

# Appendix 2

## Medium Term Financial Plan (MTFP)

### Executive Summary

- 1.1. The Council maintains a MTFP which sets out the financial envelope that is available within which the aims of the Council Plan are to be achieved.
- 1.2. The Council's Transformation Programme is an integral part of the MTFP, and necessary not only to deliver change but to reduce the overall cost of service delivery by providing financially sustainable services all within the cost envelope. A further report will be submitted to Executive in April 2025 updating on progress on the Transformation Programme together with the Flexible Use of Capital Receipts Strategy for 2025/26 which will be referred to Council for consideration and approval and incorporation into the Budget and Policy Framework.
- 1.3. The Council is committed to making the changes needed to secure its long-term financial stability whilst maintaining and improving services to residents. This will be achieved by the prudent management of the Council's finances and the strengthening of its financial resilience through enhanced budget monitoring controls, more effective financial forecasting, minimising new borrowing, and the effective management of reserves.
- 1.4. The 2025/26 Draft Budget and Medium Term Financial Plan 2025/26 to 2028/29 report to Executive on 4 December 2024 set out the financial position and challenges facing the Council. This was based upon a number of key assumptions in relation to the wider economic environment and local challenges faced by the Council in meeting the needs of the community.
- 1.5. This report updates the financial planning assumptions following the publication of the Final Local Government Finance Settlement (LGFS) on 3 February 2025. These include some minor changes from those contained in the report to Executive on 5 February 2025 which was based on the Provisional Local Government Finance Settlement published on 18 December 2024 (the changes are summarised in paragraph 3.8).
- 1.6. This report highlights an improved financial position for the Council following the Final LGFS with additional funding being provided. However, the majority of the additional funding is one-off for 2025/26 only and therefore does not provide any certainty for the medium term. There is therefore a need for the Council to continue to focus on its financial position and continue the momentum in transforming the Council services.
- 1.7. In response to a significant level of single year funding, the Middlesbrough Priorities Fund of £4.367m will be established, using this funding to deliver high impact, one-off projects for the benefit of our communities. The temporary nature of this funding means we are unable to build it into our ongoing revenue budget (details are provided in paragraphs 4.61 to 4.63).

1.8. The other main highlights of the MTFP are as follows, with further details being provided in this Appendix:

- Confirmation of the proposed new budget savings following the budget consultation exercise, which total £7.036m in 2025/26 rising to £8.686m in 2028/29
- Budget growth of £2.521m in 2025/26 rising to £2.918m in 2026/27 for re-investment in services aligned to the Recover, Reset, and Deliver plan.
- Budget provision of £0.311m in 2025/26 and a further £0.100m in 2026/27 to address the removal of previously approved savings in line with the priorities outlined in the Council Plan and after listening to residents' views
- a balanced budget for 2025/26 and 2026/27 and a budget gap of £2.726m in 2027/28 rising to £5.170m by 2028/29
- 2025/26 Net Revenue Budget of £143.304m
- Council Tax increase of 4.99% for 2025/26 comprising 2% ASC Precept and 2.99% Core Council Tax.
- The continued building up of the Council's reserves to recommended levels in order to improve the Council's financial resilience in the future

## Constructing the Medium-Term Financial Plan (MTFP)

- 2.1 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;
  - continuing 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.
- 2.2 The development of the MTFP has identified a range of financial pressures including inflation on pay (including the planned increase in employers' national insurance contributions), contracts, together with increased service demand across statutory services such as adult social care, children's social care, homelessness, home to school transport and waste disposal (details of drivers behind these pressures were provided in the December 2024 report to Executive). These have been offset by identifying deliverable expenditure reductions and income growth through a range of budget proposals that are programmed to deliver significant cost efficiency and/or demand reduction whilst delivering improved outcomes for citizens, thereby improving value for money
- 2.3 The capital programme is developed alongside the revenue budget and MTFP, and both are intrinsically linked by the Treasury Management Strategy and MRP Policy (contained in a separate report to this Council). This determines how the Council accounts for the revenue cost of borrowing, but also how it manages the affordability, sustainability and prudence of the Council's capital financing activities within the framework of the overall budget process. The Council's investment in its capital programme is reliant upon borrowing, external grants, contributions and the generation of capital receipts that are realised from the sale of its fixed assets. During the last budget in March 2024, the S151 Officer indicated that borrowing levels were approaching a pre-determined threshold as a % of the net revenue budget that may undermine sustainability and prudence if further borrowing continued to be used.
- 2.4 The Asset Review report to Executive in November 2023 set out the process of fundamentally reviewing and rationalising the Council's asset portfolio to realise a substantial pipeline of capital receipts that would be required to fund its transformation programme, future capital investment and/or repayment of borrowing to reduce the revenue costs of borrowing. Given the Council's relatively low level of financial revenue reserves the successful delivery of capital receipts arising from the delivery of planned asset disposals is critical to funding the delivery of the Transformation Programme and realising the savings that are due to be delivered over the period of the MTFP in order to maintain the financial sustainability of the Council.

- 2.5 The aim of the MTFP is to achieve a financially balanced and sustainable General Fund revenue budget and Capital Programme that support the delivery of the Council's priorities, meets statutory requirements and delivers value for money services to citizens over the MTFP period.

## **Funding Overview**

- 3.1 The Government allocates grant funding to local authorities in a process called the 'local government finance settlement' (LGFS). These can be multi-year settlements but since 2015 they have been single year settlements, which creates undue risk and uncertainty for local authorities in their medium term business and financial planning.
- 3.2 The 2025/26 LGFS is again a one year settlement for 2025/26 only, and therefore significant uncertainty remains with regard to the Council's resources for 2026/27 and beyond.
- 3.3 Alongside the 2025/26 LGFS the Government did however outline their plan for the long delayed 'Fair Funding' review and the reform of Business Rates (which have been delayed for a number of years) which seek to change the way that government funding is allocated to local authorities, and opened a consultation on the [Local authority funding reform objectives and principles](#) which closes on 12 February 2025. This review will take place in 2025 and will be subject to widespread consultation with the local government sector. The Government expect a three-year Settlement to be implemented from 2026/27, combined with a fundamental review of the methodology for distributing government funding to local authorities (Funding Formula). Uncertainty and risk will still therefore exist for the Council and local government generally with regards to funding for 2026/27 onwards.
- 3.4 The current Funding Formula is widely recognised as being not fit for purpose and it is expected that the review will result in a 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.
- 3.5 Pending the review in the 2025/26 LGFS the Government have recognised this and the need to move resources to those areas with greatest need, with the announcement of a new one-off Recovery Grant for 2025/26 worth £5.410m to Middlesbrough along with some other one-off grants. These are for 2025/26 and there is no guarantee that the same level of funding will be provided from 2026/27 onwards.
- 3.6 It is crucially important to note that the 2025/26 LGFS 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 announced on 30 October 2024 indicated 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.

## Local Government Finance Settlement (LGFS) Funding

- 3.7 The 2025/26 Draft Budget and MTFP 2025/26 to 2028/29 report to Executive on 4 December 2024 was published prior to both the 2025/26 Provisional LGFS published on 18 December 2024 and the 2025/26 Final LGFS which was published on 3 February 2025 in which the Government outlined 2025/26 grant funding for local authorities.
- 3.8 The report to Executive on 5 February 2025 was based on the 2025/26 Provisional LGFS announcement and was published before the publication of the 2025/26 Final LGFS. This report reflects the changes since the December 2024 Executive report. It also reflects the following changes announced in the 2025/26 Final LGFS and further information received since the publication of the February 2025 Executive report :
- Funding of £1.458m for the increase in Employer's National Insurance Contributions (NIC) was announced as part of the Final LGFS. This is an additional £0.158m from the £1.300m estimated to be received in the February Executive report
  - Following further review the estimated total cost of the Employers NIC has been revised to £3.638m from the £3.125m included in the February Executive report meaning a revised gap of funding for this of £2.180m, an additional £0.355m from the £1.825m included in the February Executive report. This additional cost has been covered by a review of estimates for other pay budgets.
  - The Final LGFS announced increased funding for the Children's Social Care Prevention Grant and Middlesbrough will now receive £2.123m in 2025/26, an additional £0.134m from the £1.989m announced in the Provisional LGFS and included in the February Executive report.
  - Public Health grant allocations for 2025/26 were published on 7 February 2025 with Middlesbrough set to receive £19.743m for 2025/26, which is an increase of £0.999m from that received in 2024/25. The grant is ring fenced for use on public health functions.
  - Following submission of the NNDR1 return for 2025/26 the Business Rates retained by the Council have been revised resulting in a further £0.025m of income to the Council.
  - Following further review the estimated Collection Fund surplus for 2024/25 has been revised to £3.052m from the £3.135m included in the February Executive report.
- 3.9 Settlement Funding is the amount of funding assumed by the Ministry of Housing, Communities and Local Government (MHCLG) to be available to an authority through the estimated Business Rates share and general grant funding.

**Table 1** summarises the total amount of funding assumed by MHCLG to be available to the Council through an estimated Business Rates share and general grant funding (including previous specific grants which have been rolled into it).

**Table 1: Final Local Government Finance Settlement 2025**

Main Element of Settlement	Final Settlement 2025/26 £m
Revenue Support Grant	15.444
Business Rates Baseline	19.341
Business Rates Top Up	30.794
	<b>65.579</b>

- 3.10 The Government has assumed a level of Retained Business Rates for Middlesbrough based on their own projections drawing from the new 2023 Business Rates revaluation. The baseline figure used in the settlement calculations and included in **Table 1** is **£1.109m** higher than the forecast of Retained Business Rates income of **£18.232m** as reported to MHCLG in the NNDR1 return and included in the proposed budget. This MHCLG estimate is based on the original 2013/14 level assumed when the local retained scheme was introduced, uplifted by multiplier inflation and revaluations. It does not take account of local changes in the underlying tax base.
- 3.11 In the absence of any Government exemplifications of the likely impact of any 'Fair Funding' policy and Business Rates reforms the future settlement funding, included in the MTFP from 2026/27 onwards, assumes an unchanged underlying system with projected inflationary increases. Where increases are expected for specific grants listed in **Table 2** these have been projected on the best available data, and a summary of the amounts assumed is provided in **Table 12**.
- Core Spending Power**
- 3.12 Core Spending Power is the Government calculation used to illustrate the overall impact of local authority funding. This includes the Settlement funding, their assessment of Council Tax income and various specific grants. This measure attempts to assess the total resources over which the Council can exercise discretion on how it can spend its funding.
- 3.13 The Government has published that in their assessment Middlesbrough's overall core spending power for 2025/26 is **£2,981** per dwelling. This represents an assumed annual increase in core spending power of **9.6%** or **£246** per dwelling in 2025/26 as set out in **Table 2**. This is above the England total percentage change in core spending power of 6.8%.

