

MIDDLESBROUGH COUNCIL	
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Report of:	Andrew Humble - Director of Finance and Transformation (s151 Officer)
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Relevant Executive Member:	Chris Cooke - The Mayor Cllr. Nicky Walker - Executive Member for Finance
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Submitted to:	Executive
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Date:	17 December 2025
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Title:	2026/27 Draft Budget and Medium Term Financial Plan 2026/27 to 2029/30
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Report for:	Decision
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Status:	Public
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Council Plan priority:	All
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Key decision:	No
Why:	The decisions in this report present a draft budget for consultation as part of the budget development process. Final decisions on the 2026/27 budget and MTFP will be taken by Council in February 2026.

Subject to call in?	No
Why:	The decisions in this report present a draft budget for consultation as part of the budget development process. The Executive will subsequently agree a proposed 2026/27 budget and MTFP to 2029/30 that will be presented to Council for approval in February 2026.

Proposed decision(s)	
That the Executive:	
<ul style="list-style-type: none"> NOTES that this report is prepared following initial analysis of the level of Government funding available to Middlesbrough Council from information contained within the Local Government Finance Policy Statement published by the Government on 20 November 2025, however this is before confirmation is received of the Government funding in the Provisional Local Government Finance Settlement which is scheduled to be published in the week commencing 15 December 2025. The figures contained within the report and the budget 	

proposals are therefore subject to further review and change once the detail of the Provisional Local Government Finance Settlement is published.

- **NOTES** the current estimate of the increase in Government funding for Middlesbrough Council resulting from the Government's Fair Funding Review 2.0 totalling £10.653m in 2026/27, £14.485m in 2027/28, and £12.438m in 2028/29 (Table 1), however this is subject to potential significant change before being finalised as part of the Provisional Local Government Finance Settlement.
- **NOTES** the proposed budget for 2026/27 and the updated Medium Term Financial Plan (MTFP) for the period to 2029/30 (Table 3), and the key budget assumptions that it is based on (paragraphs 4.38 to 4.41).
- **NOTES** that there are forecast service demand pressures and re-basing of budgets (including for reduced income levels and legislative requirements) totalling £15.549m for 2026/27 rising to £35.963m in 2029/30 (paragraphs 4.31 to 4.33 and Appendix 1).
- **NOTES** the proposed removal of savings totalling £2.458m p.a. from the MTFP which are now found to be unachievable in the manner originally intended (paragraph 4.36).
- **NOTES** that in light of the current estimates of increased Government funding forecast to be received by Middlesbrough Council the Mayor and Executive have proposed the following :
 - that there is no requirement currently for the Council to make any additional further budget savings in 2026/27 other than those already included in the current MTFP, however work will continue to identify and deliver efficiencies and savings in the future through robust budget monitoring and the Transformation Programme (paragraphs 4.34 and 4.35)
 - no increase in core (general) Council Tax for 2026/27, but an increase in Council Tax for 2026/27 of 2% relating to the Adult Social Care precept to fund increased costs of statutory duties in Adult Social Care (paragraph 4.27)
 - proposed total service budget growth of £6.460m from 2026/27 in order to reinvest in some direct services to the community and provide reinvestment in the resilience of enabling services (detailed in Appendix 3)
 - proposed new capital schemes and additions to current schemes and extension of schemes deemed Business as Usual totalling £16.310m in 2026/27 and rising to £56.173m by 2029/30 (detailed in Appendix 4)
- **NOTES** that the Council's S151 officer recommends that the Council increases the Council Tax each year by the maximum allowed by the Government due to the reasons outlined in paragraphs 4.28. However, whilst not recommended, given the improved financial position and financial resilience of the Council and the improved governance and budget spending controls that exist, and the amount of the estimated increased funding available to the Council it is possible to financially accommodate a political decision for a lower than maximum increase in Council Tax to be proposed for 2026/27 (paragraph 4.29).

- **NOTES** the forecast level of Council reserves over the period of the MTFP from 2026/27 to 2029/30 following the proposed budget, and that the proposed budget and MTFP should not negatively impact reserves levels in the medium term (paragraphs 4.51 to 4.53).
- **APPROVES** that the proposed draft budget and budget proposals for service budget growth and council tax for 2026/27 are presented for public consultation, which will commence on 18 December 2025 and conclude on 11 January 2026, prior to confirmation of Government funding and finalising of the proposed budget by Executive on 4 February 2026 for consideration and approval by Council on 18 February 2026.

