

<b>Report of:</b>	Andy Preston - Elected Mayor of Middlesbrough Ian Wright - Director of Finance
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<b>Submitted to:</b>	Executive - 16 February 2021
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<b>Subject:</b>	Revenue Budget, Council Tax, Medium Term Financial Plan and Capital Strategy 2021/22
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## Summary

### Proposed decision(s)

That the Executive endorses the proposed budget strategy for 2021/22 as set out in paragraphs 35 to 70, and endorses the proposed budget efficiency savings for 2021/22 (Appendix 1).

That the Executive endorses the budget requirement for 2021/22 to be set at £116,492,035 as detailed in Appendix 2.

Having taken into account the matters set out in Section 32 of the Local Government Act 1992 and the items set out within the report, that the Executive endorses that the basic amount of Council Tax (Band D) for 2021/22 be £1,757.67 being a 1.99% increase in general Council Tax and an annual precept of 0.76% for Adult Social Care which has been continued by the Government to contribute towards the shortfall of funding for adult social care. In total this represents an increase of 2.75% in the basic amount of Council Tax for the whole of the Borough.

That the Executive endorses the actual amount of Council Tax (Band D) for areas without parish precepts (excluding Fire and Police) be set at £1,757.11.

That the Executive endorses the actual amount of Council Tax (Band D) for areas with parish precepts (excluding Fire and Police) be set at :-

Nunthorpe Parish	£1,761.41
Stainton and Thornton Parish	£1,766.42

That the Executive endorses the amounts of Council Tax for each category of dwelling be set in accordance with table 4 of Appendix 4 within the report.

That the Executive notes the refreshed Medium Term Financial Plan position for 2021-24 set out in this report in paragraphs 90 to 119.

That the Executive endorses the updated Investment Strategy for the period to 2023/24 as

outlined in paragraphs 120 to 124 and detailed in Appendix 5.

That the Executive endorses the Capital Strategy Report (Prudential indicators, Investment Strategy and Minimum Revenue Provision) 2021/22 as outlined in paragraphs 125 to 136 and detailed in Appendix 6, and endorses the Authorised Limit for external borrowing of £315 million for the Council for 2021/22 as set out in paragraph 135.

<b>Report for:</b>	<b>Key decision:</b>	<b>Confidential:</b>	<b>Is the report urgent?</b>
Decision	Yes – over the financial threshold (£150,000) and affects more than two wards	No	No

#### **Contribution to delivery of the 2021-24 Strategic Plan**

<b>People</b>	<b>Place</b>	<b>Business</b>
The setting of the Revenue Budget, Council Tax, Capital Strategy for 2021/22 and the revision of the Council's Medium Term Financial Plan for 2021-24 plays a central role in ensuring that the Strategic Plan is delivered effectively.		

#### **Ward(s) affected**

Expenditure outlined in the revenue and capital budgets will positively impact on all wards in Middlesbrough.

## **What is the purpose of this report?**

1. This report presents the recommended Revenue Budget of £116,492,035, Council Tax increase of 2.75% (paragraphs 71 to 89), and Capital Strategy Report for 2021/2022 (paragraphs 125 to 136). Attached to the report are a number of appendices which are listed at the end of the report.
2. Following on from the previous report presented to Council on 16 December 2020, this report also provides a refreshed Medium Term Financial Plan (MTFP) for the period 2021/22 to 2023/24 to reflect the 2021/22 Local Government Finance Settlement (paragraphs 23 to 34).
3. The Medium Term Financial Plan update in this report is integrated with the £149.1 million Investment Strategy for Middlesbrough for the period to 2023/24, supported by £83.7 million of the Council's own resources. The updated Investment Strategy is shown in Appendix 5.
4. This budget continues to support the Mayor's commitment to invest in Middlesbrough and transform service delivery for residents. It is intended that through this strategy the Council can achieve the challenging financial targets faced in the Medium Term Financial Plan period whilst ensuring that there is a minimum impact on the level of service delivered to the public.

### **Why does this report require a Member decision?**

5. Full Council is required under legislation to set a revenue budget and agree the level of Council Tax and Prudential Indicators for 2021/22. The Executive have a key role in proposing to Full Council the revenue budget, level of Council Tax and Prudential Indicators.

## **Report Background**

### **Consultation**

6. The Priorities of the Elected Mayor of Middlesbrough and Strategic Plan 2020-2023 report to Council on 15 January 2020 set out what the Council was aiming to prioritise over the next three years. The "Refreshing the Strategic Plan for the 2021-2024 period" report which was presented to Executive on 24 November 2020 endorsed revisions to the Council's strategic priorities, with the revised priorities being as follows:
  - children and young people;
  - vulnerability;
  - crime and anti-social behaviour;
  - climate change;
  - Covid-19 recovery;
  - physical environment;
  - town centre;
  - culture; and
  - quality of service.

7. The Medium Term Financial Plan sets out the financial envelope that is necessary to achieve those aims and the savings necessary for living within those financial plans (budget savings).
8. The Council noted a report from the Elected Mayor on 16 December 2020 which provided an update in respect of the Council's Medium Term Financial Plan position for the period to 2023/24, reflecting and supporting delivery of the Strategic Plan
9. The Elected Mayor set out a series of proposed additional budget efficiency savings which amounted to £1.931m million in 2021/22, and these were in addition to planned savings of £1.568m for 2021/22 already approved by Council in February 2020.
10. The Elected Mayor also set out at the Council meeting on 16 December 2020 the proposed budget and Council Tax increase of 2.75% for 2021/22. This was a reduction from the Council Tax increase of 3.99% for 2021/22 originally proposed in the report due to a review of the Council's finances following the Spending Review announcement and further information received, and that the amount of Government funding likely to be received was better than the previous MTFP assumptions for 2021/22. There was also a desire to minimise the effect of Council Tax increases to residents, especially during the challenging financial circumstances arising from the Covid-19 pandemic.
11. At the Council meeting the Mayor also announced that the previously planned budget saving relating to the proposal to move to fortnightly Waste Collections, estimated to achieve a budget saving of £396,000, would following a period of public consultation, not now be implemented in 2021/22. This was formally approved by the Executive at its meeting on 22 December 2020.
12. The duty to consult, where proposals affect individuals or groups of individuals, arises both in statute and through common law. As stated in the report to Council in December the additional budget efficiency savings proposals for 2021/22 were initially assessed and categorised using the same categories as in previous years. As stated in paragraph 52 of the report to Council in December all of the proposed additional budget efficiency savings were considered to have minimal or no effect on front line service delivery levels and therefore required no public consultation or impact assessment prior to consideration by Full Council as part of the 2021/22 revenue budget for implementation in 2021/22, and are therefore included in Appendix 1. There are therefore no proposed additional budget efficiency savings which require public consultation. The budget consultation was therefore only regarding the proposed Council Tax increase.
13. Consultation in respect of the proposed budget and Council Tax increase for 2021/22 commenced on 17 December 2020 and concluded on 31 January 2021, with appropriate impact assessments undertaken considering responses to the consultation.
14. The budget consultation was undertaken this year as part of an "annual conversation, called "Let's Talk", with local communities and the Council's stakeholders on the direction of travel and future plans (including spending plans), an approach which will

in future years be embedded within the Council's emerging locality working approach.

