unrelenting focus and priority placed upon:
    - a. controlling costs within cash limited budgets without exception.
    - b. Delivery of all £11.9m of planned savings for 2025/26 and a further £3.5m for 2026/27 on an ongoing basis
    - c. Identify and develop further transformational savings to enable implementation to secure delivery of a minimum of a £2.726m further savings by 2027/28 and an additional £2.444m of savings by 2028/29 based on the current budget gaps for those years
    - d. Noting that the failure to deliver planned savings in any financial year will add to the budget gap in the following financial year
    - e. Following extensive training in the new Financial and Contract Procedure Rules, Directors will ensure full staff compliance across their respective service areas.

These control measures will serve to preserve and rebuild the Council's revenue reserves to strengthen the Council's financial resilience over the medium term.

- b) The Council takes all necessary measures to realise the delivery of planned asset sales in 2025/26 (estimated to be £17m in 2025/26) which are critical to fund transformation investment over the MTFP, and the capital programme.

- c) The funding for the Transformation Programme is maintained at current levels over the period of the MTFP (i.e. £26.7m over the period from 2024/25 to 2028/29).
- d) That transformation and savings delivery plans are developed with continued momentum and appropriate temporary resources are secured across Service Directorates to ensure delivery in line with programme delivery profiles. Each Director will need to ensure that they secure the necessary resources to deliver within available transformation financial resources given the risks to delivery noted in section 5.3 below.
- e) That outputs both financial and non-financial are realised as part of the Transformation Programme, and any expenditure is spent in accordance best value principles.
- f) That sufficient senior and specialist capacity of the Finance Team is secured to be able to service the organisational requirements associated with delivering transformation alongside its normal duties in upholding the S151 officer statutory responsibilities to the required standard. The resources within the substantive team are currently insufficient to deliver at the extent of improvements in financial management required to support the delivery of transformation, and uphold the business-as-usual statutory duties of the s151 officer.

*S114 (7) of the Local Government Finance Act 1988 requires that the Council provide the s151 Officer with sufficient resources as the s151 Officer considers necessary to fulfil their statutory duties under the Act.*

Budget growth has been provided within the proposed 2025/26 budget and if this is approved by the Council as part of the budget setting for 2025/26 then this should provide adequate resources to enable additional capacity and increased qualified accountancy staff in order to implement a new operating model and structure for the Finance Function during 2025/26, as part of the financial management improvement plan to ensure that it is adequate to meet the longer term needs of the Council.

- 3.9 The Council must continue to proactively address the areas for improvement set out in previous external bodies, such as DHLUC/Grant Thornton, Middlesbrough Independent Improvement and Advisory (MIIAB), the CIPFA Financial Management Review undertaken during 2024/25, and the recent LGA Corporate Peer Challenge. In particular, embedding improvements to budget modelling and forecasting within the operational management of services underpinned by effective systems and processes will deliver improved and embedded financial management practices across all directorates.
- 3.10 Whilst I am able to provide a high level of assurance for the 2025/26 budget I do have concerns that I will be unable to provide such assurance for the

medium term should the MTFP position change significantly. This medium term judgement reflects the following concerns;

- Continued inflationary pressures;
- Significant financial risks around our social care budgets;
- The inability to make transformation savings to address the medium term position;
- Further delays in fair funding reform and business rates baselining, from which we have a realistic expectation of additional funding; and
- Notwithstanding fair funding reform which should provide an improvement, a forecast tightening of government funding over the medium term;