Executive summary

The 2025/26 Budget and MTFP report to Council in February 2025 and the quarterly budget monitoring reports to Executive throughout 2025/26 have highlighted a significant improvement in the Council's financial position and financial resilience from that which existed at 2024/25 budget setting, and this has been backed up by improved governance and budgetary control measures being strengthened. However, there still needs to be a continuing focus on the Council's finances in the future.

On 3 September 2025, the Executive received an update on the Medium Term Financial Plan (MTFP) for the period 2026/27 to 2029/30. The report set out the challenging financial and economic environment which the Council, like many local authorities, is operating within and provided an update on the Government's Fair Funding Review 2.0 and the factors impacting on the Council's MTFP.

This report provides a further update on the financial and economic environment which the Council operates in and sets out the draft budget and associated proposals that present a legally balanced budget for 2026/27 and draft budget position for the period of the MTFP from 2027/28 to 2029/30.

The Executive should note that this report is prepared following initial analysis of the level of Government funding available to Middlesbrough Council from information contained within the Local Government Finance Policy Statement published by the Government on 20 November 2025, however it should be noted that this is before confirmation is received of the Government funding in the Provisional Local Government Finance Settlement which is scheduled to be published in the week commencing 15 December 2025. The figures contained within the report and the budget proposals are therefore subject to further review and change once the detail of the Provisional Local Government Finance Settlement is published.

The Executive should note the key assumptions used in developing the draft budget and MTFP and that these are based upon the best information available at the time of writing the report (paragraphs 4.38 to 4.41). These will remain subject to review throughout the budget development and setting period as new information becomes available.

The Executive should note that there are forecast service demand pressures and re-basing of budgets (including for reduced income levels and legislative requirements)

totalling £15.549m for 2026/27 rising to £35.963m in 2029/30 (paragraphs 4.31 to 4.33 and Appendix 1). It is also proposed that savings totalling £2.458m p.a. are removed from the MTFP, which are now found to be unachievable in the manner originally intended (paragraph 4.36).

Latest available analysis at the time of writing the report suggests that sufficient Government funding is currently expected to be received by the Council to enable the Mayor and Executive to propose to reinvest in some direct services to the community and reinvestment in the resilience of enabling services, in order to meet the Mayor's priorities within the Council Plan. The proposals for service budget growth total £6.460m from 2026/27 and are summarised in the table below and detailed in Appendix 3.

Growth Area	£m
Continuing to improve the look and feel of our Town	1.700
Making our town safer	0.650
Improving housing standards	0.300
Improving Play Parks	0.200
Supporting our communities	0.600
Supporting and protecting vulnerable residents	0.870
Childhood Enrichment	0.900
Supporting our carers and foster families	0.110
Supporting Growth and Jobs	0.630
Spending more on culture and events	0.500
Total Proposed Service Budget Growth	6.460

The Mayor and Executive have also proposed that there is no increase in core (general) Council Tax for 2026/27, but a 2% increase in Council Tax in 2026/27 relating to the Adult Social Care precept to reflect the increased costs of the statutory duties required for Adult Social Care (paragraph 4.27).

The report also proposes new capital schemes and additions to current schemes and extension of schemes deemed Business as Usual totalling £16.310m in 2026/27 and rising to £56.173m by 2029/30 (detailed in Appendix 4).

The report recommends that the Executive approve that the budget proposals for service budget growth and the proposed total council tax increase for 2026/27 are presented for public consultation.

The budget proposals will be subject to further review once the detail of the Provisional Local Government Finance Settlement is published (scheduled for the week commencing 15 December 2025).

The final draft 2026/27 budget and MTFP report will be considered by the Executive on 4 February 2026 and recommended to Council for consideration and approval on 18 February 2026. This will include an updated position for the Capital Programme, Capital Strategy, Treasury Management Strategy, and Flexible Use of Capital Receipts Strategy.