15. The "Let's Talk" annual conversation built on the success of the 2020/21 budget consultation, although traditional face to face engagement was severely constrained by the Covid-19 pandemic. The consultation had a clear brand identity and was promoted across social media and other channels, gathering both quantitative and qualitative information that will provide both real insight for the Council and real influence for respondents. The aim was to encourage people to take part in the annual budget consultation and the consultation on future strategic priorities of the organisation.
16. As stated previously, the consultation this year had to be adapted to comply with Covid-19 restrictions. This year steps taken included:
  - a dedicated internet page on the Council's website;
  - a general public survey on the Council's website, with hard copies available upon request;
  - a general consultation email address;
  - an increased level of digital promotion and increased public engagement through social media;
  - promotion by the Mayor on social media;
  - consultation with the Council's Overview and Scrutiny Board;
  - consultation with the Council's partners and the local business sector, including a specific consultation meeting with the town's Chamber of Commerce on the 20 January 2021;and
  - involvement of elected members in the process overall.
17. The consultation resulted in 345 responses to the Council's online consultation and completed hard copies of the survey on its budget proposals. Analysis of the budget consultation responses shows:
  - 37% of respondents were in favour of a Council Tax increase of 2.75%. 62% were against. Four did not answer the question
  - 199 comments were received of which 96% were negative. The vast majority of comments were relating to member and officer remuneration, and perceived waste within service delivery and project expenditure
  - Alternative proposals were also made relating to reducing this apparent waste and therefore reducing the need for Council Tax increases
18. The consultation also resulted in receipt of four email responses from individuals, but none were directly in relation to the Council Tax increase.
19. One virtual public meeting was offered as part of the campaign if there was enough interest in this. However, only one person expressed an interest in this and therefore such a meeting was not held.
20. There was also an extensive promotion of the consultation through social media, covering both the proposed budget and strategic priorities. The consultation launch video by the Mayor was viewed over 2,200 times, and there were 23 posts across Facebook and Twitter, which in total were shared over 50 times and analysis of

reach estimates that there was a potential reach to up to 70,000 people. Reach is an estimation based on calculation of views, shares and the size of the group posts are shared to e.g. if a person sharing a post has 200 followers, there is a potential reach of up to 200 people for that shared post.

21. Analysis of the feedback given online to social media posts is difficult to quantify as it was not a formal consultation mechanism, people were encouraged to complete the online consultation form. That being said, a number of comments were made on the following posts:
  - Comments opposing any increase in Council Tax given the current economic climate and the financial challenges people were facing as a result of Covid-19
  - Negative comments regarding dissatisfaction with some Council services
22. Responses to the budget consultation survey were analysed to assess whether there were any concerns about impacts from proposals that varied by protected characteristic, which could give an indication of an unintended impact or a concern that there would be a disproportionate adverse impact on individuals or groups because they held one or more protected characteristics. This analysis is set out in the Equality and Diversity section in paragraphs 151 to 155 of this report. An overall impact assessment that has been completed as part of this process is appended to this report in Appendix 3. It is recognised that the majority of responses were against the proposed Council Tax increase but the experience over the last year and the ongoing effect of Covid-19 means that it is felt that the Council Tax increase cannot be reduced any further without adversely affecting service delivery.

### **The Local Government Finance Settlement**

23. The Spending Review 2020 on 25 November 2020 announced details of the overall level of funding for local government in 2021/22, and confirmed that there will again be a one year allocation of funding for 2021/22, as was the case in 2020/21. The full details of the funding mechanism and the allocation to individual local authorities for 2021/22 only was provided as part of the provisional Local Government Finance Settlement which was published on 17 December 2020 and after a period of consultation was confirmed as part of the final settlement published on 4 February 2021.
24. Government funding for local government as a whole has fallen substantially since 2010. Since changes were made to the Local Government Finance System in 2013/14 Middlesbrough Council has suffered a significant reduction in Government funding, with a reduction of £41.7 million (51%) from £81.2 million received in 2013/2014 to £39.5 million in 2021/22. Further detail is provided in paragraphs 101 and 102.
25. The Spending Review announced additional funding for local government. These were subsequently included in both the provisional local government settlement of 17 December 2020 and in the final settlement published on 4 February 2021.
26. Whilst the additional funding is welcomed, a large proportion of the funding announced will be for one year only (2021/22), and therefore does not assist with

tackling recurring funding pressures. This level of uncertainty means that future funding remains one of the most significant risks to the Council.

27. It should also be noted that a large proportion of the additional funding available to local government (over 85 per cent) is expected to come from increases in council tax made by local authorities.
28. The main areas of additional funding are detailed in the following bullet points:
  - Existing 2020/21 Social Care funding comprising Social Care Grant of £4.817m, relating to both Adults and Children's Care, is continued for 2021/22. In addition to this additional Social Care Grant of £1.522m for 2021/22, relating to both Adults and Children's Care, was also announced. This means that Middlesbrough will receive £6.339m of Social Care Grant in 2021/22.
  - Revenue Support Grant (RSG) will increase by inflation for 2021/22, which is set at the level of Consumer Price Inflation at September 2020 which was 0.55%. The inflationary increases to this grant creates additional income to the Council of £67,000 in 2021/22.
  - The Spending Review announced and the local government finance settlement confirmed that as well as legacy payments from previous years continuing to be received, there would also be new 2021/22 allocations of New Homes Bonus Grant, however there would be no legacy payments in future years for the new 2021/22 allocations. New Homes Bonus is funded by a top slice from Settlement Funding, this means that authorities lose Settlement Funding but stand to gain from the New Homes Bonus they earn. The Government intends to consult on a new housing growth incentive beyond 2021/22. Estimates of New Homes Bonus to be received by the Council in the MTFP period have been revised to reflect this announcement.
  - A new Lower Tier Services Grant (LTSG) worth £111 million nationally is to be provided in 2021/22 only. The aim is to support lower-tier services including homelessness, planning, recycling, refuse collection and leisure services. Middlesbrough's allocation is £285,000. The accompanying commentary to the settlement makes it very clear that the government sees this funding as a response to the current exceptional circumstances and that it will be for one year only.
  - The Spending Review also announced and the local government finance settlement confirmed that the Troubled Families Programme, which was planned to cease at the end of March 2021, would continue in 2021/22 only. The grant funding has helped to support key preventative and early help services for children and families within Children's Services. The MTFP had previously included a provision of £486,000 per annum from 2021/22 to continue essential services following the planned removal of the grant from 2021/22, however the announcement of the continuation of funding in 2021/22 has allowed this to be put back a year to 2022/23.
29. Under the current business rates retention system Middlesbrough receives a top-up payment as the assessed cost of providing services in the Borough is greater than

the share of business rates retained locally. The top-up payment has been frozen in 2021/22 and therefore the payment to Middlesbrough has remained the same as in 2020/21 at £27.299 million.

30. An estimate has been made of retained business rates income in 2021/22 of £17.593 million. This figure represents a decrease of £66,000 (0.4%) on 2020/21.
31. As part of the business rates system rate payers are entitled to submit an appeal against the valuation of their business, if successful this appeal will be backdated to the date of valuations. The cost of repaying appeals, including backdating, is met by the Council in proportion with its share of Business Rates. As a result of the valuations being new it is difficult to forecast what level of appeals will be received in relation to the new bills from business rate payers and also to understand what proportion of such appeals might be successful. Performance against this estimate will be closely monitored over the course of 2021/22.
32. Alongside the Local Government Finance Settlement the Government provided details of the Local Government Covid-19 Support Package for 2021/22, which continues the provision of Government funding to local authorities for the financial effects of the Covid-19 pandemic. The funding package, which is in addition to the funding mentioned in the Local Government Finance Settlement, includes:
  - Covid-19 Expenditure Pressures Grant – an amount of £1.55 billion nationally has been provided in 2021/22, with the allocation for Middlesbrough being £5.310 million. It is proposed that this will be kept in a central budget to be used to cover costs of Covid-19 arising in 2021/22. The funding allocation to individual local authorities is based on the same formula as used in 2020/21 (the Covid-19 Relative Needs Formula) which takes account of population, deprivation and the way that service costs vary across the country.
  - Local Council Tax Support Grant – £670 million of unringfenced funding is to be provided to help cover the pressures on the council tax base as the pandemic continues. The Government is distributing the funding on the basis of each billing authority's share of working-age local council tax support caseload, adjusted to reflect average bills per dwelling. The allocation for Middlesbrough is £2.592 million in 2021/22. It is proposed that this funding is used over the MTFP period to mitigate pressures on the council tax base.
  - Local Tax Income Guarantee – the Government have confirmed their commitment to compensate councils for 75 per cent of irrecoverable council tax and business rates losses for 2020/21. The compensation scheme included detailed guidance on the method of calculation of this and it is currently estimated that Middlesbrough will receive £369,000 in 2021/22 from this.
  - Sales, fees and charges (SFC) – the SFC compensation scheme for lost income is to be continued for the first three months of 2021/22, using 2020/21 budgeted income as the baseline. It is currently estimated that Middlesbrough will receive funding of approximately £900,000 in 2021/22 from the scheme.