#### **4. Current Context and Financial Standing of the Council**

##### **2024/25 Financial Position**

- 4.1 The Council approved a balanced budget for 2024/25 in February 2024 but due to the financial position at the time and the critically low level of usable earmarked revenue reserves there was a requirement to apply for Exceptional Financial Support (EFS) from the Department for Levelling Up, Housing and Communities (DLUHC) - now renamed Ministry of Housing, Communities and Local Government (MHCLG) - and £4.7m of EFS was required to balance the 2024/25 budget.
- 4.2 The forecast outturn position at Quarter One 2024/25 was a £3.742m overspend, but with improved monitoring and control measures implemented across the organisation by the Leadership Management Team, Elected Mayor and Executive the current forecast outturn position at Quarter Three is an underspend of £0.006m against the £143.190m budget set for 2024/25 (details are provided in the Quarter Three budget monitoring report to Executive on 5 February 2025).
- 4.3 The Council's approach to financial management and control must continue to be rigorous and continue to be reviewed and strengthened through 2025/26 to establish a firm grip on financial management and embed this in the strategic and operational management of the organisation. This is essential to achieve and sustain the current momentum in the improvement in the Council's finances.
- 4.4 There has been an unrelenting focus by the Leadership and Management Team and Executive Members upon managing and tracking the delivery of approved savings over the course of the year. Where original plans have proved difficult or not possible to deliver within the year, alternative mitigations have been deployed as far as possible by Directors through the development and implementation of Financial Recovery Plans.
- 4.5 The Quarter Three position on savings delivery is included in the Quarter Three budget monitoring report to Executive on 5 February 2025, and shows that there are £3.048m of net savings which are deemed to be undeliverable.

These are factored into the 2024/25 forecast budget position and have been reviewed to ensure they are achievable ongoing.

4.6 The table below summarises the main variances within the Council which have proven difficult to mitigate fully due to a combination of:

- The demand led and statutory nature of the services which have experienced increased demand and complexity of need beyond those anticipated.
- Inflationary pressures continuing to impact the supply chain for goods, works and services.
- The nature of current operating models which need to be modernised to realise efficiencies.
- The requirement for more effective demand management to support and enable communities to become more resilient and self-reliant.

<b>2024/25 Forecast Outturn Quarter Three</b>	<b>£m</b>
Adult Social Care – unachieved savings	0.659
Adult Social Care – other - mainly by maximising a one-off grant	(0.471)
Children’s Social Care – increased numbers and complexity of external residential placements	2.361
Children’s Social Care –unachieved savings	2.110
Central – savings against centrally held inflation and contingency budgets	(4.273)
Other variances (ECS, Education & Partnerships, Regeneration, Legal and Governance, Finance, and Central)	(0.392)
<b>Total</b>	<b>(0.006)</b>

4.7 It is essential that robust measures are taken during 2025/26 to manage demand more effectively, deliver efficiencies and develop longer term transformation to control costs, particularly in the areas of Adult Social Care, Children’s Care, Education and Partnerships (SEND transport), Homelessness and Environment and Communities (Waste Disposal), in order to ensure the financial sustainability of the Council in the medium to longer term.

4.8 As reported previously the Council’s usable unrestricted reserves and the General Fund Balance had reduced considerably over the period 2015/16 to 2023/24 to a critically low level of £12.055m at 31 March 2024. Whilst the level of reserves has improved considerably during 2024/25 to a forecast level of £21.369m at 31 March 2025 (as per the Quarter Three budget monitoring) they are still at a relatively low level compared to other local authorities with further details being included in the Adequacy of Reserves Section 11.

4.9 The Council still has a low level of financial resilience as a result of the weaknesses in its financial management practices over a number of years. The need to exercise financial grip on operational expenditure and achieve

transformation of its service delivery models and financial management practices through 2025/26 is critical to stabilise the financial position.

- 4.10 The Council must now continue to have a firm grip and take firm and unwavering action in 2025/26 in order to control expenditure within its annual income sources without exception in order to protect and rebuild reserves to a sufficient level over the medium term 2025/26 to 2028/29.

## **5 Recommendations in relation to financial recovery and resilience**

- 5.1 In September 2024 MHCLG withdrew the Best Value Notice in relation to the Council's failings in culture and governance. However there is still a continuing need to embed improvements in relation to securing financial sustainability and delivery of transformation, whilst effectively implementing new strategies to embed positive cultures.
- 5.2 The Council is progressing on its improvement journey and must seize opportunities to deliver modernisation and efficiency in its operations and embed more robust financial management practices with momentum in order to protect its financial position and succeed in the medium term.
- 5.3 The Council currently lacks sufficient capacity within its permanent staffing establishment across service directorates and enabling services such as HR, Legal, IT and Finance in order to achieve the level of change required at the pace expected and this presents a significant risk which needs to be addressed through the resource planning for transformation that is currently underway. This risk has been highlighted by DLUHC/Grant Thornton, MIIAB, and CIPFA as part of its Financial Management Review during 2024/25. Ensuring that the Council has the appropriate skills, knowledge and capacity in place across service directorates and enabling services such as finance, HR, ICT and legal services is critical to the Council's success. This is being addressed within the development of the transformation programme resource plans and budget growth for these services.
- 5.4 Alongside the need to redesign and transform service delivery, there is a requirement to continue to review and strengthen the financial management arrangements within service directorates, including the adoption of a corporate standard approach to demand and cost modelling, forecasting and reporting, improved financial management skills amongst budget holders, upskilling the finance team and ensuring underlying IT systems, business processes and procedures are in place to establish 'one version of the financial truth' for Middlesbrough Council to support its financial planning and strategic and operational decision making.
- 5.5 The nature of the demand pressures in adult and children's social care, SEND transport, homelessness, and Waste Disposal have proved difficult to control and mitigate in previous years and are key themes within the transformation and savings programmes proposed for 2025/26 and over the medium term, and in turn are critical to securing financial sustainability of the Council.