The Council's Director of Finance (Section 151 Officer) has a statutory duty to assess the robustness of the budget estimates and the adequacy of reserves in the form of a report under s25 of the Local Government Act 2003. This formal assessment will be provided in the MTFP report to the Executive and Council in February 2026.

1. Purpose of this report and its contribution to the achievement of the Council Plan ambitions

- 1.1 This report is a key stage in the budget development process for 2026/27 and the MTFP for the four year period to 2029/30. It presents budget and council tax proposals that will achieve a legally balanced budget for 2026/27, and a balanced position for 2027/28 to 2028/29 over the period of the Government's Fair Funding Review 2.0. Subject to approval by the Executive, the draft budget will progress to the consultation phase of the budget development process during the period 18 December 2025 to 11 January 2026.
- 1.2 Further work will be required to assess the Council's financial position more fully once the detail of the Government funding for Middlesbrough Council is provided in the Provisional Local Government Finance Settlement, which is planned to be published in the week commencing 15 December 2025.

Our ambitions	Summary of how this report will support delivery of these ambitions and the underpinning aims
A successful and ambitious town	The MTFP underpins the delivery of the Council's vision for Middlesbrough and therefore supports all the ambitions within the Council Plan.
A healthy Place	
Safe and resilient communities	
Delivering best value	The proposed recommendations are consistent with and will promote the achievement of the Council's general legal duty to achieve Best Value in accordance with Section 3 of the Local Government Act 1999 (as amended by s137 of the Local Government & Public Involvement in Health Act 2007). The report provides assurance that the Council has effective corporate governance and financial planning arrangements in place, and that the Council is working towards managing its finances by the development of a balanced budget for 2026/27 and MTFP to 2029/30 for approval by Council in February 2026, whilst also ensuring that resilience and sustainability are not impacted. The forward planning for and setting of a robust budget and balanced MTFP enables the Council to provide and deliver services within its overall corporate and financial planning framework.

2. Recommendations

2.1 That the Executive:

- **NOTES** that this report is prepared following initial analysis of the level of Government funding available to Middlesbrough Council from information contained within the Local Government Finance Policy Statement published by the Government on 20 November 2025, however this is before confirmation is received of the Government funding in the Provisional Local Government Finance Settlement which is scheduled to be published in the week commencing 15 December 2025. The figures contained within the report and the budget proposals

are therefore subject to further review and change once the detail of the Provisional Local Government Finance Settlement is published.

- **NOTES** the current estimate of the increase in Government funding for Middlesbrough Council resulting from the Government's Fair Funding Review 2.0 totalling £10.653m in 2026/27, £14.485m in 2027/28, and £12.438m in 2028/29 (Table 1), however this is subject to potential significant change before being finalised as part of the Provisional Local Government Finance Settlement.
- **NOTES** the proposed budget for 2026/27 and the updated Medium Term Financial Plan (MTFP) for the period to 2029/30 (Table 3), and the key budget assumptions that it is based on (paragraphs 4.38 to 4.41).
- **NOTES** that there are forecast service demand pressures and re-basing of budgets (including for reduced income levels and legislative requirements) totalling £15.549m for 2026/27 rising to £35.963m in 2029/30 (Appendix 1).
- **NOTES** the proposed removal of savings totalling £2.458m p.a. from the MTFP which are now found to be unachievable in the manner originally intended (paragraph 4.36).
- **NOTES** that in light of the current estimates of increased Government funding forecast to be received by Middlesbrough Council the Mayor and Executive have proposed the following :
 - that there is no requirement currently for the Council to make any additional further budget savings in 2026/27 other than those already included in the current MTFP, however work will continue to identify and deliver efficiencies and savings in the future through robust budget monitoring and the Transformation Programme (paragraphs 4.34 and 4.35)
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- **NOTES** that the Council's S151 officer recommends that the Council increases the Council Tax each year by the maximum allowed by the Government due to the reasons outlined in paragraphs 4.28. However, whilst not recommended, given the improved financial position and financial resilience of the Council and the improved governance and budget spending controls that exist, and the amount of the estimated increased funding available to the Council it is possible to financially accommodate a political decision for a lower than maximum increase in Council Tax to be proposed for 2026/27 (paragraph 4.29).