33. It should be noted that it is expected that costs will match the funding provided.
34. A report will be submitted to Executive in the near future to endorse a proposed scheme / process for decisions relating to the distribution and expenditure of additional grant funding received from the Government or external bodies.

## **Proposed Revenue Budget 2021/2022**

### ***Budget Principles***

35. In preparing the 2021/22 draft revenue budget and Medium Term Financial Plan, the following principles, consistent with budget strategies in previous years and statements made by Executive have been adopted:
  - to maximise the efficient, effective and economic use of resources, in conjunction with partners where appropriate;
  - to minimise the effect of Council Tax increases on residents whilst maintaining service provision;
  - to make services fully accountable for their own budgets and spending, including additional pressures. Calls on the Medium Term Financial Plan should only be made when local and directorate resources are exhausted and all requests are required to be approved by the Council's Corporate Management Team;
  - to maintain appropriate medium term budget planning and monitoring processes, ensuring known commitments are provided for and budgets are set in real terms with the effect on service delivery clearly identified;
  - services will receive, in full, the impact of contractual inflationary increases (including pay awards). No inflation will be provided for general supplies and services, which are expected to be met from efficiency savings;
  - to support budgetary investment in economic growth to drive increase in income through Council Tax and Business Rates;
  - on termination of a specific grant, a business case for any continued funding will be prepared, which will need to be assessed against other pressures on the Medium Term Financial Plan;
  - all specific reserves require approval by the Director of Finance, where specific reserves exist these will be reviewed regularly by the Director of Finance as part of the Medium Term Financial Plan refresh to ensure that they are still required; uncommitted funds may need to be used to fund pressures elsewhere;
  - any revenue budget where there has been a significant underspend for two or more years will be reviewed with a view to reallocating funds;
  - the Investment Strategy will be reviewed regularly to ensure an ongoing need for allocated funding with a view to reallocating funds which are not required;
  - any new schemes for approval within the Investment Strategy must be firstly approved by the Council's Corporate Management Team; and
  - a consistent framework for budgeting for staff costs will be implemented.

### ***Budget Assumptions***

36. The following budget assumptions have been applied:

### *Pay awards and inflation*

37. Agreement has recently been reached between the National Employers and the NJC Trade Unions as to a 2.75% pay award for 2020/21 only across the board for Local Government Services employees effective from 1 April 2020. Previously only a 2% pay award had been assumed in the MTFP, and provision has now been made in this updated MTFP for the estimated effect of the increased pay award.
38. In the Spending Review 2020 the Government announced a public sector pay freeze, however this is not legally binding on local government and local government has responsibility for making its own decisions on staff pay. There is a high level of uncertainty around local government pay awards in future years, and therefore currently for prudence purposes approximately £1.8 million has currently been provided in a central pay and prices provision for the potential effect of the pay award in 2021/22.
39. In addition to the allocation for the potential effect of the pay award in 2021/22 an allocation of approximately £1.0 million has been made to the central pay and prices provision for 2021/22 (and 2022/23 and 2023/24) to guard against unexpected demand or price pressures that may arise in year. This is required to replenish the budget due to a number of calls on the provision during previous years. Also the Local Government Employers Pay Award effective from April 2021 has not yet been agreed (as mentioned in paragraph 38) and any increase above that assumed will create a draw on this provision. This provision will be closely monitored throughout 2021/22 and will be re-evaluated in future refreshes of the MTFP.
40. Contractual inflation at a total cost of approximately £1.4 million has been assumed for 2021/22. No provision has been made for inflation for supplies and services; it is expected that any inflationary pressures in this area will be met from efficiency savings.
41. Income from fees and charges has been assumed to increase on average by 2.5% in 2021/22 producing an estimated total income of approximately £1.2 million in 2021/22. There is no increase assumed for car parking charges and statutory charges in 2021/22. In light of Covid-19 all income will be closely monitored for performance against income targets and reviewed as necessary.
42. Provision of £1.1 million has been made in 2021/22 for the impact of the increase in the National Living Wage on the costs of adult social care services commissioned by the Council.

### *Demand pressures*

43. As reported previously, in line with national trends Children's Social Care continues to be an area of financial pressure to the Council. The costs of these pressures in respect of increased level of need in relation to children in care and the increase in the cost of providing care is constantly being monitored.
44. Whilst the local government finance settlement provided additional funding for Social Care there is still a significant risk of additional demand and systems pressures in Children's Services and that in the event of this, sufficient additional Government

funding is not provided to mitigate this. Along with funding uncertainty, the continued pressure of demands on Children's Social Care is the most significant financial risk to the Council.

45. In light of the continuation of the Social Care Grant the level of funding allocated to Children's Care and Adult Social Care is to be maintained at 2020/21 levels with £3.5 million of the grant being allocated to Children's Social Care and £1 million to Adult Social Care in 2021/22.
46. In addition, it should be noted that £2.913 million was transferred to Children's Social Care from the central ongoing demand pressures budget following approval by Executive on 24 November 2020 of the virement contained within the Revenue and Capital Budget - Projected Outturn position as at Quarter Two 2020/21 report. £322,000 of funding is remaining in the central ongoing demand pressures budget.
47. As mentioned in the budget report to Council of 26 February 2020, a separate contingency budget of approximately £1.6 million has been provided in 2021/22 specifically for costs arising from the delivery of the Ofsted improvement plan, and the costs will be drawn down against this budget for this purpose, as and when they are incurred.
48. Provision has been made in the MTFP from 2021/22 for the following service demand pressures which have been identified :
  - £79,000 for income budgets within the Strategic Information and Governance Service within Legal & Governance Services which are now unachievable
  - £138,000 arising from the Locality Working model approved by Executive in September 2020
  - £250,000 for staffing pressures within Legal Services arising from an increase in work relating to child care cases and other legal work
  - £21,000 for an increase in the Members Allowances budget in line with the previous recommendations of the Independent Panel on Members Remuneration

#### *Reduced Spending Pressures*

49. As reported in the quarterly budget monitoring reports to Executive during 2020/21 there is an estimated net saving of £500,000 per annum in the budget requirement for long term residential care due to lower demand. This has been built into the MTFP from 2021/22. This will be reviewed throughout 2021/22 with any changes required to this estimated amount being incorporated in future versions of the MTFP.

#### *Covid-19*

50. As reported previously the Covid-19 pandemic is having a significant impact on the financial position on all local authorities, including Middlesbrough. Whilst as mentioned in paragraph 32 the Government has provided funding in 2021/22 for the potential effects of the Covid-19 pandemic in 2021/22 it has been recognised that there remains a potential continuing effect of Covid-19 and recovery in 2021/22 above the funding provided by the Government and for prudence purposes it is still

proposed to provide a central contingency budget of £3 million in 2021/22 only for this. This will be further reviewed throughout 2021/22.