- 5.6 Service Directors will be required to deliver fully on their savings plans during 2025/26 whilst proactively managing operational income and expenditure to remain within the budget allocations for which they are responsible and accountable without exception.
- 5.7 In addition to ensuring appropriate resources within the service areas, this work will need appropriate engagement of the Finance Business Partnering function. The Finance Service is currently depleted in terms of its capacity to meet the needs of the organisation at this time and presents a specific risk to the Council's ability to deliver on transformation and meet the statutory responsibilities of the s151 Officer. Budget growth has been provided within the proposed 2025/26 budget and if this is approved by the Council as part of the budget setting for 2025/26 then this should provide adequate resources to enable additional capacity and increased qualified accountancy staff in order to implement a new operating model and structure for the Finance Function during 2025/26, as part of the financial management improvement plan to ensure that it is adequate to meet the longer term needs of the Council. There is however a risk in recruiting the required resources due to lack of available suitably qualified and experienced accountancy staff within the local government sector, and other options may be required to be considered to achieve this objective.
- 5.8 A significant amount of work has been undertaken by the Finance Team to develop and improve the Council's approach to demand and cost modelling which is the foundation of robust financial management. Further work will be required during 2025/26 and will build upon the foundations laid during 2023/24 and 2024/25 and will require the integration of operational and financial management through activity-based costing at the most basic level of operational management and decision making across all directorates. In particular, senior finance input will be required to be embedded in transformation programme multi-disciplinary teams to ensure that effective and robust financial management systems and processes are established and embedded in the redesigned and transformed service models.
- 5.9 Budget holders and decision makers within service areas must become more proficient in understanding and managing the financial consequences of their decisions and further training will be provided throughout 2025/26.
- 5.10 Finance Business Partnering needs to be developed to provide greater forward looking, proactive analysis, information, advice and constructive challenge to Directorate Management Teams. The Finance Business Partner is the S151 Officer's representative and should be positioned as a full and equal member of the Directorate DMT, representing and advising Service Directors on behalf of the S151 Officer and upholding the statutory responsibilities of the S151 Officer. The S151 Officer will seek to modernise the traditional approach to delivering accountancy support and financial reporting that is currently the norm across the organisation. This is necessary



in order to establish a firm grip upon the financial management of Service Directorates and embed a strong financial management culture.

- 5.11 There is a fundamental risk to achieving this requirement given there is insufficient capacity of appropriately skilled and experienced staff within the permanent Finance function as outlined above. Section 114(7) of the Local Government Finance Act 1988 requires the local authority to provide its Chief Finance Officer with such staff, accommodation and other resources as are in his/her opinion sufficient to allow his/her duties under the Act to be performed. This risk has been mitigated by the provision of additional resources in the proposed 2025/26 budget as outlined above.