**Table 2: Core Spending Power (CSP)**

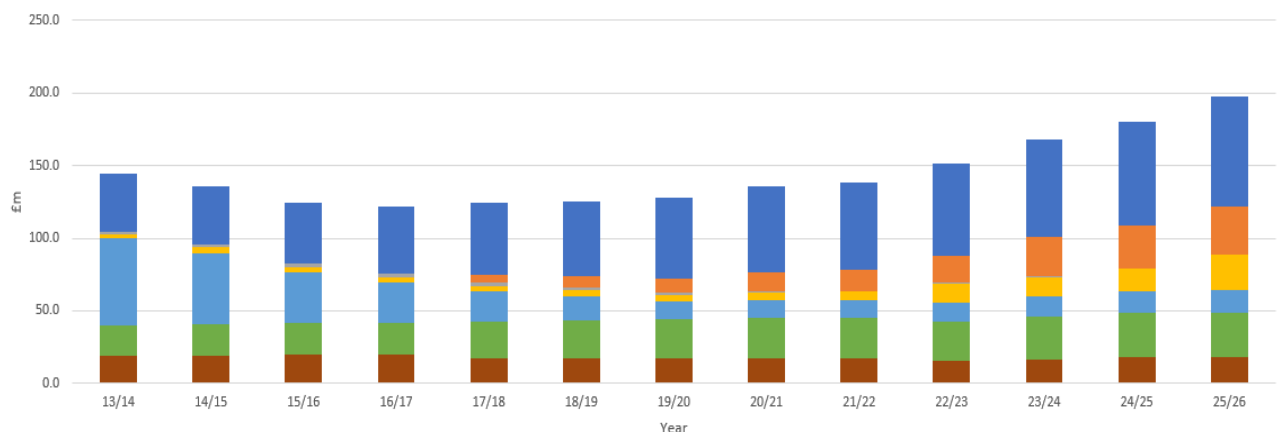
Elements of MHCLG Core Spending Power	MHCLG Estimates	
	Revised 2024/25 £m	Final 2025/26 £m
Settlement Funding Assessment	64.756	65.579
Compensations for lower Business Rates multiplier ( <i>MHCLG estimate</i> )	9.845	10.341
Council Tax Requirement ( <i>MHCLG estimate</i> )	71.400	75.944
Local Authority Better Care Grant	8.646	10.666
New Homes Bonus Grant	0.499	0.031
Social Care Grant	19.202	22.504
ASC Market Sustainability & Improvement Fund	3.316	3.316
ASC Discharge Fund	2.020	-
Services Grant	0.321	-
Domestic Abuse Safe Accomodation Grant	0.411	0.513
Recovery Grant	-	5.410
Childrens Social Care Prevention Grant	-	2.123
Employer National Insurance Contributions Grant	-	1.458
Grants rolled in	0.079	-
Funding Guarantee	-	-
<b>Total</b>	<b>180.496</b>	<b>197.885</b>

Increase in CSP		17.389
Annual % change in CSP		9.6%
CSP per dwelling (£)	£2,735	£2,981
Increase in CSP by dwelling (£)		£246

3.14 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 1** below shows the Council’s Core Spending Power for 2013/14 to 2025/26 with **Table 3** 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. As shown in **Table 3** below, Middlesbrough Council has suffered a significant reduction in general Government funding in the form of RSG and Business Rates Top Up Grant with a reduction of £35m (43%) from £81.2m received in 2013/14 to £46.2m in 2025/26. This does not take into account inflation. It should be noted that some of this reduction has been offset by growth in service specific grants, such as the Local Authority Better Care Fund, Social Care grant as illustrated in **Figure 1**. Given the mix of government funding has altered substantially over the period, some widely used comparisons that focus upon RSG and Business Rates top up need to be interpreted with great care.

**Figure 1: Core Spending Power per year 2013/14 to 2025/26**



**Table 3: Core Spending Power per year 2013/14 to 2025/26**

Core Spending Power per year													
	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26
	£m	£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	71.4	75.9
LA Better Care Fund (BCF) / 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	29.9	33.2
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	0.0
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	15.3	24.3
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	15.4
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	30.8
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	18.2
<b>Core Spending Power</b>	<b>144.5</b>	<b>135.7</b>	<b>124.8</b>	<b>122.1</b>	<b>124.1</b>	<b>125.5</b>	<b>127.8</b>	<b>135.4</b>	<b>138.6</b>	<b>151.2</b>	<b>168.1</b>	<b>180.5</b>	<b>197.9</b>
<b>% Annual change</b>		<b>-6.1%</b>	<b>-8.0%</b>	<b>-2.1%</b>	<b>1.6%</b>	<b>1.1%</b>	<b>1.8%</b>	<b>6.0%</b>	<b>2.4%</b>	<b>9.1%</b>	<b>11.2%</b>	<b>7.4%</b>	<b>9.6%</b>

Note – above does not factor in inflation

- 3.15 The Special Interest Group of Municipal Treasurers (SIGOMA) has undertaken some research to understand the ‘real terms’ effect of the Core Spending Power changes from 2010/11 to 2025/26. They have done this by determining a 2010/11 Core Spending Power notional figure which allows direct comparison to reflect the rolling out of grants and changes to the composition of Core Spending Power and by using the GDP deflator produced in the Autumn Statement each year. **Table 3a** below shows that whilst Middlesbrough has had a cash increase in Core Spending Power from 2010/11 to 2025/26 it has actually suffered a £55.4m (22%) cumulative ‘real terms’ cut in Core Spending Power from 2010/11 to 2025/26 based on 2024/25 prices, equating to a ‘real term cut’ of £834.7 per dwelling. This is both more than the national average and the SIGOMA average.

**Table 3a: Core Spending Power Changes 2010/11 to 2025/26 (SIGOMA)**

Local authority	Real terms cuts			Cash terms cuts		
	Cum. Cut 15 years 10/11 to 25/26 at 24/25 prices £m	Percentage real term cut %	£ per dwelling real term cut £ pd	Cash increase/cut 15 years 10/11 to 25/26 £m	Percentage cash term increase/ cut %	Cash Increase/ Cut 10/11 to 25/26 Per dwelling £ pd
England	-12,993.2	-15.9%	(506.1)	12,901.9	23.2%	502.5
<b>Middlesbrough</b>	<b>-55.4</b>	<b>-22.0%</b>	<b>(834.7)</b>	<b>24.4</b>	<b>13.8%</b>	<b>367.3</b>
SIGOMA	-4,318.9	-19.9%	(657.9)	2,559.2	16.9%	389.8

- 3.16 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. 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.

### Council Tax income

- 3.17 The Final LGFS confirmed that local authorities can increase Council Tax up to a maximum of 3% plus 2% Adult Social Care precept (a total of up to 5%) without the requirement for a referendum for 2025/26. In light of the Council’s 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. The increases in Council Tax being proposed for 2025/26 are 2.99% General Council Tax and 2% Adult Social Care precept and is therefore within the maximum permissible increase and these are detailed in Appendix 7 with a summary of the Middlesbrough element of the Council Tax (excluding parishes, Police and Fire) being shown in **Table 13** in paragraph 4.75.

- 3.18 As detailed above Council Tax income has increased as a proportion of total Council income over the last 11 years as the level of general Government funding in the form of RSG and Business Rates Top Up Grant 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 of income per year. This means that a higher rate of Council Tax is needed to derive the same income yield compared with many other councils. Any reduction in planned Council Tax will be a permanent loss in future funding.
- 3.19 Details of the number and percentage of dwellings by Council Tax Band in September 2024, a comparison to other local authorities average Band D Council Tax, average Council Tax bill per dwelling for 2024/25, and details of Council Tax increases since 2024/25 were provided in paragraphs 4.51 to 4.56 of the December 2024 Executive report.

### **Retained Business Rates**

- 3.20 With the localisation of Business Rates, it is necessary for each authority to estimate the amount of Business Rates to be collected in 2025/26. The locally retained element of Business Rates is 50%, of which the Council retains **49%** and **1%** is received by Cleveland Fire Authority. The monitoring and estimating of Business Rates are a local responsibility and the financial risk due to the volatility within Business Rates (including outstanding valuation appeals) has an impact on the Council's overall funding.
- 3.21 Business Rates are now based on a new 2023 valuation list with the total rateable value of businesses in Middlesbrough assessed as **£102.434m** at 31 December 2024 (NNDR1 January 2025). There are currently numerous rating appeals lodged with the Government's Valuation Office in respect of rateable values. Not all of these will be successful either in full or part. The cost of any successful appeals will be met from the monies received, and hence will impact the Council's overall funding. The Council holds an earmarked provision to secure a degree of protection against such appeals which could otherwise cause in-year budget management issues.

### **Business Rates Top-Up Payment**

- 3.22 Under the retained Business Rates system any local authority, whose Business Rates income is less than their initial baseline funding level, as is the case for Middlesbrough, will receive the balance as a 'top-up' grant. The Council will receive **£30.794m** for 2025/26. Other authorities, whose Business Rates income is greater than their initial baseline funding level, pay a 'tariff'. It is the combination of 'tariffs'

and 'top-ups' that balances the system nationally.

### **Revenue Support Grant (RSG)**

- 3.23 Most authorities currently continue to receive RSG from the Government in addition to their retained Business Rates. The Council will receive **£15.444m** in 2025/26 representing an increase of 2.1% or £0.322m. This is made up of a CPI inflationary increase of 1.7% based on September 2024 CPI rate, and also £0.079m of grants which have been rolled into the RSG to simplify and de-ringfence the funding and provide local authorities with greater certainty and freedom to deliver their own priorities (Electoral Integrity Programme, Tenant Satisfaction Measures, Transparency Code, and Extended Rights to Home to School Transport).