51. There is also a major risk to the Council's finances that the future economic climate caused by Covid-19 continues to adversely affect the Council's finances, in particular the Council Tax and Business Rates Bases and the corresponding income received by the Council over the MTFP period, and that this is not compensated for by additional Government grant funding. Accounting regulations on the Collection Fund mean that this should not affect the Council's finances until 2022/23 and an amount of £1.3 million has been provided in 2022/23 for the potential financial effect of this. This will be closely monitored and updates will be provided in future reports.

#### *Other Changes*

52. Additional rental income is estimated to be received in 2021/22 from developments that the Council has made in the town, with additional income of £311,000 being assumed from the Centre Square buildings, and £396,000 from Tees Advanced Manufacturing Park (TeesAMP). A total of a further £282,000 income from TeesAMP is assumed in 2022/23.
53. Additional revenue provision of £500,000 per annum has been made in respect of the Council's agreed Investment Strategy. This will enable the Council to invest in its own assets and provide for adequate maintenance of assets in order to ensure that they remain fit for purpose in the future. It will also allow for delayed / reduced capital receipts arising mainly from the effects of Covid-19. The Capital Financing budget will be closely monitored throughout 2021/22 and any required changes will be reflected in future refreshes of the MTFP.
54. Revenue funding of £260,000 has been provided from 2021/22 for the future delivery model for Youth Services following approval by Executive on 14 July 2020. The funding for this investment was provided from savings achieved following a review of the Council's senior management.

#### ***Budget Savings***

55. As mentioned in paragraph 9 planned budget savings for 2021/22 totalling £1.568m were proposed as part of the budget report to Council in February 2020 and are already assumed in the MTFP. A large proportion of the planned budget savings approved in previous years did not require further public consultation, as they were considered to have minimal or no effect on front line service delivery levels, and are in delivery or have been fulfilled. However, a number of the previously planned budget savings for 2021/22 required further consultation during 2020/21 and details are provided in the paragraphs below.
56. The major planned budget saving proposed which required further consultation was the proposal to move to fortnightly Waste Collections estimated to achieve a budget saving of £396,000. As mentioned in paragraph 11 following a period of public consultation, this saving will not now be adopted in 2021/22.
57. Also as detailed in the report to Council in December 2020 after consideration of the planned budget saving previously approved relating to "Review of Area Care

activities” it was deemed that this would no longer be achievable due to the significant effect the planned budget saving would have on service delivery levels. It is therefore proposed that the budget saving of £186,000 is replaced with two alternative savings within Environment & Community Services relating to a £100,000 saving on the Premises Running costs budget due to savings on energy costs and internal rates charges, and a £86,000 saving within the Streetlighting budget from efficiencies achieved following the maintenance contract being returned in-house. Following evaluation of these two alternative savings it was considered that they will have minimal or no effect on front line service delivery levels and therefore required no further consultation.

58. The revised MTFP includes provision totalling £839,000 for a number of previously planned budget savings for 2020/21 and 2021/22 which have been removed from the MTFP as they are no longer deemed fully or partly achievable for a number of reasons. These are summarised in the table below :

*Savings proposals removed or partly removed*

Directorate	Ref	Proposal:	£'000s
<b>2020/21 UNACHIEVABLE PLANNED SAVINGS</b>			
Environment and Community Services	ECS 19	Reduction in operational costs of fleet vehicles in line with planned efficiencies in services across the authority	86
Environment and Community Services	REG 06	Review of Transporter Bridge operational arrangements	40
Finance	CCC 09	Increase advertising income from Love Middlesbrough to ensure self-sufficiency	9
Public Health and Public Protection	PHPP 08	Reduced partnership contributions, decommissioning of small contracts, maintaining existing vacancies and identification of alternative funding sources (part of total saving unachieved)	100
Legal and Governance Services	DIG various	Various Digital savings	256
Regeneration	Invest to Save	Housing Delivery Vehicle	90
Public Health and Public Protection	Invest to Save	The Live Well Centre expansion	93
<b>TOTAL 2020/21</b>			<b>674</b>
<b>2021/22 UNACHIEVABLE PLANNED SAVINGS</b>			
Environment and Community Services	ECS 19	Reduction in operational costs of fleet vehicles in line with planned efficiencies in services across the authority	66
Finance	CCC 09	Increase advertising income from Love Middlesbrough to ensure self-sufficiency	9
Regeneration	Invest to Save	Housing Delivery Vehicle	90
<b>TOTAL 2021/22</b>			<b>165</b>

59. As reported in the quarterly budget monitoring reports throughout 2020/21 there are a number of budget savings which have been previously approved which were likely to be unachievable in 2020/21 due to Covid-19. One such saving is “FGS15 - Reduction in staff mileage rates from 60p to 45p”. During 2020/21 this saving was mitigated by savings arising from reduced mileage undertaken by staff as a result of Covid-19, as staff were using alternative methods to undertake their work during the Covid-19 pandemic. Due to the new ways of working and the lessons learnt the Council will review the method of achieving this saving, and in the meantime in 2021/22 this saving will again be mitigated by savings from reduced mileage undertaken by staff. A further report will be brought to Executive during 2021/22 regarding this saving.
60. The additional budget efficiency savings proposed for 2021/22 were outlined in the report to Council on 16 December 2020. As detailed in paragraph 12 of this report it was determined that all of the proposed additional budget efficiency savings were

considered to have minimal or no effect on front line service delivery levels and that they required no, or no further public consultation or impact assessment prior to consideration by Full Council and are therefore included as part of the 2021/22 revenue budget for implementation in 2021/22.

61. The recommended budget savings for 2021/22 are summarised below :
- £1.568 million in relation to ongoing efficiencies/budget savings for 2021/22 that were previously approved by Council in February 2020
  - Less £0.396 million relating to the removal of the Fortnightly Waste Collection saving
  - Less £0.674 million due to unachievable previously planned budget savings for 2020/21
  - Less £0.165 million due to unachievable previously planned budget savings for 2021/22
  - £0.057 million additional saving from an ERVR previously agreed in 2020/21
  - £1.931 million in relation to additional budget efficiency savings that required no further consultation (Appendix 1)

### ***Adequacy of Financial Reserves***

62. The Council is required to maintain an appropriate level of reserves and balances. Whilst current guidance is not prescriptive, all Local Authorities are required, when reviewing their Medium Term Financial Plan to consider the establishment and maintenance of reserves.
63. Proper consideration has to be given to: -
- working balances to help cushion the impact of uneven cash flows and to avoid unnecessary temporary borrowing;
  - general fund reserves to provide a contingency for the impact of unexpected events or emergencies; and
  - specific earmarked reserves to meet known or predicted liabilities.
64. The Director of Finance has reviewed the proposed level of balances held in the General Fund Reserve and advised that he considers it is appropriate to increase the minimum level to £11 million in 2021/22 (and future years). This advice is based on an assessment of financial risks against criteria set out by the Chartered Institute of Public Finance and Accountancy and the extent to which specific provisions are available to meet known and expected liabilities.
65. The main high level factors affecting this assessment are the degree of uncertainty in the financial and economic climate for local government, notably the ongoing impact of the Covid-19 pandemic; future introduction of a new funding formula; the potential impact of Brexit; the continued potential for increased demand and costs in Children's and Adults Social Care; and the reduction in the level of specific reserves and provisions over previous years. The calculation of the £11 million level is made by using the mid-point of the following factors:

- Inflation: to provide for an increase of 1%-2% above that currently provided equating to £1.8m to £3.6m.
- Demand-led pressures (mainly Adults and Children's Social Care): to provide for a realistic upturn in demand £2m to £4m
- Efficiency savings: provide for non-achievement of 5-15% given no more “low hanging fruit” equating to £0.1m to £0.3m.
- Local Government Finances: uncertainty post-2021 around Government funding and business rates reform equating to £0.8m to £2m.
- General Economic Climate: mainly the effect on Business Rates & Council Tax Income equating to £1m to £2.5m
- Covid-19 continuing effect: expenditure and income shortfalls continuing and lack of Government funding equating to £1m to £3m

66. The current estimated level of the General Fund Reserve at the end of 31 March 2021 is £12.278 million as reported in the Revenue and Capital Budget – Projected Outturn position as at Quarter Three 2020/21 report to this Executive.