## **6. Robustness of Estimates**

- 6.1 Budget estimates are based upon a combination of known data and assumptions of which some are within the organisation's control, and some are outside of its control. Therefore, it is not possible to predict the future with certainty and so the statement on robustness of estimates cannot give a 100% guarantee that expenditure and income will be incurred as expected in developing those budget estimates. The financial planning environment is particularly uncertain due to persistently high inflation which is built into budgets, and again only a one-off Local Government Finance Settlement being published for 2025/26.
- 6.2 Work has commenced to establish a standardised approach to demand and cost modelling in the areas of adult social care, children's social care, Integrated Transport Unit and Waste given the scale of the expenditure and financial pressures being experienced in order to improve the Council's approach to budget setting, monitoring and forecasting as required by recommendations made in various external reviews, including the CIPFA Financial Management Review which took place in during 2024/25.
- 6.3 Models are assessed as adequate, but work will need to continue through 2025/26 to improve the Council's financial planning and forecasting capability through more focus upon data and forecasting techniques to strengthen the links between service and financial planning for the future.
- 6.4 The s151 Officer has relied upon the following measures in order to meet the requirements for assessing the robustness of estimates:
- Budgets have been aligned to the identified spending needs of the Council through the assessment of demand, pay inflation, non pay inflation, contractual inflation and assessment of income sources as set out in the detailed proposed 2025/26 Budget and MTFP at Appendix 2.
  - Compliance by all Directors in the use of budget development guidance issued to support the development of budget saving proposals, including the use of standardised summary business case templates which capture the costs, benefits, risks, impact of proposals together with a high level profile of delivery timescales.

- A further review of income from fees and charges for discretionary services has been undertaken and a Fees and Charges policy which was first implemented in 2024/25 is proposed again for 2025/26 to provide a framework within which fees and charges should be managed .
- A review of savings proposals and their achievability by the Executive, Leadership Management Team, Departmental Management Teams and due diligence review by Finance to assess the robustness and deliverability of proposals.
- The Overview and Scrutiny Board have been engaged in the review and challenge of budget proposals during the consultation period and a series of all member briefings and consultation events have been held to help shape budget proposals.
- Budget proposals have been subject to public and staff consultation where appropriate and feedback has been factored into the finalisation of proposals.
- Directors have taken responsibility and accountability for the delivery of their budget proposals and have formally signed them off as deliverable.
- The use of in-year budget monitoring by Directors and engagement through monthly budget challenge sessions to understand and address the underlying drivers of cost and the recurrent vs non recurrent nature of pressures being experienced in year.
- Director's assessment of expected demand for service provision over the term of the MTFP and testing this in order to assess the credibility of future growth pressures.
- Sensitivity analysis on the assessment of service demand for the demand led statutory service areas to assess the adequacy of reserves.
- The Capital Programme has been extensively reviewed to ensure Council resources are utilised within affordable limits, whilst also ensuring provision for essential expenditure required to support the delivery of the Council's objectives and priorities
- The Treasury Management position reflects the annual requirement to meet capital financing costs of £12.060m in 2025/26 which is equivalent to 8.4% of the Net Revenue Budget.

## **7 Governance**

- 7.1 The Budget has been prepared with the full involvement of the Leadership Management Team led by the Chief Executive and has engaged fully the Elected Mayor and the Executive over many months and iterations of budget proposals.
- 7.2 Under the Council's Constitution, financial management is delegated to each Director, and they are required to manage expenditure within approved resources allocated to their control.
- 7.3 Following the revision of the Constitution and Contract and Financial Procedure rules in September 2023, all senior officers have received relevant

training and are required to comply fully with these procedures. Further training will be provided during 2025/26.

- 7.4 Enhanced monthly budget monitoring, forecasting and reporting arrangements will continue throughout 2025/26 and essential spending controls including vacancy management and contract compliance will remain indefinitely.
- 7.5 Monthly tracking of savings delivery will be reported by the Programme Management Office engaging fully with Finance Officers to ensure savings delivery and overall cost control remain on track.
- 7.6 An enhanced transformation and programme management framework will operate in relation to the delivery of proposed savings and the development of new transformational projects throughout 2025/26 and over the period of the medium term financial plan.
- 7.7 Realisation of capital receipts from asset sales is critical to funding investment in transformation and therefore will be managed as a workstream within the programme management framework to provide assurance of delivery.