### **Recovery Grant**

- 3.24 There is a new one-off Recovery Grant, worth £600 million nationally, to target places with greater need and demand for services (the Government have used deprivation as a proxy for this), and less ability to raise income locally. This will start to correct the unfairness of the current system by putting councils in these areas on a more stable footing. The grant lays the foundations for funding reform, ahead of bringing forward more fundamental improvements to the way the Government fund councils, based on an up-to-date assessment of need and resources, from 2026/27. This grant will not be ringfenced, nor are grant conditions imposed on its use.
- 3.25 The Recovery Grant will be distributed using a simple formula, based on the most recent publicly available deprivation, population and taxbase metrics. The grant will support places such as Middlesbrough where, weighted by population, deprivation outweighs Council Tax raising ability. The grant is intended to be highly targeted, meaning that not all authorities will receive an allocation. The government is clear that this grant is not full reform. The formulas in the current system were last updated in 2013/14, some include data from 2001. In this context, the government believes that action must be taken this year. The Government recognise that the metrics in this grant will not be as sophisticated as a fully updated assessment of need, but deprivation is the best available proxy. The Government has also launched alongside the LGFS an initial consultation [Local authority funding reform objectives and principles](#), which proposes a much fuller and sophisticated assessment of need and resources.
- 3.26 The Council will receive **£5.410m** of Recovery Grant for 2025/26. This is one-off grant for 2025/26 and cannot be assumed ongoing.

### **Local Authority Better Care Fund**

- 3.27 This grant has been created following the consolidation of the two previously existing grants known as the improved Better Care Fund (iBCF) and the ASC Discharge Fund. The grant will be required to be pooled as part of the BCF and will be distributed using the current iBCF methodology. The forthcoming BCF policy framework for 2025/26 will set out further details on how local authorities should work with their local NHS partners and wider public services to plan their integrated use of the BCF. Supporting the recovery of urgent and emergency care services remains a priority, and local areas will be expected to use the grant to reduce delayed hospital discharges, as part of meeting the objectives that will be set out in the

framework. The allocation for 2025/26 remains unchanged at **£10.666m**.

### **Social Care Grant**

- 3.28 This grant, which covers both children's and adult's social care, was initially awarded in 2020/21 to upper tier authorities with social care responsibilities. The allocation methodology uses a combination of the Adults Relative Needs Formula (RNF) and an assessment of each Council's ability to raise funds via the social care precept. Once received, authorities have flexibility to apportion this grant between its children's and adult's social care according to local need.
- 3.29 The announced grant for 2025/26 in the Final LGFS is **£22.504m** and this reflects a £3.302m increase from that received in 2024/25. This is an additional £1.407m from the £1.895m increase assumed in the December 2024 Executive report, which was based on information received as part of the Government Budget announcement in October 2024.
- 3.30 Within the MTFP the Social Care Grant has been allocated between the significantly increased children in care pressures seen in recent years, and to adult social care to help fund fee rate increases paid to providers and other cost pressures.

### **ASC Market Sustainability & Improvement Fund (MSIF)**

- 3.31 This grant was introduced in 2023/24 and replaced the previous 'Market Sustainability & Fair Cost of Care Fund' grant. It is for local authorities to improve adult social care market sustainability and drive wider improvements in their areas. The allocation for Middlesbrough in 2025/26 is **£3.316m**, which is unchanged from that received in 2024/25.
- 3.32 The Government expects the funding will enable local authorities to make tangible improvements to adult social care and in particular, to address discharge delays, social care waiting times, low fee rates, workforce pressures, and to promote technological innovation in the sector. It also helps to support the progress local authorities and providers have made to date on fees and cost of care exercises. There will be reporting requirements and grant conditions placed on the MSIF which will be announced at a later date.

### **Children and Families Grant**

- 3.33 The following 6 children's social care programmes previously funded by the Department for Education have been consolidated into a new Children and Families Grant. The value of the grant to Middlesbrough is **£2.015m** in 2025/26 which is the same as that in 2024/25 with the following amounts for each component:

- Supporting Families (£1.303m);
- Supported Accommodation Reforms - New Burdens to LAs (£0.467m);
- Staying Put (£0.118m);
- Virtual School Heads Extension for previously looked after children (£0.030m);
- Leaving Care Allowance uplift (£0.054m); and
- Personal Advisors (£0.043m).

- 3.34 This grant will not form part of Core Spending Power in 2025/26. Conditions placed on the Children and Families Grant will be published in full alongside the Final LGFS. The government expects that this grant will support local authorities that are currently spending on preventative services to continue their level of spend.

### **Children's Social Care Prevention Grant**

- 3.35 The Government is putting £270m nationally of new funding into a new Children's Social Care Prevention Grant. This was increased as planned in the Final LGFS from the £250m nationally announced in the Provisional LGFS. Middlesbrough will receive **£2.123m** in 2025/26, an additional £0.134m from the £1.989m announced in the Provisional LGFS.
- 3.36 This will be used, alongside funding in the Children and Families Grant to invest in the national rollout of Family Help. Family Help is a preventative, whole-family service. Families experiencing complex challenges will be supported through one multi-agency child protection team, which will provide a single, joined up offer of help and protection. This will also be used for the national rollout of Family Group Decision Making. Further details are set out in the Final LGFS.
- 3.37 The Children's Social Care Prevention Grant has been distributed using a children's needs-based formula, which has allocated funding according to estimated need for children's social care services. Alongside the interim formula, the variation in the cost of delivering services and the ability of local authorities to raise resources locally has also been taken into account to determine the grant allocations.
- 3.38 Conditions placed on the Children's Social Care Prevention Grant have been published alongside the Final LGFS.
- 3.39 The two separate grants for children's social care in 2025/26, the Children's Social Care Prevention Grant and the Children and Families Grant, is a transitional arrangement. In 2026/27, the Government will merge these grants and explore further consolidation in children's services.
- 3.40 Due to above uncertainty in the level of this grant from 2026/27 onwards this will initially be treated as one-off in 2025/26 and this will be reviewed when further information as to its continuation is received. The funding will be kept separate from other funding and will be utilised in line with the conditions of the grant.

### **Domestic Abuse Safe Accommodation Grant**

- 3.41 The Government has consolidated the above grant as a new separate line in the settlement. Middlesbrough will receive **£0.513m** in 2025/26, which is an increase of £0.102m from the £0.411m received in 2024/25. This grant is ringfenced.

### **New Homes Bonus (NHB)**

- 3.42 The NHB rewards local authorities for increasing the number of new, occupied and affordable homes. The allocation for Middlesbrough is **£0.031m** for 2025/26 with no legacy payments as has been the case since 2020/21. This is a reduction from the £0.499m received in 2024/25 but is broadly in line with estimates assumed in earlier versions of the MTFP.

- 3.43 As in previous years, the allocations for 2025/26 will be funded through a top slice of the Revenue Support Grant. This means that approximately £290m nationally of funding is removed from the RSG. This affects authorities like Middlesbrough who have limited ability to increase the number of homes.
- 3.44 In the LGFS the Government announced its intention that 2025/26 will be the final year of the NHB in its current format and that councils should consider this in their financial planning. The government is consulting on the NHB beyond 2025/26 as part of the [consultation on the principles and objectives of funding reform](#) which has been launched alongside this consultation.

### **Services Grant**

- 3.45 This Services grant which was introduced in 2022/23 for all tiers of local government in recognition of the vital services delivered and the cost pressures being faced has been removed with the funding being utilised in the wider settlement and in particular to fund the Recovery Grant. Middlesbrough's allocation for 2024/25 was £0.293m.

### **Employer National Insurance Contributions (NICs) compensation**

- 3.46 As mentioned in the December 2024 Executive report the Council will face increased costs from the increase in Employers NIC to 15% from 13.8% and the lowering of the threshold at which Employer's NIC are paid to £5,000 a year. This will have an impact on both staff directly employed by the Council, and Council contracts for supplies and services with private providers, such as adult social care, children's social care and the Council's leisure contract. The Council will also potentially face increased cost of supplies and services across a range of purchased goods and services.
- 3.47 In the MTFP in the December 2024 Executive report the additional cost to the Council was estimated at £1.075m and as no clarity was provided at that point regarding funding for this no funding was included.
- 3.48 In the Final LGFS the Government has provided £515m nationally of new funding to support councils and combined authorities with the costs associated with the increase in employer National Insurance Contributions (NICs). The funding is unringfenced and can be used to support councils to mitigate the additional costs of employer National Insurance Contributions within direct, commissioned, and externally provided local services. As part of the Final LGFS Middlesbrough has been allocated funding of £1.458m for the increase in Employer's National Insurance Contributions (NIC). This is an additional £0.158m from the £1.300m estimated to be received in the February Executive report which was calculated using methodology provided and information provided by SIGOMA.
- 3.49 However following further analysis it is now estimated that the total costs of the Employers NIC increase will be £3.638m in 2025/26, which is an increase from the £3.125m included in the February Executive report. This will mean that there will now be a gap of £2.180m in funding for the Employers NIC increase, which is an additional pressure of £1.105m on the MTFP from that included in the December report.

## Significant Specific Grants outside the Settlement

- 3.50 A number of other grants are received outside of the key settlement figures and are not included in the calculation of Core Spending Power. The basis of distribution varies from grant to grant. This budget has again been constructed on the established basis that if specific grant funding reduces then the associated expenditure and activity will reduce accordingly.

### Extended Producer Responsibility (EPR)

- 3.51 Whilst not part of the Final LGFS the Government has confirmed separately funding for the Extended Producer Responsibility (EPR). From 2025, some organisations and businesses will have to pay a fee for the packaging they supply to or import into the UK market. This is called Extended Producer Responsibility (EPR) for packaging.
- 3.52 The money collected will go to local authorities (LAs) and it will cover net costs of collecting, managing, recycling and disposing of household packaging waste to enable more efficient and effective waste services.
- 3.53 In the first year (2025/26), local authorities will receive a guaranteed basic payment based on publicly available and existing data, and data about tonnages, operations and unit costs gathered from a representative sample of LAs across the UK. The basic payment is calculated using a model based on certain LA characteristics, national policies and circumstances, amount of waste collected and managed, and the estimated composition of this waste. Whilst there may be some additional responsibilities, such as the revenue costs associated with food waste collection, the funding is un-ringfenced.
- 3.54 From the second year (2026/27) onwards, the basic payment and any adjustments will be based on data submitted by LAs to the Scheme Administrator and is therefore unpredictable.
- 3.55 Middlesbrough will receive at least **£3.367m** in 2025/26. This funding will be part of the new Middlesbrough Priorities Fund for 2025/26 only (detailed in paragraph 4.61 to 4.63), part of which will help to enable more efficient and effective waste services.
- 3.56 At this stage in the absence of any further detailed information no assumption has been in the MTFP of the funding in 2026/27 or future years. This assumption will be updated as when further information is received during 2025/26.