67. The level of balance in all reserves available to the Council may be affected by any change in the current projected overspend for 2020/21. The total projected overspend for 2020/21 of £2.796 million as at the end of Quarter Three is detailed in a separate report to this Executive. As stated in that report the level of overspend reported as at Quarter Three (including the estimated costs of the Covid-19 pandemic) can be covered on a one-off basis by the Council's overall reserves in 2020/21, but if this continues it is a significant risk to the Council's financial position in the longer term.

68. The appropriate level of reserves for 2022/23 onwards will need reconsidering in light of financial performance in 2021/22, the ongoing effect of Covid-19, and the outcome of the expected Spending Review in Autumn 2021.

69. The Council intends to allocate an additional £0.2 million in 2021/22 to its Change Fund in order to support transformational activity. It is estimated that only a negligible amount will be remaining within the Change Fund by 2022, in light of the need to invest in projects in the meantime.

70. The Director of Finance has confirmed that the budget calculations for 2021/22 are robust in that;

- proper medium term budget planning and monitoring processes are in place and maintained which ensure that known commitments are provided for and budgets are set in real terms with the effect on service delivery clearly identified;
- appropriate provisions are made within the budget for pay and inflation;
- a prudent view of the net costs of the Council's overall cash flow and prudential borrowing is taken;
- an analysis of financial risks affecting the budget are completed; and
- appropriate consideration is given to the level of Council Tax and external funding available to the Council.

## ***Determination of Council Tax***

71. A number of factors have been considered in respect of the level of Council Tax increase including our current level of Council Tax, minimising the effect of Council Tax increases to residents, the current levels of inflation, pressures from caring for our vulnerable people, the level of budget reductions required, and the medium to long term implications of the Local Government Finance Settlement 2021/22.
72. In the Final Local Government Finance Settlement published on 4 February 2021 the Government confirmed that Councils would be able to increase the core element of Council Tax by up to 2% in 2021/22 without the requirement to hold a referendum, and also confirmed that the level of funding available to Councils assumed a Council Tax increase at this rate. The Executive is proposing a 1.99% increase in the core element of Council Tax in 2021/22.
73. The Local Government Finance Settlement also confirmed the continuation of the Adult Social Care Precept at 3%, which can be split over 2021/22 and 2022/23. This has allowed Councils with Adult Social Care responsibility to increase their Council Tax by a set amount to help pay for the increased costs of Adult Social Care. In recognising of the effect of a potential 3% increase in Council Tax on Council Tax payers within Middlesbrough, the Executive is proposing to increase Council Tax for the Adult Social Care Precept by 0.76% in 2021/22, which will generate approximately £450,000 of resources in 2021/22 to support our most vulnerable adults through a series of preventative and early help initiatives.
74. Local authorities can therefore potentially increase their Council Tax by a total of up to 5% in 2021/22, without the requirement for a referendum.
75. In determining the level of Council Tax increase consideration should be given in relation to the impact on the local Council Tax payer. In essence the Government's proposal is to pass on the liability to the local taxpayer, rather than a national distribution of resources to meet what is an agreed national priority. Authorities such as Middlesbrough with a significant proportion of vulnerable Council Tax payers and a lower Council Tax Base as a result of lower property values are disadvantaged by this approach, as each percentage increase in Council Tax will raise less than more affluent areas with a greater proportion of higher banded properties.
76. This has meant that the effect of the above means that it is proposed and assumed that for 2021/22 Council Tax will increase by 2.75% on the Middlesbrough Council only element of the Council Tax (excluding Fire and Police and Parish precepts).
77. Since 2013/14 the Council's Housing Growth Strategy has delivered an increase in the Council Tax Base of 4,313 Band D Equivalent properties, an increase in Middlesbrough Council's Tax Base of 14.3%. The cumulative effect is £7.6 million per annum and reduces the need to make further annual savings within Council services by this amount.
78. The Council is required to set a budget for 2021/22. 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 2021/22.



79. The Budget requirement for 2021/22 is estimated to be £116.492 million as detailed in Appendix 2.
80. The basic (Band D) Council Tax for Middlesbrough as a whole is calculated as follows:

	£	£
Budget Requirement		116,492,035
Less:		
Revenue Support Grant	12,220,903	
Top up Payment	27,299,015	
Local Share of NNDR	17,592,625	
		57,112,543
Net Requirements		59,379,492
Estimated Collection Fund Deficit 2020/21		1,232,000
	(a)	60,611,492
Taxbase	(b)	34,484
Basic Council Tax	(a) / (b)	1,757.67

The basic amount is now relevant only for statistical purposes, but must still be calculated by law. It represents the average tax paid across the Council area, including parish precepts.

81. The table at paragraph 80 relates only to Middlesbrough Council's element of the Council Tax and excludes Cleveland Police and Crime Commissioner and Cleveland Fire Authority precepts.
82. The level of Council Tax associated with the budget requirement represents a general 1.99% increase in Council Tax and an additional 0.76% increase in the Adult Social Care Precept. In total this represents a 2.75% increase for Middlesbrough Council's element of the Council Tax for those areas without precepts.
83. The calculation of the actual Council Tax (Band D) for parish and non-parish areas (Middlesbrough Council only element) is as follows:-

a) Areas other than Nunthorpe and Stainton & Thornton:-

	£	£
Basic Amount as above:		1,757.67
Less : Parish Precepts	19,401	
Divided by Tax Base	34,484	
Equals		0.56
<b>Band D Tax</b>		<b>1,757.11</b>

b) Nunthorpe:-

	£	£
Add: Parish Precept	9,272	
Divided by Tax Base	2,157	
Equals		4.30
<b>Band D Tax</b>		<b>1,761.41</b>

c) Stainton & Thornton:-

	£	£
Add: Parish Precept	10,129	
Divided by Tax Base	1,088	
Equals		9.31
<b>Band D Tax</b>		<b>1,766.42</b>

84. Tax levels for all bands are set in varying proportions to the band D level, and are set out in table 1 of Appendix 4.
85. The effect of the proposed Council Tax increase to 2.75% in 2021/22 on the Middlesbrough Council only element of the Council Tax (excluding Fire, Police and Parish precepts) for Band A and Band D properties is shown in the table below:

Band	2.75% increase	
	Annual (£)	Weekly (£)
A	31.32	0.60
D	46.98	0.90

86. Cleveland Fire Authority has set a precept for Middlesbrough of £2,770,100 (subject to formal approval). The Council Tax levels for 2021/22 are set out in table 2 of Appendix 4 (subject to formal approval).
87. Cleveland Police and Crime Commissioner has set a precept of £9,163,433 and Council Tax levels for 2021/22 are set out in table 3 of Appendix 4.
88. The 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 4 of Appendix 4.
89. The overall impact on the band D Council Tax is as follows:-

Middlesbrough Council	2.75%
Cleveland Police and Crime Commissioner	1.99%
Cleveland Fire Authority	1.90% (TBC)
Overall Increase	2.62%

## Medium-Term Financial Plan to 2024

90. The Priorities of the Elected Mayor of Middlesbrough and Strategic Plan 2020-2023 report to Council on 15 January 2020 set out what the Council was aiming to prioritise over the next three years. The “Refreshing the Strategic Plan for the 2021-2024 period” report which was presented to Executive on 24 November 2020 endorsed revisions to the Council’s strategic priorities, with the revised priorities being as follows:

- children and young people;
- vulnerability;
- crime and anti-social behaviour;
- climate change;
- Covid-19 recovery;
- physical environment;
- town centre;
- culture; and
- quality of service.