## **8 Accounting Practice**

- 8.1 The 2023/24 annual audit report by the Head of Internal Audit (Veritau) gave a Reasonable Assurance conclusion in August 2024 in relation to the framework for governance, risk management and control operating in the Council. The report acknowledges the progress that the Council has made to address these previously identified issues as well as the corporate issues identified in the government's Best Value notices in January 2023 and January 2024 which are the subject of the CGIP and s24 Notice. This is a significant improvement from the Limited Assurance opinion given in 2021/22 and 2022/23 in which a number of governance weaknesses were identified that were not limited to a specific area or audit.
- 8.2 It is noted that within that assessment, the conclusion of the most recent internal audit reports relating to core financial systems has given substantial assurance on the audit of the main accounting system, debtors and payroll, and for creditors, which gives the s151 officer some degree of assurance over the control environment and completeness and accuracy of financial reporting arrangements for core financial systems that impact upon budgeting and financial reporting.
- 8.3 Issues identified in relation to use of Purchase Cards in Children's Services has resulted in a revision and strengthening of policies and procedures for the use of purchase cards across the wider organisation. Weaknesses also remained in Children's Services in relation to commissioning and contract management with agreed actions now implemented. Children's Services use of agency staff identified a number of issues relating to policies, procedures, authorisation of recruitment, pre-employment checks and timesheet

authorisation, and the findings and management actions were presented to the Audit Committee in October 2024.

- 8.4 Further due diligence will be undertaken in relation to accounting practice including Dedicated Schools Grant and capitalisation of expenditure through 2025/26 and so it is possible that new issues may emerge as this work is delivered.

## **9 Budget Savings Delivery**

- 9.1 The budget development process for 2025/26 continued the requirement to produce a summary business case as a minimum standard (referred to as R2 form) in relation to every budget proposal which captures key financial information around investment, income, expenditure reduction (staff and non staff), impact upon service users, equality impact assessment, risks and dependencies and high level delivery timescale, together with a RAG rating on the risks associated with delivery of planned savings.
- 9.2 More complex and transformational savings initiatives will be subject to enhanced programme and project management in accordance with the new Transformation Programme governance arrangements to provide assurance of delivery.
- 9.3 It is critical that the Leadership Management Team and Executive have an unwavering focus upon ensuring the following during 2025/26:
- delivery of planned savings
  - development and implementation of further transformation, efficiency and demand management plans.
  - Strict cost control including on vacancies, other staff costs and expenses,
  - Compliance with Contract Procedure Rules to ensure expenditure is 'on-contract' and appropriate use and control of purchase card expenditure.
  - Continuation of monthly budget monitoring, forecasting and challenge sessions to ensure that proactive arrangements are in place to address adverse variances as they emerge.
  - Continuation of quarterly member led budget challenge sessions (monthly for Children's Care) and review sessions with full engagement of portfolio holders in overseeing financial performance on a monthly basis.
  - Integration of operational and financial management processes that enable the development of more robust data driven demand and cost models which are the foundation for effective financial planning, forecasting, monitoring and control.
- 9.4 The s151 Officer has made financial provision for a Savings Delivery Risk Reserve of £3.135m and a delivery risk budget of £2m in 2025/26, due to the following factors:

- the challenging nature of the savings programme which is predicated heavily upon new transformation, redesign and demand management measures
- the fact that programmes of this magnitude can take a period of time of implement
- the Council's potential lack of sufficient resources and capacity to ensure delivery with momentum

9.5 It is anticipated that the amount of transformation expenditure will be up to £5.0m in 2025/26 (including ICT), with an estimate for redundancy costs of up to £1.750m in 2025/26, and a contingency budget of £0.750m. This will be funded from Flexible Use of Capital Receipts (FUoCR) and will mean that the estimated value of the FUoCR will be £7.5m in 2025/26, and once finalised this will be presented for consideration and approval by Council in April 2025. It is essential that the capital receipts are received during the year to fund the Transformation Programme and the Capital Programme

## **10 Key Risks impacting Budget Delivery**

- 10.1 **Demand for Children's Social Care** - As described in the MTFP at Appendix 2, the Council continues to experience exceptionally high levels of demand, complexity, and cost of children's social care, particularly in relation to its reliance upon external residential provision to meet the needs of children in its care. The budget has been increased from £31m in 2019/20 to £54m in 2024/25, with a further proposed increase of £3.5m for demand in 2025/26 and £1.5m p.a. for 2026/27 to 2028/29 based upon further expected pressures.
- 10.2 **Demand and cost of Adult Social Care** - Costs are increasing due to increased demographic demand pressures, together with higher care fees to providers to offset their rising costs and capacity constraints due to labour shortages. The Adult Social Care service is also experiencing challenges in recruitment and retention of staff of which pay is a driving factor.
- 10.3 **Special Educational Needs and Disabilities (SEND) Transport** - The budget for the Integrated Transport Unit which provides transport services has been reviewed in detail and rebased during 2024/25 with additional budget being provided in order to address the increasing numbers and complexity of SEND pupils requiring transport. Whilst intensive work has been undertaken to establish more robust demand and cost modelling to support financial planning and budgetary control, there is a need to continue to monitor this area closely.
- 10.4 **Homelessness** - In line with the national issue affecting many local authorities across the country, the Council is experiencing an increase in the number and complexity of homelessness cases and a need for temporary accommodation. This is coupled with an increase in the cost of provision, especially in relation to bed and breakfast accommodation. The Local Housing Allowance (LHA) within Housing Benefit Subsidy is proving to be