### Public Health

- 3.57 Whilst not part of the LGFS, Public Health Grant allocations for 2025/26 were announced on 7 February 2025. Middlesbrough will receive **£19.743m** for 2025/26, which is an increase of £0.999m from the £18.744m received in 2024/25. Public Health Grant must be fully spent on public health activities as per the conditions of the ring-fenced grant.

## **Housing Benefit Administration Subsidy Grant**

- 3.58 The MTFP assumes the Council will continue to receive 'Housing Benefit Administration Subsidy Grant' in 2025/26 to fund the Council's statutory duty to administer and process Housing Benefit and directly related enquiries. The 2025/26 allocation has not yet been announced and currently the same level of grant as received in 2024/25 of **£0.574m** has been assumed.

## **Dedicated Schools Grant (DSG)**

- 3.59 Details of the DSG to be received in 2025/26 are provided in **Appendix 8**.
- 3.60 The 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.
- 3.61 At the Autumn Budget, the Government announced an almost £1 billion increase to Special Educational Needs and Disabilities (SEND) and alternative provision funding and stated that it was an important step in realising the government's vision to reform England's SEND provision to improve outcomes and return the system to financial sustainability, and will work closely with parents, teachers and local authorities to take forward this work.
- 3.62 In the Final LGFS consultation the Government stated that they recognise the strain that the rising costs of SEND provision are putting on local government, in particular, the impact of the DSG deficits on councils' finances. They also said that they will work with the sector on a way forward, and it intends to set out plans for reforming the SEND system in further detail next year. This will include details of how the government will support local authorities to deal with their historic and accruing deficits and any transition period from the current SEND system to the reformed system and will inform any decision to remove the statutory override. This will be underpinned by the Government's objective to ensure local authorities can deliver high quality services for children and young people with SEND in a financially sustainable way.
- 3.63 Whilst the Government recognises the issue the uncertainty in relation to a Government funding solution or the continuation of the statutory override beyond that date has yet been received still presents a significant financial risk to many local authorities and for Middlesbrough. The current forecast total cumulative deficit of £20.693m at 31 March 2025 (as reported in the Revenue and Capital Budget – Forecast Year-end Outturn position at Quarter Three 2024/25 report to Executive on 5 February 2025) is not specifically addressed within this MTFP. The Council is participating in the Delivering Better Value Programme with the Department for Education (DfE) in relation to measures to mitigate future pressures.
- 3.64 Local government is lobbying central government for a long term funding solution to these pressures.

## Medium Term Financial Plan (MTFP)

- 4.1 This section provides an update to the MTFP report presented to December 2024 Executive to reflect latest assumptions, Government announcements and the Final Local Government Finance Settlement (LGFS).
- 4.2 The December Executive MTFP report was produced prior to the announcement of the financial settlement and included proposed draft budgets for 2025/26 and 2026/27 which were balanced, with a gap of £2.686m in 2027/28 and rising to a cumulative deficit of £5.150m by 2028/29, assuming all budget savings proposed were approved.
- 4.3 Public consultation commenced on the 5 December 2024 and closed on 8 January 2025. The updated MTFP reflects the Final LGFS and updates following the Council's public consultation (detailed in **Appendix 3**).

### 2025/26 Budget Overview and Headlines

- 4.4 The MTFP has been constructed in accordance with all relevant corporate financial protocols, policy-led, risk assessed and reflecting current Council Plan priorities.

The key headlines from the proposed 2025/26 budget are:

- 2025/26 net General Fund revenue budget (budget requirement) of **£143.304m** (see **Annex 5 for the detail of net revenue budget by Directorate**)
- Council Tax requirement of **£75.783m**
- Council Tax increase of **4.99%** for Middlesbrough Council element which includes basic Council Tax increase of **2.99%** and an additional **2.00%** increase for the Adult Social Care precept.
- Assumed budget provision of **£0.311m** in 2025/26 to address the removal of previously approved savings, and these are now recommended by Executive for approval by Council - details are provided in **paragraph 4.59 and Annex 3**
- Total new 2025/26 budget saving proposals of **£7.036m** rising to **£8.686m** in 2026/27 - details are provided in **Annexes 1 and 2** and these are now recommended by Executive for approval by **Council**.
- These when added to the revised previously approved savings make a total savings to be delivered in 2025/26 of **£11.876m** rising to **£15.393m** in 2028/29. Note that these are in addition to over £112m of cumulative savings already made from 2013/14 to 2024/25
- Assumed pay inflation of **3.00%** in 2025/26 with an increase of **£2.667m**.
- Assumed contractual inflation of **£1.550m** in 2025/26 – predominately driven by fee rates paid to Adult and Children Social Care providers.
- Assumed additional income of **£0.648m** from a review of Fees and Charges and inflationary uplift of 2%.
- Assumed service pressures of **£13.264m** in 2025/26 – predominately driven by homelessness, home to school transport, waste disposal, and adult social care and children in care demographics, and including the effect of National Living Wage of **£2.351m** in 2025/26 on services commissioned from external adult social care providers.
- Assumed budget growth totaling **£2.521m** for re-investment in services aligned to the Recover, Reset, and Deliver plan, details are provided in **paragraph 4.58 and Annex 4**



- The creation of a Delivery Risk Budget of **£2m** on a one-off basis in 2025/26 only, to provide a risk sum to cover any overspend arising mainly from delayed or failed saving delivery and protect against the risk of unplanned use of reserves given that reserves remain low. The future of this budget on an ongoing basis will be reviewed if funding becomes sufficiently favourable and will be used to provide risk cover of the Council's planned transformation and savings going forward (**paragraph 4.16**)
- The estimated surplus on the Collection Fund for 2024/25 of **£3.052m** will be transferred to a new Savings Delivery Risk Reserve to help to help provide against the risk of delivery of savings and rebuild reserves (**paragraphs 4.49 and 4.72**)
- The creation of a one-off Middlesbrough Priorities Fund of **£4.367m** for 2025/26 only to support initiatives in accordance with the priorities in the Council Plan – further details are provided in **paragraphs 4.61 to 4.63**
- Additional funding of **£3.302m** representing Middlesbrough Council's share of the £880.0m additional funding for Social Care Grant announced in the Final LGFS.
- Additional funding of **£2.123m** representing Middlesbrough Council's share of the new Children's Social Care Prevention Grant announced in the Final LGFS will be kept separate from other funding and will be utilised in line with the conditions of the grant.
- Additional funding of **£3.367m** representing Middlesbrough Council's share of the new Extended Producer Responsibility (EPR) funding.
- Estimated total costs of the increase in Employers NIC of £3.638m which after accounting for estimated Government funding of £1.458m creates a total net cost of **£2.180m** to be included in 2025/26 budget.
- A **£0.730m** ongoing contribution to the Change Fund Reserve
- A **£1.466m** ongoing contribution to the Financial Resilience Reserve
- An additional one-off contribution of **£1.370m** in 2025/26 only to the Financial Resilience Reserve to continue to rebuild reserves to a sustainable level.

#### **Changes to budget gap since December 2024 report**

- 4.5 The updated MTFP reflects the Final LGFS and updates following the Council's public consultation and a further review of the main cost drivers of demand. **Table 4** summarises the movement in the budget gap since the report to Executive in December 2024.

**Table 4: movement in budget gap since December 2024 report**

Item	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	Cumulative £m
<b>MTFP Refresh 2025/26 to 2028/29 Report to Executive 04/12/24</b>					
Original gap before new savings proposals	4.675	1.253	2.786	2.564	11.278
Growth to support transformation	2.361	0.397	(0.100)	(0.100)	2.558
New Savings Proposals	(7.036)	(1.650)	-	-	(8.686)
<b>Original Budget Gap as at December 2024 - after growth to support transformation and new savings proposals added in</b>	<b>-</b>	<b>-</b>	<b>2.686</b>	<b>2.464</b>	<b>5.150</b>
Additional Social Care Grant	(1.407)	-	-	-	(1.407)
New grant - Children's Social Care Prevention (25/26 only)	(2.123)	2.123	-	-	-
New grant - Recovery Grant (25/26 only)	(5.410)	5.410	-	-	-
New grant - Extended Producer Responsibility (25/26 only confirmed to date)	(3.367)	3.367	-	-	-
Employers Superannuation rate increase changes	(0.167)	-	-	-	(0.167)
Government funding for Employers National Insurance contributions increases	(1.458)	-	-	-	(1.458)
Other grant funding changes	(0.775)	0.467	(0.313)	(0.313)	(0.934)
Precepts & Levies changes	0.030	0.003	-	-	0.033
Previous year's savings proposals removed	0.311	0.100	-	-	0.411
Additional growth (increase Area Care to 20%)	0.360	-	-	-	0.360
Removal of previous growth bid (Tree Maintenance) / funded as one-off in 25/26	0.300	(0.500)	0.100	0.100	-
Additional Employers National Insurance contribution cost	2.563	-	-	-	2.563
Creation of Middlesbrough Priorities Fund	4.367	(4.367)	-	-	-
Creation of Children's Social Care Prevention Fund	2.123	(2.123)	-	-	-
Collection Fund Surplus 2024/25 used to replenish Reserves (Savings Delivery Risk)	3.052	(3.052)	-	-	-
Contributions to Financial Resilience Reserve changes	1.586	(2.011)	0.250	0.250	0.075
Contributions to Change Fund Reserve changes	-	(0.500)	-	-	(0.500)
Other changes	1.017	1.031	(0.049)	(0.109)	1.890
<b>Net Budget movements</b>	<b>1.002</b>	<b>(0.052)</b>	<b>(0.012)</b>	<b>(0.072)</b>	<b>0.866</b>
Housing Growth changes	(0.012)	(0.012)	(0.012)	(0.013)	(0.049)
Revenue Support Grant changes	(0.065)	(0.065)	(0.067)	(0.068)	(0.265)
Business Rates changes	0.127	0.129	0.131	0.133	0.520
Estimated Collection Fund 2024/25 Surplus changes	(1.052)	-	-	-	(1.052)
<b>Funding movements</b>	<b>(1.002)</b>	<b>0.052</b>	<b>0.052</b>	<b>0.052</b>	<b>(0.846)</b>
<b>GAP / (SURPLUS)</b>	<b>-</b>	<b>-</b>	<b>2.726</b>	<b>2.444</b>	<b>5.170</b>
<b>Movement in gap since December</b>	<b>-</b>	<b>-</b>	<b>0.040</b>	<b>(0.020)</b>	<b>0.020</b>

4.6 **Table 4** illustrates that it has been possible to set a balanced budget for 2025/26. Whilst not applicable for 2025/26 if the Council could not set a legally balanced budget, then there is a requirement for a s114 notice being issued under the provisions of the Local Government Act 1988 Section 114 (3). The s114 process and implications for the Council were detailed in the 2024/25 budget report to Council in March 2024.