91. The Council maintains a Medium-Term Financial Plan (MTFP) that:

- accurately analyses the current financial climate and the medium-term horizon, including the range of spending pressures facing the Council;
- addresses the budget savings requirements; and
- focuses investment on growing the town’s economic base to improve local prosperity, and secure a robust and independent income stream to fund the Council’s services.

92. The following table summarises anticipated changes to the Council’s financial position in the period of the current medium term financial plan to 2023/24:

	2021/22 £ms	2022/23 (Indicative) £ms	2023/24 (Indicative) £ms	Total £ms
Spending pressures	10.038	(3.633)	4.966	11.371
Government funding changes	(8.383)	6.132	0.081	(2.170)
Local funding increases	(0.029)	(1.906)	(1.944)	(3.880)
<b>Budget gap</b>	<b>1.626</b>	<b>0.593</b>	<b>3.103</b>	<b>5.322</b>
Savings - Previously Approved	(1.568)	0.000	0.000	(1.568)
less removal of Fortnightly Waste Collection Saving	0.396	0.000	0.000	0.396
less Unachievable previously planned budget savings	0.839	0.000	0.000	0.839
Savings - from 2020/21 ERVR	(0.057)	0.000	0.000	(0.057)
Additional Budget Efficiency Savings	(1.931)	0.000	0.000	(1.931)
Transfer to / (from) reserves	0.695	(0.593)	0.000	0.102
<b>In-year budget position</b>	<b>0.000</b>	<b>0.000</b>	<b>3.103</b>	<b>3.103</b>

93. It should be noted in the table above that the Government Funding Changes line includes a total of £8.271 million of Covid-19 grants and £285,000 of Lower Tier Services Grant which are to be received in 2021/22 only. These have been matched with expenditure in the Spending Pressures line.
94. The above table demonstrates that the Council has considered the issues strategically and has a deliverable plan to ensure the Council's financial sustainability, and also ensures that reserves are maintained at appropriate levels. However, it should be noted that there is less certainty in the indicative figures for 2022/23 and 2023/24 than there is for the 2021/22 figures, due mainly to ongoing uncertainty regarding the future funding model for local government. The approximate £3.1 million budget gap in 2023/24 is only indicative and at this stage no additional budget savings are proposed to cover the budget gap in 2023/24. This will be reviewed in light of Covid-19, the "fair funding review", and other information received, and the budget gap for 2023/24 will be updated in future MTFP updates over the next year.
95. Through the Council's Investment Strategy the MTFP focuses on investment and efficiency, and creating growth in Council Tax, Business Rates and income from commercial activity, and aims to minimise service-level and job reductions over this period.
96. The following assumptions have been applied in refreshing the Council's MTFP:

***National Context***

97. It is likely that financial resilience will become one of the key components of external audit work in future years, and CIPFA has recently produced a draft financial resilience index for local authorities.
98. According to figures from the National Audit Office that were produced a couple of years ago, the impact on spending power has been felt most acutely in local authorities such as Middlesbrough with relatively high levels of deprivation. While Middlesbrough has faced a 36% decrease in overall spending power since 2010, the national average is 29% and some authorities have seen lower reductions, for example Wokingham has reduced by only 16%. The decrease in Middlesbrough Council's overall spending power would be higher than 36% if the Council had not achieved significant Housing Growth and increased Council Tax.
99. As mentioned previously the Covid-19 pandemic is having a significant impact on the financial position of all local authorities, including Middlesbrough, and there remains a risk in the future that this will have a significant financial effect on the Council in future years and that adequate Government funding will not be provided to cover the effect of this. This creates a level of uncertainty.
100. The potential impact of Brexit on the local economy also remains an issue for the Council's strategic objectives.

## Government funding changes

101. As part of the Spending Round and subsequent local government finance settlement the Government announced that the potential re-set of business rates retention of 75% (from the current 50%), and the introduction of a new “fair funding” formula for local government at 2020 would be delayed again until at the very earliest 2022/23. The key for Middlesbrough, as with other local authorities, will be the detail of the new systems and in how the new formulae are derived. The extent to which deprivation is recognised as a key cost driver for service need, in particular for adults and children’s social care and public health, will be vital. There is a risk that Middlesbrough sees further reductions in funding both in real terms and in relation to other local authorities. At this stage, in the absence of any detailed information from the Government it has been assumed that any changes to the funding formula and business rate retention will not result in a further reduction in general Government funding for the Council, in the form of Revenue Support Grant and Business Rates Top Up Grant for 2022/23 and 2023/24. However, in order to be prudent and following recent exemplifications produced by the Local Government Association as to the potential effect of the proposed new Adult Social Care funding formula, provision of £1.4 million has been made from 2022/23 for any potential impacts of this. This will be reviewed as and when further information is received during 2021.
102. Notwithstanding these high levels of uncertainty, the Council’s budgetary assumptions are based on the most up to date reliable information, and the predicted Government funding changes are set out below. In this report the impact for 2022/23 and 2023/24 has been estimated, but these figures are necessarily less robust than the figures for 2021/22.

Funding Stream	2021/22 £ms	2022/23 (Indicative) £ms	2023/24 (Indicative) £ms
Revenue Support Grant	12.221	12.221	12.221
Business Rates Top Up	27.299	27.299	27.299
New Homes Bonus	0.249	0.081	0.000
Housing Benefit & Council Tax Subsidy Admin. Grant	0.997	0.997	0.997
Public Health Grant	16.774	16.774	16.774
Improved Better Care Fund	8.392	8.392	8.392
S31 Grant for Business Rates Compensation for Reliefs	4.151	4.151	4.151
Social Care Grant	6.339	6.339	6.339
2021/22 New Lower Tier Services Grant (for 21/22 only)	0.285	0.000	0.000
2021/22 Covid Support General Grant (for 21/22 only)	5.310	0.000	0.000
2021/22 Covid Council Tax Support Grant	0.864	0.864	0.864
2021/22 Covid Local Tax Income Guarantee Grant (for 21/22 only)	0.369	0.000	0.000
<b>Total:</b>	<b>83.249</b>	<b>77.117</b>	<b>77.036</b>

### ***Local funding increases***

103. Local funding has been assumed to increase during the same period:

<b>Funding Stream</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>£ms</b>	<b>(Indicative)</b>	<b>(Indicative)</b>
		<b>£ms</b>	<b>£ms</b>
Council Tax : Core (includes Housing Growth)	55.071	56.977	58.922
Council Tax : Adult Social Care Precept	5.541	5.541	5.541
Local Share of Business Rates	17.593	17.593	17.593
Collection Fund Surplus / (Deficit)	(1.232)	(1.232)	(1.232)
<b>Total:</b>	<b>76.973</b>	<b>78.879</b>	<b>80.824</b>

104. While there is a direction of travel towards self-funding for local authorities, as mentioned above there is now increased uncertainty in respect of how and when this will be implemented. This potentially will mean that Government support to local government through the Revenue Support Grant will be reduced, and councils will need to be self-funding, through Council Tax, Business Rates, and other localised sources of income.
105. The Spending Review proposed and the Local Government Finance Settlement confirmed that Councils can increase the core element of Council Tax by up to 2% in 2021/22 without the requirement to hold a referendum. As detailed in paragraph 72 the Executive proposes that it will implement a 1.99% increase in the core element of Council Tax in 2021/22 and also apply a 1.99% increase in both 2022/23 and 2023/24. These assumptions are now reflected in this updated MTFP.
106. As detailed in paragraph 73 the Government announced the continuation of the Adult Social Care Precept and that the Executive is proposing to continue to increase Council Tax for the Adult Social Care Precept by 0.76% in 2021/22 only, which will generate approximately £450,000 of resources in 2021/22 to support our most vulnerable adults through a series of preventative and early help initiatives.
107. The effect of the above means that it is currently proposed and assumed in the MTFP that for 2021/22 Council Tax will increase by a total of 2.75%, and then by 1.99% in each of the years 2022/23 and 2023/24.
108. Housing growth assumptions and the growth in the council tax base have been made on a prudent approach taking into account currently available information. These are reviewed regularly throughout the year jointly by Finance and Regeneration officers based on the latest information available, and these will be reflected in future MTFP updates.