insufficient to meet these costs resulting cost pressure to the General Fund budget.

- 10.5 **Waste Disposal Costs** – Inflationary provisions have been built into the budget for waste disposal given that the Council is nearing the end of its existing contractual arrangements for residual waste disposal, and it is necessary to reflect the expected uplift in market prices that is likely to result from replacement provision. This, combined with budget proposals aimed to increase recycling rates and reduce the proportion of residual waste, aims to deliver cost efficiencies in 2025/26 and future years. This is dependent upon changing the behaviours of households across the town to dispose of waste more responsibly and has potential to achieve significant cost savings / cost avoidance if implemented effectively.
- 10.6 **Delivery of Savings** – The budget for 2025/26 is predicated on a total of £11.876m of savings being delivered in 2025/26 (£7.036m of new savings being delivered in addition to £4.840m of savings previously approved in 2024/25). This is in addition to the savings already implemented in 2024/25 totalling £15.302m. Also there are a total of £3.517m of savings planned for 2026/27, and there will be need to identify at least a further £5.170m of ongoing savings by 2028/29 through additional transformation themes to address the remaining budget gap over the MTFP planning period. The requirement to make nearly £36m of ongoing savings over the period from 2024/25 to 2028/29 creates a risk.
- 10.7 **Insured and uninsured risks** – During 2022/23 the Council's Insurance Actuary undertook a review of the insurance arrangements and as a result the Council set aside £7m for known and future insurance claims that are likely to be settled. Of this, £3.33m was set aside as a provision in 2020/21 Statement of Accounts for claims received but not yet paid. With effect from the 2023/24 budget, an annual contribution of £0.5m is made over future years to address the remaining £3.7m of potential claims that may be received in the longer term. A further actuarial review will take place during 2025/26.
- 10.8 **Internal Borrowing** – The Council adopts a policy of optimising its treasury management activities to utilise internal borrowing from its cash balances where it is prudent to do so. This is expected to be around £17.809m in 2025/26. Much of this relates to revenue and capital reserves held on the balance sheet that are expected to be used over the MTFP period. This and the associated costs of external borrowing are factored into the current capital financing forecast cost of £12.060m for 2025/26.
- 10.9 **Finalisation of prior year Statement of Accounts** – The Council currently has prior years Statements of Accounts that remain subject to the completion of the external audit, with the delay due largely to the impact of the national reset of the local authority audit market by MHCLG. An earmarked reserve of £1m has been set aside to provide for unforeseen adverse audit adjustments that may arise from the conclusion of these legacy audits in future periods.

10.10 **DSG deficits** - Whilst Middlesbrough received £30.650m for DSG High Needs for 2024/25, the Council are forecasting spending an estimated £36.852m expenditure in 2024/25, an in year pressure of £6.202m on High Needs which would increase the Council's overall DSG deficit position to £20.693m at 31 March 2025. The pressure has been driven up by Education and Health Care Plans (EHCPs) increasing over recent years from 2022 to 2024 by over 12.3% (up from 1,804 in 2023 to a current level of 2,026) and the service has faced the full year effect of this increase along with continued increasing numbers in the past 12 months, and also increasing exclusions. The Dedicated Schools Grant (DSG) statutory override which instructs Councils to account for the DSG negative balance in a separate reserve and not to fund it by using its General Fund will continue to 31 March 2026. However, no further information in relation to a Government funding solution or the continuation of the statutory override beyond that date has yet been received and therefore this presents a significant financial risk to the Council in the future. Middlesbrough participates in the Delivering Better Value (DBV) programme that invests £1m over an approximate 18-month period ending 31 March 2025, and a range of management actions are being taken alongside the DBV programme to try to reduce this deficit. Further focus in this area is required during 2025/26.