4.7 The following provides further detail of the main changes made since the December 2024 Executive report:

- Grant funding has been updated following the Final Local Government Finance Settlement, including an **additional £1.407m** Social Care Grant allocation, new one-off grants for 2025/26 only for Extended Producer Responsibility (**£3.367m**), Recovery Grant (**£5.410m**) and the Children's Care Early Prevention Grant (**£2.123m**).
- Budget growth for re-investment in services aligned to the Recover, Reset, and Deliver plan, has been revised, resulting in an increased amount of **£0.160m** in 2025/26 (details provided in **paragraph 4.58** and **Annex 4**)
- Budget growth of **£0.311m in 2025/26** has been provided to address the removal of previously approved savings in 2025/26 in line with the priorities outlined in the Council Plan and after listening to residents' views, and these are now recommended by Executive for approval by Council - details are provided in **Annex 3**

- The creation of a one-off Middlesbrough Priorities Fund of **£4.367m** for 2025/26 only to support initiatives in accordance with the priorities in the Council Plan – further details are provided in **paragraph 4.61 to 4.63**
- Estimated total costs of the increase in Employers NIC of have been revised along with the estimated Government funding following further information received. The total costs of the increase in Employers NIC are now estimated to be £3.638m which after accounting for Government funding of £1.458m creates a total net cost of £2.180m to be included in 2025/26. This is an **increase of £1.105m** from the £1.075m included in the December Executive report.
- Funding assumptions (including Housing Growth assumptions) have been updated following the Final LGFS and updated data from the NNDR1 Business Rates government return
- The estimated Collection Fund Surplus from 2024/25 has been revised to £3.052m from £2m and the additional **£1.052m** has been built into the MTFP – this will be used in full to provide some financial resilience by rebuilding reserves, which are still at a low level, by the creation of a new Savings Delivery Risk Reserve
- Increased contribution to the Financial Resilience Reserve of **£1.586m** in 2025/26

4.8 The major components of the revised MTFP are detailed in the following paragraphs and are summarised in **Table 14**.

### Pay Inflation

4.9 Middlesbrough Council is part of the national pay bargaining framework and is bound by national agreements. **Table 5** below summarises the pay and pension items included in the MTFP. These form a significant driver to the increased MTFP gaps.

**Table 5: 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
Annual Pay Award	2.667	1.778	1.778	1.778	8.001
<b>Pay Model</b>	<b>2.667</b>	<b>1.778</b>	<b>1.778</b>	<b>1.778</b>	<b>8.001</b>
Increase in employers pension contributions following actuarial review	0.741	-	-	-	0.741
<b>Pension</b>	<b>0.741</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.741</b>
<b>Pay/Pension</b>	<b>3.408</b>	<b>1.778</b>	<b>1.778</b>	<b>1.778</b>	<b>8.742</b>

4.10 Informed by latest inflation forecasts and other information provided by organisations such as the Special Interest Group of Municipal Authorities (SIGOMA) the assumption of the 2025/26 pay award remains at 3% which is estimated to cost **£2.667m p.a.** Assumptions of pay awards for future years in the MTFP have also been kept the same.

4.11 This MTFP therefore assumes pay inflation of:

- 2025/26 **3.0% (£2.667m)**
- 2026/27 **2.0% (£1.778m)**
- 2027/28 **2.0% (£1.778m)**
- 2028/29 **2.0% (£1.778m)**

- 4.12 Pay inflation budgets will be held corporately until final agreements have been made at which point updated budgets will be allocated to departmental budgets, this is done to aid in year budget monitoring. Any variations in the final pay award compared to the MTFP assumptions will need to be managed as part of the in-year budget monitoring process.
- 4.13 Employee pension contributions, based on a triennial pension valuation applying from 2023/24, are as included previously. The next triennial pension valuation will apply from 2026/27 onwards and is currently planned to remain static.

### **Non-Pay Inflation**

- 4.14 Contractual inflation has been provided for in the MTFP period, with **£1.550m** being provided for in 2025/26 in relation to specific contracts, mainly around Adult Social Care purchasing budgets and Children's Care external residential and fostering contracts. This has been allocated to Directorates as follows and this is reflected in Annex 5:

- Adult Social Care           £0.954m
- Children's Social Care   £0.596m

### **Other Inflation**

- 4.15 Central Inflation budgets totaling **£0.635m** from 2025/26 has been provided for the effects of risk around potential additional inflation across a wide range of areas due to uncertainty around levels of inflation. This will initially be held centrally. These have been reduced by £0.819m from 2025/26 due to assumptions for energy prices being revised downwards based upon advice from NEPO.

### **Risk Management**

- 4.16 A new Delivery Risk Budget of £2m on a one-off basis in 2025/26 only has been created to provide a risk sum to cover any overspend arising mainly from delayed or failed saving delivery in 2025/26 and protect against the risk of unplanned use of reserves given that reserves remain low. These measures enable the Council to rebuild its reserves to a sustainable level
- 4.17 An ongoing total of **£1.466m from 2025/26, increasing to £1.575m from 2026/27, £2.325m from 2027/28 and £3.075m from 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. It should be noted an additional one off contribution of £1.370m will be made in 2025/26, as detailed in paragraph 4.4. These budgeted contributions have been amended from those provided in the December 2024 Executive report due to additional contributions to reserves in 2025/26. These are in addition to the one-off estimated 2024/25 surplus on the Collection Fund of **£3.052m** which has been used to create the Savings Delivery Risk Reserve.
- 4.18 Also contributions of **£0.730m p.a.** are planned to top up the Change Fund Reserve to meet potential future costs of Transformation which cannot be covered by Flexible Use of Capital Receipts.

## **Income Policy and Fees and Charges**

- 4.19 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 (Appendix 5). 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 Fees and Charges for discretionary services to residents and businesses have been reviewed for 2025/26, and the proposed prices across the Councils services for 2025/26 is included in Annex 1 of Appendix 5 , and this will be referred for approval as part of the final budget report to Council on 19 February 2025.
- 4.20 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 that will apply for 2025/26 is 2% for 2025/26 and 2% for 2026/27 onwards in line with current inflation forecasts.
- 4.21 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**

- 4.22 The Council receives income from a number of Commercial developments. The previous updates of the MTFP 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.
- 4.23 Income the Council receives from commercial developments was 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**

- 4.24 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.
- 4.25 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 **£7.818m** over the MTFP period.
- 4.26 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.
- 4.27 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

- 4.28 As reported in the September 2024 and December 2024 reports 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.
- 4.29 Table 6 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 the effect of the increase in Employers' National Insurance contributions and these form a significant driver of cost within the MTFP.

**Table 6: Service Demand Pressures**

Directorate	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	Cumulative £m
<b>Regeneration</b>					
Changes to Commercial income	0.402	-	-	-	0.402
Reduction in energy budgets due to falling prices	(0.957)	(0.343)	-	-	(1.300)
Income reductions from Asset Review	0.188	-	-	-	0.188
Community Learning Co-ordinator	0.065	-	-	-	0.065
Growth for Events	0.200	-	-	-	0.200
	(0.102)	(0.343)	-	-	(0.445)
<b>Environment &amp; Community Services</b>					
Removal of Community Environment Initiatives funding	(0.050)	-	-	-	(0.050)
Waste Disposal	1.500	-	-	-	1.500
Concessionary Fares	(0.320)	-	-	-	(0.320)
Additional Green Waste savings	(0.450)	-	-	-	(0.450)
Growth for Pest Control	0.125	-	-	-	0.125
Growth for Area Care	0.720	-	-	-	0.720
Tree Maintenance	0.500	(0.500)	-	-	-
	2.025	(0.500)	-	-	1.525
<b>Education &amp; Partnerships</b>					
Reduction in growth previously provided - Integrated Transport Unit (ITU)	(1.500)	0.500	-	-	(1.000)
	(1.500)	0.500	-	-	(1.000)
<b>Children's Care</b>					
Demand	3.500	1.500	1.500	1.500	8.000
Growth for Youth Providers Uplift	0.100	-	-	-	0.100
Growth for additional funds for S17	0.253	0.084	-	-	0.337
	3.853	1.584	1.500	1.500	8.437
<b>Adult Social Care</b>					
Living Wage - external commissioned services	2.351	1.770	1.848	1.848	7.817
Changes to means tested income assumptions	(0.022)	-	-	-	(0.022)
Additional income from Fairer Charging	(0.500)	-	-	-	(0.500)
Effect of National Insurance employers increase on ASC providers	1.495	-	-	-	1.495
Increases in grant expenditure (offset by corresponding increases in grant income)	2.640	-	-	-	2.640
Growth: extra funding to ensure Council meets its obligations	0.239	0.080	-	-	0.319
	6.203	1.850	1.848	1.848	11.749
<b>Public Health</b>					
Effect of National Insurance employers increase on Leisure Services provider (SLM)	0.080	-	-	-	0.080
Increases in grant expenditure (offset by corresponding increases in grant income)	0.999	-	-	-	0.999
	1.079	-	-	-	1.079
<b>Legal &amp; Governance</b>					
Staffing	0.214	-	-	-	0.214
Growth for investment in data analysis	0.126	-	-	-	0.126
Amend inherent budget pressure - Mail & Print	0.057	-	-	-	0.057
	0.397	-	-	-	0.397
<b>Finance</b>					
Growth for rebuilding professional capacity & capability in Finance Team	0.485	0.191	-	-	0.676
Growth for investment in Counter Fraud capacity	0.073	0.042	-	-	0.115
	0.558	0.233	-	-	0.791
<b>Central</b>					
Additional National Insurance costs - Council staff	2.063	-	-	-	2.063
Council wide - growth for Family resilience funding initiatives	0.200	-	-	-	0.200
	2.263	-	-	-	2.263
<b>Service Demand Pressures</b>	<b>14.776</b>	<b>3.324</b>	<b>3.349</b>	<b>3.349</b>	<b>24.798</b>

4.30 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 provided during 2025/26.
- 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.