### ***Pay awards and inflation***

109. As detailed in paragraph 38 provision of approximately £1.8 million has been made in 2021/22 for the estimated effect of the Local Government Employers Pay Award effective from 1 April 2021. Currently a similar amount has been provided for 2022/23 and 2023/24.

110. Contractual inflation at a total cost of £4.3 million has been assumed in the MTFP period. No provision has been made for inflation for supplies and services; it is expected that any inflationary pressures in this area will be met from efficiency savings.
111. Income from fees and charges has been assumed to increase on average by 2.5% per annum in 2021/22, and by approximately 1% in 2022/23 and 2023/24. This excludes car parking and statutory charges. It is estimated that this will provide approximately £1.9 million of income to the Council over the MTFP period. As mentioned in paragraph 41 In light of Covid-19 all income will be closely monitored for performance against income targets and reviewed as necessary.

### ***Living Wage***

112. 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. The Government previously announced that it was their intention for the National Living Wage to reach its target of £10.50 by 2024, and based on this assumption approximately £3.4 million has currently been allocated over the MTFP period to cover the increases in costs expected as a result of these pressures.

### ***Demand pressures***

113. As mentioned earlier in the report, both Children's and Adult Social Care demand continues to be identified as a potential risk and will be closely monitored over the Medium Term Financial Plan period.

### ***Other***

114. The Council's Leisure Services Contract with Sport & Leisure Management (SLM) will produce estimated additional income of approximately £450,000 to the Council over the MTFP period. This may be required to be reviewed in future updates of the MTFP due to any potential long term effects of Covid-19 on the provision of services.
115. Additional income of £282,000 is estimated to be received from Tees Advanced Manufacturing Park (TeesAMP) in 2022/23.
116. In addition to the additional revenue provision of £500,000 per annum that has been made in respect of the Council's agreed Investment Strategy as detailed in paragraph 53, there is also a total of £310,000 of additional investment in the Capital Financing budget over the MTFP period.

### ***Use of Reserves and Balances***

117. Over the MTFP period the Council plans to maintain the Council's General Fund balance above the minimum level of £11 million, in line with the Council's current recommended General Fund level as set out in paragraphs 64 and 65 of this report.
118. Over the MTFP period, the Council intends to use the remaining funding from its Change Fund in order to support transformational activity to deliver its Strategic

Plan. It is estimated that only a negligible amount will be remaining in the Change Fund by 2022 in light of the need to invest in projects in the meantime.

### **Contingency**

119. As mentioned in paragraph 51 provision has been made in the MTFP for an amount of £1.3 million for the potential future impact of Covid-19 on Council Tax and Business Rates Bases and the corresponding income received by the Council over the MTFP period This will be closely monitored and updates will be provided in future reports.

### **Investment Strategy**

120. Full Council approved an Investment Strategy for the period 2020-2023 on 26 February 2020. The Executive on 29 September 2020 approved the removal and addition of a number of schemes and a revised Investment Strategy to 2022/23. This has been revised further by Executive at Quarters Two and Quarter Three following quarterly monitoring, in line with its constitutional powers.
121. The following “business as usual” schemes which are essential to the delivery of Council services have been reviewed and it is proposed that the following amounts are added to the Investment Strategy in order to extend these schemes to 2023/24:

<b>Scheme</b>	<b>Amount £</b>
Capitalisation of Major Schemes Salaries	530,000
Purchase of New Vehicles	1,200,000
Capitalisation of Wheeled Bin Replacement	100,000
Capitalisation of Street Furniture	55,000
Capitalisation of Highways Maintenance	575,000
Property Services Building Investment	340,000
Members Small Schemes	60,000
Capitalisation of Street Lighting	468,000
Property Asset Investment Programme	1,200,000
Chronically Sick & Disabled Persons Act	610,000
Capitalisation Of Staying Put Salaries	50,000
ICT - Essential Refresh & Licensing	2,185,000
Derisking Sites	900,000
<b>Total :</b>	<b>8,273,000</b>

122. Following a review of the Investment Strategy the amount included in the Acquisition of Town Centre Properties line has been reduced by £29 million in light of the current review of future Council office accommodation.
123. The updated Investment Strategy is included at Appendix 5 and Executive are requested to endorse the updated Investment Strategy which will be submitted for approval by Full Council on 24 February 2021.



124. The proposed changes to the Investment Strategy are within the Council's overall borrowing limits and prudential indicators required as part of the Prudential Code (as detailed in paragraphs 125 to 136 below).

### **Capital Strategy Report (Prudential indicators, Investment Strategy and Minimum Revenue Provision) & Treasury Management Practices**

125. The Local Government Act 2003 created a new legal framework for capital investment from April 2004 and Local Authorities are now required by law to follow the CIPFA Prudential Code.
126. The key objectives of the Prudential Code are to ensure, within a clear framework, a local authority's capital programme is affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice.
127. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the indicators that must be used, and the factors that must be taken into account to ensure appropriate treasury management. From 2019/2020 the Code set out that these must be presented in the form of a Capital Strategy Report which links the Council's investment strategy with the financial and budgetary implications of these decisions and the overall level of indebtedness.
128. The Prudential Code also introduced guidance regarding the way in which surplus funds are invested and it is a statutory requirement that an Annual Investment Strategy is approved by Council before the start of each financial year.
129. The government has released guidance relating to how local authorities set aside some of their revenues as provision for debt repayment. This requires authorities to prepare an annual statement of their policy on for determining the Minimum Revenue Provision.
130. The fundamental objective in considering the affordability of the Council's capital plans is to ensure that the total capital investment of the authority remains within sustainable limits and, in particular, to consider its impact on the local authority's revenue budget position. Affordability is ultimately determined by a judgement about available resources and one of the Prudential Indicators (% of capital financing costs against the net revenue budget) addresses this explicitly over the medium term financial planning period.
131. In considering the affordability of its capital plans, the Council must consider all of the resources currently available to it and estimated for the future, together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the following two years. The authority is also required to consider known significant variations beyond this timeframe. This requires the maintenance of three-year revenue forecasts and three-year forward estimates of council tax as well as three-year capital expenditure plans. These are rolling scenarios, not fixed for three years.
132. Appendix 6 sets out the proposed capital strategy report (covering the necessary prudential indicators, together with the investment strategy and minimum revenue

provision policy) for Executive to endorse. This report explains the context of the Council's financial plans against the required prudential indicators to assist in drawing conclusions around affordability, sustainability and prudence.