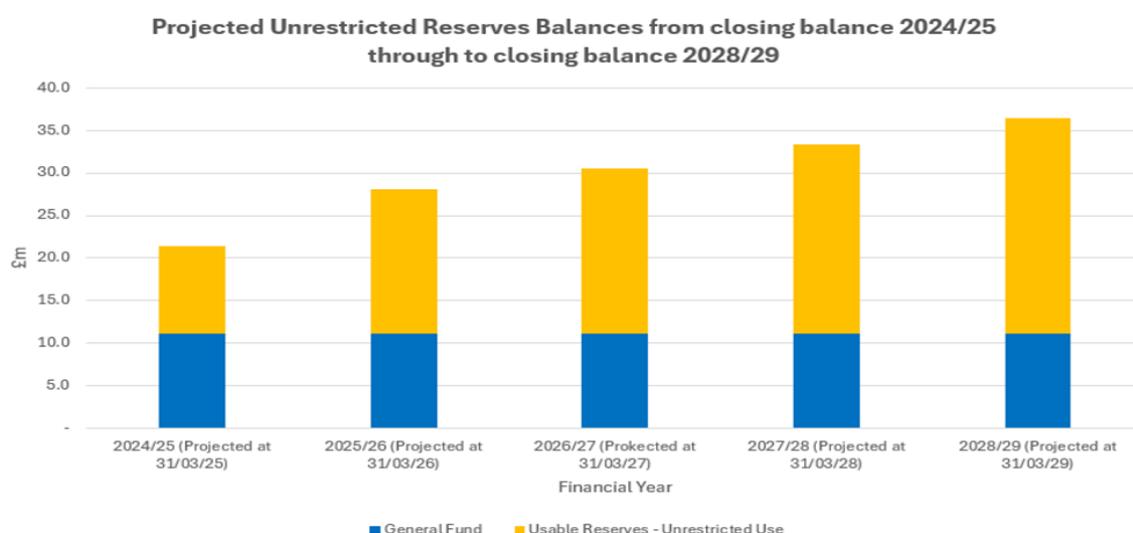
10.11 **Utilisation of Reserves** – The proposed budget for 2025/26 does not place any requirement or reliance upon the use of revenue reserves in order to balance the revenue budget position and this principle will be upheld over the term of the MTFP.

## 11 Adequacy of Reserves

11.1 The level of Council reserves have improved considerably during 2024/25 and now are forecast to stand at £11.1m for General Fund and £10.269m for useable unrestricted reserves on 31 March 2025 (as per Quarter Three budget monitoring report), however there are still at a relatively low position compared to other local authorities. The Council has one of the lowest levels of total reserves as a proportion of its net revenue expenditure when compared to all unitary councils in England as illustrated in Figure 1 of the Reserves Policy in Appendix 4.

11.2 The Council must aim to rebuild its unrestricted revenue reserves over the period of the MTFP as outlined in the Reserves Policy in Appendix 4 of the budget report.

11.3 The Financial Reserves Policy at Appendix 4 sets out the plans to rebuild and maintain the level of reserves over the 2025/26 to 2028/29 period of the MTFP as reflected below to continue the recovery of the Council's financial position and rebuild its financial resilience:



- 11.4 Following a review of the Reserves Policy (Appendix 4), the minimum level of the General Fund Balance, the s151 Officer recommends that the General Fund Balance should be maintained at a minimum level of at least 7% of the Net Revenue Budget over the period of the MTFP to 2028/29. The current level is £11.1m, a level equivalent to 7.75% of the net revenue budget.
- 11.5 Within usable unrestricted revenue reserves, the Financial Resilience Reserve (FRR) will continue to operate as a budget smoothing reserve to meet unanticipated financial pressures and in order to strengthen the Council's financial resilience given the uncertain environment within which the Council is managing its operations and increasing demand for statutory services . The s151 Officer recommendation is that the FRR should be at £10m by the end of 2025/26 and then at £20m by the end of the current MTFP period. This will provide sufficient resilience to support the management of risks in the delivery of the revenue budget over the period. The balance on usable unrestricted reserves at 31 March 2025 is forecast to be £10.269m.
- 11.6 It is essential that Directorates exercise strict management of expenditure within approved budgets in 2025/26 with no overspending, which will detract from achieving the planned rebuilding of reserves.