4.31 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 Adult Social Care and Waste will be necessary in order for the Council to achieve a financially sustainable budget position in the medium term.

### **Technical Adjustment**

4.32 As mentioned in the December 2024 MTFP Updates there is a technical adjustment 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 School Grant**

4.33 As detailed in paragraph 3.60 the Dedicated Schools Grant (DSG) is subject to a statutory override by central Government until at least 31 March 2026 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. MHCLG has signalled in the Final LGFS consultation that the position will be reviewed but no details have been provided as yet.

4.34 The deficit on the DSG reserve is forecast to be £20.693m by the end of 2024/25 (as detailed in Table 8 of the Revenue and Capital Budget – Forecast Year-end Outturn position at Quarter Three 2024/25 report to Executive on 5 February 2025) and is projected to grow even further by the end of 2025/26 even though the Government has provided additional SEND funding. 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 levels of reserves is of significant concern and will be recorded as a strategic risk and recognised in the Annual Governance Statement for 2024/25.

- 4.35 As detailed in the December 2024 Executive report 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 (as detailed in Table 15 of the December 2024 Executive report). Representations are being made to the Government on a national basis by various sector organisations to allow the borrowing costs incurred in the General Fund to be charged to the DSG, but to date no progress has been made regarding this.

### **Capital Financing**

- 4.36 The Capital Financing Costs associated with borrowing for the capital programme have been subject to detailed review during the 2024/25 financial year. This has been considering the latest interest rate forecasts which are making borrowing costs more expensive, changes to service investment requirements, the asset review in November 2023, and for the borrowing costs for EFS in 2024/25 and transformation proposals, as contained in the Appendix 6. The Capital Financing costs currently assumed in the MTFP include additional funding totaling **£2.099m** in 2025/26 with a further **£0.774m** in 2026/27, a further **£0.499m** in 2027/28, and a further **£0.329m** in 2028/29. These allocations include provision for changes to the current forecast of costs which may occur and timing of capital investment. Future years allocations will be reviewed and updated as required in future updates of the MTFP and as programme delivery is reviewed.
- 4.37 A separate report to this Council provides the Prudential Indicators and Treasury Management Strategy for 2025/26 which is the framework used to self-regulate this investment within the overall context of the revenue budget process. This report should be considered in conjunction with the main elements and assumptions underpinning the medium term financial plan.
- 4.38 The previous s151 Officer 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 and that the Council would reach this threshold towards the end of the current decade. 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 reduce its revenue budget exposure to increasing MRP and external interest costs which are set out below.
- 4.39 The forecast revenue cost of borrowing over the period of the MTFP and beyond is set out in Table 7 below, assuming no further prudential borrowing other than currently planned.



**Table 7: 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
<b>2024/25</b>	<b>4.316</b>	<b>8.467</b>	<b>(2.392)</b>	<b>10.527</b>	<b>143.190</b>	<b>7.35%</b>
2025/26	4.704	9.925	(2.569)	12.060	143.304	8.42%
2026/27	5.082	11.099	(2.531)	13.732	144.382	9.51%
2027/28	5.366	11.768	(2.469)	14.685	148.621	9.88%
<b>2028/29</b>	<b>5.935</b>	<b>11.768</b>	<b>(2.319)</b>	<b>15.404</b>	<b>152.973</b>	<b>10.07%</b>
2029/30	6.180	11.768	(2.319)	15.649	152.973	10.23%
2030/31	6.428	11.768	(2.319)	15.897	152.973	10.39%
2031/32	6.679	11.768	(2.319)	16.148	152.973	10.56%
2032/33	6.934	11.768	(2.319)	16.403	152.973	10.72%
2033/34	7.193	11.768	(2.319)	16.662	152.973	10.89%
2034/35	7.475	11.768	(2.319)	16.944	152.973	11.08%

- 4.40 Any further capital investment thereafter should be by grants and contributions or capital receipts. It should be noted that the capital financing costs increase sharply after 2024/25 given the levels of prudential borrowing being used to finance the programme between 2024/25 and 2026/27. This is due to the current level of asset sales being required to finance the Council proposed transformation plans and not being available for capital investment.
- 4.41 For the financial years 2027/28 and 2028/29 no borrowing is proposed, and all spend put forward has been financed by either grants, contributions or capital receipts. Although these costs have been factored into the MTFP resource allocation, they are now just exceeding the s151 Officer threshold of 10% by the end of 2028/29 (forecast above of 10.07%), however this is not material and also currently the net revenue budgets for 2026/27 onwards are only indicative and are likely to increase.
- 4.42 A further factor to consider on the above table relates to the principal repayment of the historic debt accrued for capital purposes, how this changes over time, and its impact on the revenue budget. This is known as Minimum Revenue Provision (MRP) and is a statutory charge. In 2022/23, the Council under the direction of a 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 and this was felt to be better value for money in the current difficult financial environment facing local authorities. 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 annual repayments and as interest payments reduce, the relative amount of debt increases over time. An annuity approach therefore is very much akin to the repayment of a mortgage.
- 4.43 Even if the Council stopped investing in long term assets from prudential borrowing beyond the 2026/27 financial year, there would still be an upward incremental drift on the MRP charge from £5.366m (2027/28) to £7.475m (2034/35), which would breach the 10% S151 threshold from 2029/30 onwards. There are two issues to consider in relation to this as detailed in the following paragraphs.

- 4.44 Firstly, it is recommended that the Council consider moving back to a straight-line basis on MRP as soon as this is financially feasible, along with the strategy on funding outlined in 4.38 above. This would mean a base budget adjustment of around £2.5m would be needed from existing resources so would be a significant re-direction of resources from current priorities. It would mean though that a fixed annual charge for MRP that would not change over time would be in place.
- 4.45 Secondly, the additional cost of a straight-line policy would move the Council to well above the 10% threshold advised previously depending on the timing of the decision taken. This additional cost would be an extra 3% on the numbers given in the table above. Although this is a more prudent basis of calculating the MRP charge as this would be a fixed charge over time, unless additional prudential borrowing was taken. It would then be for the s151 Officer to advise Members in relation to the affordability of capital financing costs going forwards and what was a suitable revised % threshold for them to consider.
- 4.46 Further discussions on this area will be part of the approach to building the budget and MTFP for future years.

### **Reserves**

- 4.47 The s151 Officer recommends that the minimum balance on the General Fund Reserve should be maintained at a level of at least 7% of the Net Revenue budget over the MTFP period to 2028/29. In the 2025/26 proposed budget the level is 7.75% equivalent to £11.1m.
- 4.48 In addition, the s151 Officer recommends the build up of the Financial Resilience Reserve to at least £10m in 2025/26 and £20m by the end of 2028/29 to strengthen the Council's financial resilience. The planned contributions in the MTFP will enable these levels to be achieved.
- 4.49 The estimated surplus on the Collection Fund for 2024/25 of £3.135m will be transferred to new Savings Delivery Risk Reserve to provide for any non-delivery or delay in achieving savings and to help rebuild reserves.
- 4.50 An earmarked Legacy Accounts and Audit Reserve of £1m has also been set aside to provide for unforeseen adverse audit adjustments that may arise from the conclusion of legacy audits in future periods. The intention is that once this reserve is determined to no longer be required the balance will be transferred to the Financial Resilience Reserve.
- 4.51 The Council also holds a Change Fund Reserve for the purpose of meeting the revenue costs of transformation and efficiency programmes, which cannot be funded from Flexible Use of Capital Receipts. The budgeted contribution to the Change Fund Reserve is £0.730m p.a. over the MTFP period.
- 4.52 The Council holds an Insurance Reserve as contingency for insurance claims and losses.
- 4.53 Further information is included within Appendix 1 - s25 Report and Appendix 4 – Financial Reserves Policy.

## Budget savings

- 4.54 Budget proposals totaling £7.036m in 2025/26 rising to £8.686m in 2028/29 were detailed in the report to Executive on 4 December 2024. The savings proposed were categorised in two appendices with the savings in Appendix 2 of the December 2024 report, totaling £0.249m in 2026/27, being deemed to potentially affect service delivery levels and therefore being subject to public consultation.
- 4.55 No changes have been to the budget savings proposed following the budget consultation. The Budget Consultation Feedback 2025/26 is contained in **paragraphs 4.8 to 4.16 of the main report and in Appendix 3.**
- 4.56 The recommended budget savings are summarised by Directorate in **Table 8a** below and detailed in **Annex 1.**

**Table 8a: Summary of proposed budget savings by Directorate**

Analysis of savings by Directorate	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	TOTAL £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)
<b>Total Directorate</b>	<b>(7.036)</b>	<b>(1.650)</b>	<b>-</b>	<b>-</b>	<b>(8.686)</b>

- 4.57 **Table 8b** analyses the recommend budget 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 8b: 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)
<b>Total</b>	<b>(7.036)</b>	<b>(1.650)</b>	<b>-</b>	<b>-</b>	<b>(8.686)</b>

## Budget Growth

4.58 Budget growth totaling £2.361m was proposed for 2025/26 in Appendix 3 of the December 2024 Executive report for re-investment in services aligned to the Recover, Reset, and Deliver plan. This has been revised to a total of **£2.521m in 2025/26**. This is due to an increase in the budget growth proposed for Area Care (RRD06) where after listening to residents' views it is proposed by Executive that this is increased by a further £0.360m to a total of £0.720m in order to increase expenditure from 10% to 20%. There is also a saving of £0.200m as the funding previously proposed for increased Tree maintenance (RRD04) will now be funded from the new Middlesbrough Priorities Fund in 2025/26 rather than from base budget growth. These are now recommended by Executive for approval by Council. Details are provided in Annex 4.

## Previously Agreed Savings

4.59 Budget provision of **£0.311m in 2025/26 and a further £0.100m in 2026/27** has been made to address the removal of previously approved savings in 2025/26 in line with the priorities outlined in the Council Plan and after listening to residents' views, and these are now recommended for removal by Executive for approval by Council. These are summarised below and detailed in **Annex 3**.