133. There are some large financial commitments in the level of capital expenditure over the next two financial years. Most of these changes (apart from the business as usual capital maintenance spend) are either fully funded by grant and contributions or are invest to save schemes, where income generated from the investment in these assets generates a level of financial return which at least covers any capital financing costs associated. The prudential indicator which demonstrates affordability (capital financing cost as a % of the revenue budget) remains fairly static over the three year period of the MTFP.
134. A change for Members to note that affects both the level of expenditure in the investment strategy and the prudential indicator totals relates to the inclusion of finance leases. In previous years most leases taken out would have been categorised as a rental arrangement and a cost against the revenue budget. However, amendments to the reporting standard that covers this area now means that most leases constitute the 'right to use' or purchase of an asset. The appropriate capital expenditure therefore needs to be included in the capital strategy report funded by external debt. Leases that have a major impact on the prudential indicators for the Council are those for the new buildings in Centre Square plus any properties or equipment that is leased by service directorates going forward.
135. The Director of Finance has reviewed these investment plans and prudential indicators, and is satisfied that the Council is acting in line with legal requirements and the resources available when setting its budget. The authorised limit for external borrowing for the 2021/22 budget will be £315 million. This is an increase of £15 million over that used in 2020/21 and reflects the need for extra flexibility on borrowing to support the Strategic Plan. Many of these priorities require up front capital investment by the Council to create the transformation required to address economic and housing growth.
136. The Chartered Institute of Public Finance & Accountancy has just announced a review of both its Prudential & Treasury Management Codes in response to some concerns on individual local authorities taking advantage of the freedoms given to them under these codes and their budgets and being heavily reliant on commercial investments & income – essentially borrowing to invest. It is expected that these codes will be updated to ensure that these situations do not occur in the future. Section 151 Officers will need to give assurances to both Government and their local authorities that their financial plans do not involve significant exposure to these type of investment for yield projects. The Director of Finance is content that this is not the case for the Council for the 2021/22 financial year and the two subsequent years.

#### **What decision(s) are being asked for?**

137. That the Executive endorses the proposed budget strategy for 2021/22 as set out in paragraphs 35 to 70, and endorses the proposed budget efficiency savings for 2021/22 (Appendices 1).

138. That the Executive endorses the budget requirement for 2021/22 to be set at £116,492,035 as detailed in Appendix 2.
139. Having taken into account the matters set out in Section 32 of the Local Government Act 1992 and the items set out within the report that the Executive endorses that the basic amount of Council Tax (Band D) for 2021/22 be £1,757.67 being a 1.99% increase in general Council Tax and an annual precept of 0.76% for Adult Social Care which has been continued by the Government to contribute towards the shortfall of funding for adult social care. In total this represents an increase of 2.75% in the basic amount of Council Tax for the whole of the Borough.
140. That the Executive endorses the actual amount of Council Tax (Band D) for areas without parish precepts (excluding Fire and Police) be set at £1,757.11.
141. That the Executive endorses the actual amount of Council Tax (Band D) for areas with parish precepts (excluding Fire and Police) be set at :-
- |                              |           |
|------------------------------|-----------|
| Nunthorpe Parish             | £1,761.41 |
| Stainton and Thornton Parish | £1,766.42 |
142. That the Executive endorses the amounts of Council Tax for each category of dwelling be set in accordance with table 4 of Appendix 4 within the report.
143. That the Executive notes the refreshed Medium-Term Financial Plan position for 2021-24 set out in this report in paragraphs 90 to 119.
144. That the Executive endorses the updated Investment Strategy for the period to 2023/24 as outlined in paragraphs 120 to 124 and detailed in Appendix 5.
145. That the Executive endorses the Capital Strategy Report (Prudential indicators, Investment Strategy and Minimum Revenue Provision) 2021/22 as outlined in paragraphs 125 to 136 and detailed in Appendix 6, and endorses the Authorised Limit for external borrowing of £315 million for the Council for 2021/22 as set out in paragraph 135.

**Why is this being recommended?**

146. To enable the Council to meet its statutory responsibility to set a balanced revenue budget for the financial year 2021/22 and to ensure that a proper framework is in place for the medium term financial management of the Council.

**Other potential decisions and why these have not been recommended**

147. Not Applicable.

## **Impact(s) of recommended decision(s)**

### ***Legal***

148. The Council is required under legislation to set a revenue budget and agree the level of Council Tax and prudential indicators for 2021/22.

### ***Financial***

149. This approach set out within the report would allow the Council to meet its legal obligations in relation to budget setting, and meet the challenging financial targets faced in the MTFP period, while ensuring that there is a minimum impact on the level of service delivered to the public.

### ***Policy Framework***

150. The revenue and capital budgets form part of the Council's Policy Framework and as such must be agreed by Full Council.

### ***Equality and Diversity***

151. The Public Sector Equality Duty (PSED) (as set out in the Equality Act 2010) places a statutory duty on the Council in exercising its functions, to have regard to the need to:

- eliminate discrimination, harassment and victimisation;
- advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and
- foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

152. Having due regard to the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:

- remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic;
- take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it; and
- encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

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

154. Additional Budget Efficiency Savings Proposals have been developed which protect frontline services and the town's most vulnerable groups as far as possible. The proposals for the 2021/22 budget were presented as part of the report to Council on 22 December 2020 and were classified against three categories. All the proposed additional budget efficiency savings were considered to have minimal or no effect on front line service delivery levels and therefore required no public consultation or impact assessment prior to consideration by Full Council as part of the 2021/22 revenue budget for implementation in 2021/22, and are therefore included in Appendix 1.
155. An Impact assessment was completed to assess the proposed budget (appended to this report at Appendix 3). It found that there were no concerns that the Council's approach to budget setting could result in a disproportionate adverse impact on groups or individuals because they hold one or more protected characteristics.

### **Risk**

156. The proposed approach will ensure that the Council has adequate governance processes in place (08-054) to ensure it complies with the statutory duties to set a balanced budget (08-055). The MTFP has been reviewed to ensure that the correct assumptions are made to ensure that there is no unforeseen/unmitigated funding gap (08-059) and that a balanced budget can be set for future years.

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

157. If approved by Council on 24 February 2021, the proposals set out in this report will form the basis of the 2021/22 revenue budget of the Council.

### **Appendices**

- Appendix 1: Budget Efficiency Savings proposals that are considered to have minimal, or no effect on front line service delivery levels.
- Appendix 2: Revenue Budget 2021/22
- Appendix 3: Revenue Budget 2021/22 – Impact Assessment (overall)
- Appendix 4: Council Tax Bands 2021/22
- Appendix 5: Updated Investment Strategy to 2023/24
- Appendix 6: Capital Strategy Report (Prudential indicators, Investment Strategy and Minimum Revenue Provision) 2021/22

## Background papers

15/01/20	Council	Priorities of the Elected Mayor of Middlesbrough and Strategic Plan 2020-2023
26/02/20	Council	Revenue Budget, Council Tax, Medium Term Financial Plan and Capital Strategy 2020/21
16/06/20	Executive	Strategic Plan 2020-23 – Progress at Year-end 2019/20
18/08/20	Executive	Revenue and Capital Budget – Projected Outturn position as at Quarter One 2020/21
02/09/20	Council	Revenue and Capital Budget – 2020/21 Quarter One Projected Outturn position and the use of reserves for in year Covid-19 Pressures
29/09/20	Executive	Medium Term Financial Plan Update
24/11/20	Executive	Revenue and Capital Budget – Projected Outturn position as at Quarter Two 2020/21
24/11/20	Executive	Refreshing the Strategic Plan for the 2021-24 period
24/11/20	Executive	Medium Term Financial Plan Update, and Budget Savings Proposals 2021/22
22/12/20	Council	Medium Term Financial Plan Update, and Budget Savings Proposals 2021/22
16/02/21	Executive	Revenue and Capital Budget – Projected Outturn position as at Quarter Three 2020/21

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