- **NOTES** the forecast level of Council reserves over the period of the MTFP from 2026/27 to 2029/30 following the proposed budget, and that the proposed budget and MTFP should not negatively impact reserves levels in the medium term (paragraphs 4.51 to 4.53).
- **APPROVES** that the proposed draft budget and budget proposals for service budget growth and council tax for 2026/27 are presented for public consultation, which will commence on 18 December 2025 and conclude on 11 January 2026, prior to confirmation of Government funding and finalising of the proposed budget by Executive on 4 February 2026 for consideration and approval by Council on 18 February 2026.

3. Rationale for the recommended decision(s)

- 3.1 The forward planning for and setting of a robust budget and balanced MTFP enables the Council to provide and deliver services within its overall corporate and financial planning framework. The MTFP underpins the delivery of the Council's vision for Middlesbrough to be a thriving, healthier, safer, and more ambitious place where people want to live, work, invest, and visit, and where we will support our residents to live fulfilling lives, to ensure that our communities thrive.
- 3.2 All Council elected members have a legal obligation to agree a balanced robust budget and set the Council Tax by 11 March 2026. In addition, the Council has a Best Value duty to demonstrate financial sustainability through the delivery of a balanced MTFP over a period of at least 3 years. The setting of the budget is part of the budget and policy framework and therefore requires Full Council approval scheduled for 18 February 2026.
- 3.3 The Council is required to take a systematic, coherent, and controlled approach to addressing its ongoing financial challenges over the medium-term, while enabling the delivery of the Mayor's vision and priorities for Middlesbrough through delivery of the wider Council Plan.

4. Background and relevant information

- 4.1 The Council Plan is the Council's overarching business plan for the medium term and is typically refreshed on an annual basis. It sets out the ambitions and priorities of the Elected Mayor of Middlesbrough and the wider priorities that the Council is required to deliver. Executive on 3 December 2025 approved the proposed approach and revisions to refresh the Council Plan as part of its 2026/27 refresh. This included the adoption of an outcome driven approach to the Council Plan and noted that a further report detailing the workplan (including measures and initiatives) will be presented to Executive for approval in February 2026. The proposed service budget growth detailed in Appendix 3 and summarised in Table 4 in paragraph 4.48 are linked to the achievement of the proposed outcomes contained within that report.
- 4.2 The Medium Term Financial Plan (MTFP) is a financial interpretation of the Council Plan and incorporates the annual revenue and spending plans which aim to align to deliver the Council's ambitions.

- 4.3 The 2025/26 Budget and MTFP report to Council in February 2025 and the quarterly budget monitoring reports to Executive throughout 2025/26 have highlighted a significant improvement in the Council's financial position and financial resilience (including increased levels of reserves in the medium term) from that which existed at 2024/25 budget setting. This has been backed up by improved governance existing throughout the Council, and budgetary control measures being strengthened along with quicker and more effective intervention when budgets are overspending (including the requirement for services to produce recovery plans). However, there still needs to be a continuing focus on the Council's finances in the future.
- 4.4 It is therefore essential that the Council develops a robust medium term financial strategy to achieve financial sustainability over the course of its MTFP whilst demonstrating that it is achieving Best Value in its use of resources. It is essential that the 2026/27 budget process achieves the following key objectives:
- Set and deliver a balanced General Fund budget for 2026/27
 - Continue to ensure the Council's financial resilience through the achievement of a balanced MTFP and rebuilding of revenue reserves
 - Further develop and establish programmes and projects that deliver improved outcomes at lower cost whilst meeting the Mayor's priorities within a Council Plan
- 4.5 A report was presented to Executive on 3 September 2025 which provided an update to Executive of the issues affecting the Council's current MTFP at that time, including local government funding, the general economic climate, service demand pressures (in particular within relation to Adults and Children's Social Care), savings now found to be unachievable, Dedicated Schools Grant (DSG), pay awards, and the 2025 Pension Fund triennial valuation. This report provides an update on each of these.
- 4.6 In the September report the Executive also approved the budget development approach and timetable within which Officers would work with the Mayor, Executive and other elected members to develop the 2026/27 budget and MTFP for the four-year period to 2029/30. The report outlined that the budget strategy for 2026/27 and that the updated MTFP would heavily depend on the amount of Government funding which the Council will receive for future years as determined by the Fair Funding Review 2.0 and the Council's allocation of funding from the Local Government Finance Settlement. The report provided information regarding this in September and an update of this is provided in paragraphs 4.9 to 4.17 of this report.
- 4.7 The September report highlighted that initial analysis indicated that the Council was likely to receive additional Government funding from the Fair Funding Review 2.0, and that the proposed approach to determining how any additional funding is allocated would be in the following order:
- 1) Council Tax decisions
 - 2) Demand / inflation pressures
 - 3) Re-basing of budgets
 - 4) Removal of unachievable budget savings
 - 5) Service budget growth in line with Mayoral priorities
- 4.8 Budget proposals arising from the above based on the latest information at the time of drafting this report are included in this report.