Ref:	Budget Savings Proposal	25/26 £m	26/27 £m	27/28 £m	28/29 £m	TOTAL £m
ECS10	Review of Community Facilities	0.200	0.100	-	-	0.300
ECS04	Replacement Wheeled Bins Charge	0.033	-	-	-	0.033
FIN08	Reduction in the allocation of resource for voluntary and community sector grants from the local authority (remaining 25/26 element)	0.028	-	-	-	0.028
REG06	Reducing the number of staff we need to deliver the Council's marketing and communication activities by implementing new ways of working	0.050	-	-	-	0.050
<b>TOTAL REMOVED 2024/25 SAVINGS FOR DELIVERY IN FUTURE YEARS</b>		<b>0.311</b>	<b>0.100</b>	-	-	<b>0.411</b>

4.60 **Table 9** below and **Annex 3** provides a summary of the income & savings agreed in previous budget rounds that are due to be delivered during 2025/26 in addition to the new savings that are proposed in the 2025/26 budget. This is after removal of some savings which have been replaced by proposed budget growth as referred to in paragraph 4.59. The delivery of these savings will be tracked alongside new savings as part of corporate budget monitoring arrangements.

**Table 9: Savings agreed in 2024/25 Budget report to Council – to be delivered in 2025/26**

Directorate	2024/25 Saving Initiative for delivery in 2025/26	2025/26 £m
Adult Social Care	ASC01 Accommodation & Support Review	0.480
Adult Social Care	ASC12 Transformation of Adult Social Care Services	0.750
Adult Social Care	ASC14 Court of Protection Service Charges	0.053
Children's Care	CC01 Review of all services across Children's Care	0.500
Children's Care	CC03 Improvement of Internal Residential Capacity through the purchase of suitable properties and refurbishment of existing Council properties into residential homes	0.450
Children's Care	CC05 Other savings - Maximising Grants	0.150
Children's Care	CC07 Special Guardianship Order Payment Review	0.300
Environment & Community Services	ECS05 Integrate Environment Services and Supporting Communities functions and create a Neighbourhood Management approach	0.113
Environment & Community Services	ECS06 Increase in education and enforcement around recycling	0.169
Environment & Community Services	ECS08 Resident Parking Permits charge	0.125
Environment & Community Services	ECS12 Charge for Waste Bins on New Developments	0.030
Regeneration	REG01 Reducing the number of staff needed to deliver Regeneration activities by implementing new ways of working	0.129
Regeneration	REG03 Review and implementation of alternative operating models for Captain Cook Birthplace Museum	0.245
Regeneration	REG04 Improve the commercial potential of the Town Hall and Theatre to maximise the potential of the buildings and provide a greater range of performances	0.100
Regeneration	REG05 Use grant funding to cover some of the existing economic growth activities the Council carries out	0.050
Regeneration	REG07 Investing in better coordination of the way the Council provides housing to reduce the overall spend on emergency, temporary and short term accommodation for people	0.220
Finance	FIN01 Collection of Housing Benefit overpayments	0.035
Finance	FIN02 Review of Single Person Discount and Student Exemption for Council Tax	0.066
Finance	FIN03 Collection of Council Tax	0.110
Finance	FIN04 Collection of Council Tax (Charging Orders)	0.504
Finance	FIN05 Collection of Business Rates	0.126
Finance	FIN06 Collection of Council Debt	0.070
Finance	FIN11 Closure of Cashiers at Middlesbrough House	0.020
Legal & Governance Services	LGS06 Legal Services Service Review	0.045
<b>Total</b>		<b>4.840</b>

## Middlesbrough Priorities Fund

- 4.61 In response to a significant level of single year funding, the Middlesbrough Priorities Fund of £4.367m will be established, using this funding to deliver high impact, one-off projects for the benefit of our communities. The temporary nature of this funding means that the Council are unable to build it into the ongoing revenue budget, however elements of it may be announced in the future as being recurrent in which case those elements will be built into ongoing revenue budgets. A paper outlining the governance of the Middlesbrough Priorities Fund and how the Council will identify the initiatives to be delivered will be brought forward for decision by April 2025.
- 4.62 Projects that are put forward must be able to demonstrate progress on the Council Plan 2024-2027, for example Investment into housing projects to reduce homelessness levels would impact on the priority of “A successful and ambitious town” - Ensure housing provision meets local demand”.
- 4.63 In order to make sure the Council addresses specific issues at a ward level a portion of the fund will be made available for ward councillors to be able to bid for, and this will be allocated at a rate of £5,000 per ward councillor for projects within their wards.

## Government Funding

- 4.64 The Council's retained 49% share of Business Rate income, after adjustments for transitional relief and cost of collection, is estimated to be **£ 18.232m** in 2025/26, which is **£1.109m** below our Business Rate Baseline as determined by the Government for the purpose of the settlement.

- 4.65 This retained income carries potential volatility risks for the Council in calculating our share of the yield. The major risks and concerns are the level of successful rating appeals that may be made in the year, the unknown level of bankruptcies and businesses going into administration, the number of empty properties, the number of new properties and the collection rate achievable. The Council is required to make an estimate of the impact of all these, based on limited trend information. The NNDR1 return submitted to be submitted to MHCLG by 31 January 2025 estimated the net rates payable as **£38.927m** after all reliefs, with **£0.370m** assumed for bad debts (1.0%) and **£0.812m for appeals (2.1%)** leaving total collectible rates for 2025/26 as **£37.745m**, which after further adjustments is used in calculating Middlesbrough's share.
- 4.66 The Council in 2025/26 expects to receive **£13.648m** Section 31 grant which compensates councils for the loss of income, suffered as a result of previously announced changes to the Business Rates multiplier. The impact of these grants has been included within the budget refresh figures and details are shown in **Table 10** below.

**Table 10: Section 31 Grants (Business Rates)**

Budget Item	2025/26 £m
Multiplier cap	4.519
Small Business Rates Relief	1.764
Supporting Small Business Scheme	0.158
Retail Hospitality & Leisure Relief	0.855
<b>NNDR1 Return</b>	<b>7.296</b>
Under-indexing of Top-up Grant	6.352
<b>Total</b>	<b>13.648</b>

- 4.67 **Table 11** sets out the overall funding assumed within the budget. Revenue Support Grant, Business Rates Top Up Grant and Retained Business Rates. The increases in 2025/26 are as per the Final LGFS and the increase for 2026/27 is broadly based on the latest estimated CPI increase as at September 2025 (which the Government will base the actual increase on), with the increase for later years of the MTFP being less robust and based on an estimated increase.

**Table 11: Funding Summary**

Item	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	Cumulative £m
Retained Business Rates	18.232	18.542	18.857	19.178	74.809
Business Rates Top-up Grant	30.794	31.317	31.850	32.391	126.352
Revenue Support Grant	15.444	15.707	15.974	16.245	63.370
Council Tax	75.781	78.816	81.941	85.159	321.697
Collection Fund Surplus / (Deficit)	3.052	-	-	-	3.052
<b>Total</b>	<b>143.304</b>	<b>144.382</b>	<b>148.621</b>	<b>152.973</b>	<b>589.280</b>

- 4.68 **Table 12** sets out details of all other specific Government funding provided to the Council. These are based on the most up to date reliable information and the impact for 2026/27 onwards have been estimated, but these figures are necessarily less robust than the figures for 2025/26 due to very little information being provided by the Government as to future years funding.

**Table 12: Other specific grant funding**

	2025/26	2026/27	2027/28	2028/29
		Indicative	Indicative	Indicative
	£m	£m	£m	£m
Local Authority Better Care Fund	10.666	10.666	10.666	10.666
New Homes Bonus	0.031	-	-	-
Social Care Grant	22.504	22.504	22.504	22.504
Children & Families Grant	2.014	2.014	2.014	2.014
ASC Market Sustainability & Improvement Fund	3.316	3.316	3.316	3.316
Domestic Abuse Safe Accommodation Grant	0.513	0.513	0.513	0.513
Public Health Grant	19.744	19.744	19.744	19.744
Housing Benefit Administration Subsidy Grant ( <i>assumed - still TBC</i> )	0.574	0.574	0.574	0.574
Employers National Insurance increase grant	1.458	-	-	-
Children's Social Care Prevention Grant	2.123	-	-	-
Extended Producer Responsibility Grant	3.367	-	-	-
Recovery Grant	5.410	-	-	-
S31 Grant for Business Rates Compensation for Reliefs	13.648	13.961	14.274	14.587
	<b>85.368</b>	<b>73.292</b>	<b>73.605</b>	<b>73.918</b>

Not included in the table above are details of the Dedicated Schools Grant (DSG) which the Council receives, which are detailed in Appendix 8.

### **Collection Fund**

- 4.69 Statutory regulations require councils to account for annual Council Tax / Business Rates income in a manner different to normal accounting arrangements as would apply if using International Financial Reporting Standards (IFRS). This means any difference between the budgeted net Council Tax and Business Rates income and the actual is held on the Council's balance sheet to be distributed in subsequent years.
- 4.70 Councils are required to calculate an estimated position of the Collection Fund in January which is used by the precepting authorities in setting its budget for the forthcoming year.
- 4.71 An annual review is undertaken to assess the estimated level of collection, the likely balance of the funds and to advise the precepting authorities (Fire and Police) of their share of any surplus/deficit. This enables them to take this into account in their own budget calculations.
- 4.72 It is currently estimated that there will be a total surplus on the Collection Fund of **£3.466m** with the Council's share being **£3.052m**. This comprises of a surplus on the Council Tax Collection Fund of **£3.934m** with the Council share of this being **£3.281m**. It is estimated that there will be a deficit on the Business Rates Collection Fund of **£0.468m** with the Council share of this being **£0.229m**. The Council's surplus will be used in full to provide some financial resilience by rebuilding reserves, which are still at a low level, by the creation of a new Savings Delivery Risk Reserve as detailed further in the Reserves Policy 2025/26 at **Appendix 4**.

### **Council Tax Requirement for 2025/26**

- 4.73 Given the Council's financial position, in the report to Executive in December 2024 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 in order to reduce the additional budget savings required to be made to balance the budget. 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.

- 4.74 It should be noted that each 1% increase in Council Tax produces estimated additional income to the Council of approximately £0.700m per annum.
- 4.75 There is estimated to be an increase in Council Tax income of **£0.780m** in 2025/26 and a similar amount on an ongoing basis due to a predicted increase in the Council's Tax Base resulting from projected Housing Growth over the period. In addition, it is assumed that there will be an increase of a similar amount each year in 2026/27, 2027/28, and 2028/29. Since 2013/14 the Council's Housing Growth Strategy has delivered an increase in the Council Tax Base of 6,343 Band D Equivalent properties, an increase in Middlesbrough Council's Tax Base of **approximately 21%**. The cumulative effect is approximately **£13.2m per annum** and reduces the need to make further annual savings within Council services by this amount.
- 4.76 The Council is required to set a balanced budget for 2025/26. The budget will determine the level of resources to be made available to services and forms part of the determination of the Council Tax to be levied in 2025/26.
- 4.77 If the budget proposed in this report is approved by Council the Budget Requirement for 2025/26 will be **£143.304m** with a Council Tax Requirement of **£75.783m**, equating to a Council Tax (Band D) for non-parish areas (Middlesbrough Council only element) of **£2,074.34** and Band A of **£1,382.89**. This represents a total increase in Council Tax of **4.99%** for 2025/26 comprising of a general increase of 2.99% and an Adult Social Care precept of 2.00%.
- 4.78 The draft statutory Band D Council Tax calculation that forms the basis of this Council budget report is detailed at **Appendix 7**.
- 4.79 The proposed tax to be levied for each band for each tax band for Middlesbrough Council element (excluding Fire, Police and Parish precepts) is detailed in **Table 5** of **Appendix 7** and is shown below in **Table 13**:

**Table 13: Proposed Council Tax per Band for Middlesbrough Council element (excluding Fire, Police and Parish precepts) 2025/26**

Effect of assumed 4.99% p.a. total increase in Middlesbrough element of Council Tax for 2025/26				
Band	% of dwellings per band*	2025/26 4.99% increase		
		Council Tax £	Annual Increase £	Weekly Increase £
A	50.0%	1,382.89	65.72	1.26
B	17.4%	1,613.38	76.67	1.47
C	17.4%	1,843.86	87.63	1.69
D	8.4%	2,074.34	98.58	1.90
E	4.2%	2,535.30	120.48	2.32
F	1.6%	2,996.27	142.39	2.74
G	0.9%	3,457.23	164.30	3.16
H	0.1%	4,148.68	197.15	3.79

\* Based on number of dwellings on the Valuations List as at 15/9/24



- 4.80 Nunthorpe Parish Council has set a precept of **£26,871** for 2025/26. The tax to be levied for each for each tax band are set out in **Table 5 of Appendix 7**.
- 4.81 Stainton & Thornton Parish Council has set a precept of **£14,010** for 2025/26. The tax to be levied for each for each tax band are set out in **Table 5 of Appendix 7**.
- 4.82 Cleveland Fire Authority has set a precept for Middlesbrough of **£3,449,103**. The Council Tax levels for 2025/26 are set out in **Table 6 of Appendix 7. (subject to formal approval)**
- 4.83 Cleveland Police and Crime Commissioner has set a precept of **£11,601,561** and Council Tax levels for 2025/26 are set out in Table 7 of Appendix 7.
- 4.84 The proposed total tax to be levied for each band (including Middlesbrough Council, Cleveland Fire Authority, Cleveland Police and Crime Commissioner, and Parishes) is set out in **Table 8 of Appendix 7. (to be confirmed)**
- 4.85 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.
- 4.86 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 proposed Council Tax Reduction Scheme 2025/26, which is a separate paper on this agenda and is to be approved by Council at its budget setting meeting on 19 February 2025, a maximum of 90% support is provided. This equates to an overall level of expenditure to support financially vulnerable households of approximately £21.260m per year is provided to 18,248 households across the town. The Council has considered increasing the scheme to 100%, which would mean around 10,000 working age households would have nothing to pay, however this would likely cost the Council around an additional £2.5m to £3m to implement and operate and is not considered affordable at present.
- 4.87 In addition to the Council Tax Reduction Scheme a number of other support solutions exist. The Council has 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. 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.

## Budget summary & Medium-Term Financial Plan assumptions

- 5.1 In examining proposals for the 2025/26 budget, the Council considers both the immediate situation and the longer term outlook and assesses the impact of decisions accordingly. Current budgets for 2025/26 through to 2028/29 assumes:
- That the total planned budget savings in 2025/26 of **£11.876m** rising to **£15.393m** in 2028/29 are achieved or replaced with alternative budget savings of at least the same value.
  - Council Tax increase of **4.99%** in 2025/26 (**2.99%** general increase and **2.00%** Adult Social Care precept)
  - Council Tax increases of **2.99% p.a.** in 2026/27 onwards to only include the general increase. In the absence of Government confirmation of the continuation of the ASC precept beyond 2025/26 when it is due to end, a current assumption has been made to remove the 2% increase with effect from 2026/27.
  - 2025/26 Council Tax base of **36,513.9** assuming Council Tax in year collection rate of **98.3%** for 2025/26 as per December 2024 Executive report with assumed future net growth of **£0.780m pa**. Currently similar levels of growth have been assumed for 2026/27 to 2028/29.
  - 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 2026/27 and future years, apart from the application of inflationary increases, which have currently been assumed to be 1.7% for 2026/27 and future years (based on CPI for September 2024). This will be updated during 2025/26.
  - It is currently assumed that whilst the Council will be compensated for the effect of the increase in Employer's National Insurance contributions, it will not be fully compensated for the effect of the increase and that there will be cost to the Council associated with this of **£2.180m** in 2025/26 and ongoing.
  - 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.
  - Pay inflation of 3.00% per annum for 2025/26, and 2.00% per annum for 2026/27 onwards.
  - Inflationary uplift of 2% for 2025/26 on discretionary fees and charges. 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.
  - New Homes Bonus Grant is discontinued or rolled into RSG from 2026/27 onwards, given that Government have recognised that the system is flawed.
  - Where national increases are known for specific grants, an estimated future projection has been included based best available information.
  - That other specific grants will continue at their current level for all future years, with the exception of the following one-off grants for 2025/26 only - Extended Producer Responsibility (**£3.367m**), Recovery Grant (**£5.410m**) and the Children's Care Early Prevention Grant (**£2.123m**).

- One-off budgets for 2025/26 only, in the form of the Middlesbrough Priorities Fund (£4.367m) and Delivery Risk Budget (£2m), are not continued ongoing beyond 2025/26.
- That the recommend minimum balance on the General Fund Reserve of at least 7% of the Net Revenue budget over the MTFP period to 2028/29, and that the Financial Resilience Reserve is built up to at least £10m in 2025/26 and £20m by the end of 2028/29 to strengthen the Council's financial resilience. The planned contributions in the MTFP will enable these levels to be achieved.
- 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

All these budget assumptions will be subject to on-going review in light of changing circumstances.

5.2 **Table 14** shows the updated MTFP for the period 2025/26 to 2028/29 based on the information contained elsewhere in this report.

**Table 14: Refreshed MTFP Summary 2025/26 to 2028/29 (incremental)**

Budget Item	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
<b>Net Budget brought forward</b>	<b>134.865</b>	<b>140.252</b>	<b>144.382</b>	<b>148.621</b>
Pay Inflation	3.220	1.778	1.778	1.778
Contractual inflation	1.550	1.550	1.550	1.550
Other inflation	(0.764)	0.003	-	-
Fees & Charges inflation	(0.648)	(0.648)	(0.648)	(0.648)
<b>Inflation subtotal</b>	<b>3.358</b>	<b>2.683</b>	<b>2.680</b>	<b>2.680</b>
Service Demand pressures	14.776	3.324	3.349	3.349
<b>Service Demand pressures subtotal</b>	<b>14.776</b>	<b>3.324</b>	<b>3.349</b>	<b>3.349</b>
Technical adjustments	13.289	(5.716)	0.499	0.329
Risk Management	4.336	(3.261)	0.750	0.750
Grant Funding adjustments	(18.496)	10.618	(0.313)	(0.313)
Savings - approved in previous years	(5.151)	(1.967)	-	-
Savings - approved in previous years now removed	0.311	0.100	-	-
New savings proposals	(7.036)	(1.650)	-	-
Budgeted contribution to Reserves	3.052	-	-	-
<b>Other adjustments subtotal</b>	<b>(9.695)</b>	<b>(1.876)</b>	<b>0.936</b>	<b>0.766</b>
<b>PROJECTED NET BUDGET</b>	<b>143.304</b>	<b>144.382</b>	<b>151.347</b>	<b>155.417</b>
Council Tax	(75.781)	(78.816)	(81.941)	(85.159)
Business Rates	(49.026)	(49.859)	(50.707)	(51.569)
Estimated Collection Fund Surplus	(3.052)	-	-	-
Revenue Support Grant	(15.444)	(15.707)	(15.974)	(16.245)
<b>Assumed Funding</b>	<b>(143.304)</b>	<b>(144.382)</b>	<b>(148.621)</b>	<b>(152.973)</b>
<b>Incremental Budget Gap + / Surplus ( )</b>	<b>-</b>	<b>-</b>	<b>2.726</b>	<b>2.444</b>
<b>Cumulative Budget Gap + / Surplus ( )</b>	<b>-</b>	<b>-</b>	<b>2.726</b>	<b>2.444</b>

5.3 It can be seen from **Table 14** that whilst 2025/26 and 2026/27 are balanced, budget gaps still remain in 2027/28 and 2028/29 and further savings proposals arising from the Transformation projects currently being undertaken will be required as a minimum to meet these budget gaps. In practice, the level of further savings to be developed will need to anticipate the risk of further pressures arising from 2026/27

onwards as is the usual experience of the annual budget setting cycle. A summary of progress regarding the Transformation Programme, alongside the Flexible Use of Capital Receipts Strategy for 2025/26 will be subject to a further report to Council and Executive in April 2025.

## Annex

<b>1/1a</b>	Budget Savings proposals that are considered to have minimal, or no effect on front line service delivery levels
<b>2/2a</b>	Budget savings proposals considered to potentially affect front line service delivery levels
<b>3</b>	2024/25 Savings Initiatives for delivery in 2025/26 by Directorate
<b>4/4a</b>	Proposed Budget Reinvestment in Recover, Reset and Deliver
<b>5</b>	Detail of net revenue budget by Directorate