Local Government Funding

- 4.9 The September 2025 Executive report provided details of a review of Local Government Funding (known as Fair Funding Review 2.0) for which a consultation ran from 20 June 2025 to 15 August 2025. This was a comprehensive consultation which outlined proposed fundamental reforms to local government funding in England and sought views on the approach to determining new funding allocations for local authorities and fire and rescue authorities. The approach proposed by the Government aims to make the way funding is provided for local authorities fairer and simpler and aims to move funding to authorities who have the greatest need, such as Middlesbrough.
- 4.10 As detailed in the September Executive report the Fair Funding Review 2.0 was a fundamental review of local government finance and involved a number of substantial changes to the formulae for calculating the amount of Government funding to local authorities and also included Council Tax Equalisation plans, a full business rates baseline reset and plans to roll in a number of existing grants into the main Revenue Support Grant (RSG).
- 4.11 The proposed approach is well overdue as authorities such as Middlesbrough have suffered significant cuts in local government funding since 2013, with Middlesbrough suffering 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 reflects 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. 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, and the Social Care grant. Due to the reduced Government funding Middlesbrough Council has had to make cumulative savings of approximately £123m since 2013 in order to balance its budget.
- 4.12 In the consultation the Government did not provide any detailed information as to the effect on individual local authorities, however through collaborative working with other local authorities and sector bodies such as SIGOMA (Special Interest Group of Municipal Authorities) and local government funding specialists Pixel Financial Management (PIXEL) who the Council subscribes to, it was possible through the information provided through the consultation for local authority level 3 year estimates for the period 2026/27 to 2028/29 to be calculated by PIXEL. These indicated that Middlesbrough was likely to obtain substantial additional funding from the proposed new approach, due to a recognition of the needs and demands that Middlesbrough faces in providing services and the fact that Middlesbrough has not received appropriate funding to meet its needs in previous years.
- 4.13 At the time of the September report the Government indicated that they would publish a Local Government Finance Policy Statement 2026/27 to 2028/29 by early October 2025 which would potentially provide some further information before the Government would provide detailed allocations of funding to individual local authorities for the next three years as part of the Provisional Local Government Finance Settlement (LGFS) which was at the time planned to be published in late November 2025.

- 4.14 The Government delayed the Local Government Finance Policy Statement to 20 November 2025 (just before the Budget 2025 which was published on 26 November 2025). The Government have confirmed that the Provisional LGFS will now be published in the week commencing 15 December 2025, and whilst it will cover a 3 year period from 2026/27 to 2028/29 and provide allocations for individual local authorities for 2026/27 to 2028/29 the figures provided for 2027/28 and 2028/29 will only be indicative and could potentially be subject to change next year.
- 4.15 The Policy Statement provided some further information but also involved a number of substantial changes to that previously announced and raised a number of questions regarding the funding allocations to individual local authorities, therefore creating a high degree of uncertainty. The full detail to enable s151 Officers to assess the implications fully will not be published until after the Provisional LGFS. Therefore, the full implications will be factored into the final budget report to be agreed by the Executive and presented to Council for consideration and approval in February 2026.
- 4.16 In the absence of the required detailed final information, this report uses the latest analysis available from PIXEL as at 1/12/25, which at the time of writing this report included initial analysis of information contained within the Local Government Finance Policy Statement, which as mentioned above included a number of substantial changes to the allocations to individual local authorities from that previously estimated by PIXEL. The current working assumption on what the Fair Funding Review 2.0 will deliver for Middlesbrough is shown in Table 1 below. It shows a substantial increase in Government funding over the period 2026/27 to 2028/29. Whilst 2029/30 is included in Table 1 below this was not part of the Fair Funding Review 2.0 and the estimate of Government funding for 2029/30 is heavily caveated and will be subject to further review when further information is available.
- 4.17 The figures in Table 1 below show the current expected increases in Government funding for Middlesbrough Council in the form of Revenue Support Grant (RSG) and Business Rates Top Up Payment. The figures are based on the initial analysis by PIXEL (as at 1/12/25) following the Local Government Finance Policy Statement announcement, and the detailed information contained within the Provisional LGFS will be factored into the final budget and MTFP presented to Council for consideration and approval in February 2026.

Table 1 – Current estimated increases in Government Funding for Middlesbrough Council from Fair Funding 2.0 review (following initial analysis of the Local Government Finance Policy Statement but before confirmation in the Local Government Finance Settlement)

	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	TOTAL £m
Current estimated increase in Government Funding from Fair Funding 2.0 review	(10.653)	(14.485)	(12.438)	(2.661)	(40.237)

It should be noted that as well as the above Government funding, other funding will be provided by the Government to the Council in the form of specific grants. As mentioned above in paragraph 4.10 the Government plans to roll in a number of existing grants into the RSG, however there is still a high level of uncertainty regarding which grants are to be rolled in and also the level of grants for 2026/27 onwards. The Provisional LGFS should confirm this.

National economic climate update

- 4.18 The following paragraphs provide an overview of the general economic climate and main factors that currently exist. Further detail was provided in the separate Treasury Management Mid-Year Update 2025/26 to Executive on 3 December 2025.
- 4.19 The UK economy is experiencing slow growth, with a 0.1% Gross Domestic Product (GDP) increase in the three months to September 2025, following a stronger first quarter of 2025. The growth is led by the services and construction sectors, while production declined. Growth is expected to be subdued for the rest of 2025.
- 4.20 While inflation has stabilised it remains high with the Consumer Price Index (CPI) being 3.6% in October 2025, exceeding the Government's 2% target and is forecast to rise to around 4% in the coming months before gradually falling in 2026. Higher food prices continue to be a significant factor in the current inflation figures.
- 4.21 Whilst retail sales have showed some growth recently, consumer confidence remains low. Household debt has fallen and as a percentage of disposable income is at its lowest level since 2007, but many households are still struggling financially. The labour market is showing signs of weakening with rising unemployment and falling vacancies, higher employer National Insurance Contributions (NICs) and increases in the National Living Wage (NLW) as factors discouraging hiring. Sectors like retail and hospitality have been hit particularly hard. House prices are also increasing.
- 4.22 The above factors alongside rising government debt payments putting pressure on Government budgets mean that the environment that local authorities operate in remains challenging.

Council Tax Income

- 4.23 Council Tax income has increased as a proportion of total income over the last 10 years as the level of RSG has reduced. This presents a particular financial challenge for Middlesbrough Council given it has a particularly low Council Tax base with 49.7% of dwellings in Band A, 17.4% in Band B, and 17.5% in Band C. This is a higher proportion than the national Band A to C percentage and means that a greater proportion of our residents pay a Band A to C than comparable Councils. This means that a higher rate of Council Tax is needed to raise the same income yield compared with many other Councils. Every 1% of Council Tax raises approximately £0.750m per year.
- 4.24 Middlesbrough Council with a Band D Council Tax of £2,074.34 in 2025/26 was in the upper quartile (highest) for all single tier authorities and has a Band D Council Tax more than double that for Westminster Council. However due to the fact that approximately 85% of Middlesbrough households are in Band A to C and pay less than the Band D Council Tax it was in the lower quartile for Average Council Tax per dwelling at £1,437 in 2025/26 against the national average of £1,770, and was the lowest in the Tees Valley. There are significant anomalies in the current Council Tax system which result in extreme variances in council tax levels both regionally and nationally.

- 4.25 Over time, local authorities have become increasingly reliant on locally generated revenue from Council Tax, but the ability to raise Council Tax has not been fully accounted for when allocating funding. Within the Fair Funding Review 2.0 the Government has attempted to act as an equaliser for local government income, directing funding towards the places that are less able to meet their needs through locally raised income. This is demonstrated by the level of Government funding estimated to be received by Middlesbrough Council as shown in Table 1.
- 4.26 In the Fair Funding Review 2.0 and the Local Government Finance Policy Statement the Government confirmed their intention that the maximum permissible Council Tax increase without the need for a referendum would remain at 4.99% (which includes a 2.99% increase in the core (general) Council tax and the continuation of the 2% Adult Social Care precept). The Government will assume 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.
- 4.27 The Mayor and Executive are however in light of the increased estimated Government funding proposing that the maximum permissible Council Tax increase of 4.99% is not adopted in 2026/27. Instead the Mayor and Executive are proposing that there is no increase in core (general) Council Tax for 2026/27, but are proposing that the Council Tax is only increased for the 2% Adult Social Care Precept for 2026/27 in order to fund the increased costs of statutory duties within Adult Social Care. This will financially help residents and also help to continue the aims of the Fair Funding Review 2.0 in equalising Council Tax and lessen the gap that currently exists. This decision will be reviewed when the Provisional LGFS is published and a further review of the Council's MTFP is undertaken. Decisions on future years Council Tax increases will be confirmed at a later date when more certainty is available on Government funding over the medium term.
- 4.28 The Council's s151 Officer would recommend that the Council increases the Council Tax each year by the maximum allowed by the Government, due to the fact that the Government will assume that the maximum permissible increase of 4.99% is applied, and will use this in their calculations of Government funding to the Council and also in any potential future evaluation of the Council's finances. It should be noted that the lost income arising from any increase in Council Tax below the maximum allowed will be permanently lost forever in future years. If a 2% increase in Council Tax is applied in 2026/27 this will mean that approximately £2.250m p.a. of Council Tax income is lost in 2026/27 and each year in the future. This means that approximately £9m of Council Tax income is permanently lost forever to the Council over the period of the MTFP from 2026/27 to 2029/30.
- 4.29 However, whilst not recommended, given the improved financial position and financial resilience of the Council and the improved governance and budget spending controls that exist (as mentioned in paragraph 4.3), and the amount of the estimated increased funding available to the Council it is possible to financially accommodate a political decision for a lower than maximum increase in Council Tax to be proposed for 2026/27.

- 4.30 The budget consultation requests views from the public relating to the proposed level of Council Tax increase.

Forecast Service Demand Pressures and Re-basing of Budgets

- 4.31 As reported in the September 2025 report to Executive and quarterly budget monitoring reporting there are a number of existing service demand/inflation pressures that are continuing and further financial pressures are emerging. There are also a number of budgets that require re-basing due to other reasons such as re-evaluating achievable income levels against current budgets and changes to services required due to legislative changes. These have been reviewed in light of 2025/26 financial performance and further information regarding future demand and forecasts.
- 4.32 Table 2 below summarises the updated current and future Forecast Service Demand Pressures and Re-basing of Budgets across the MTFP period with Appendix 1 providing further details. These form a significant driver of cost with the MTFP, with a total of £15.549m in 2026/27 rising to £35.963m in 2029/30, and these will be constantly monitored and challenged and updated in future revisions of the MTFP where appropriate when further information is available. Within each year of the MTFP any significant changes to service demand or other budget pressures during the year will initially be covered by the use of reserves set aside for this purpose, prior to potential amendment of budgets at budget setting if after full evaluation they are deemed to be recurring.

Table 2 – Summary of Forecast Service Demand Pressures and Re-basing of Budgets (including for reduced income levels and legislative requirements)

Directorate	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	Cumulative £m
Regeneration	1.075	(0.075)	-	-	1.000
Public Health	-	0.447	-	-	0.447
Environment & Community Services	3.121	(0.235)	1.589	0.205	4.680
Children's Care	3.084	3.000	3.000	1.500	10.584
Education & Partnerships	0.720	-	-	-	0.720
Adult Social Care	6.782	3.548	3.691	3.733	17.754
Legal & Governance Services	0.635	-	-	-	0.635
Finance	0.132	0.005	0.005	-	0.142
Total	15.549	6.690	8.285	5.438	35.963

- 4.33 Further details of the forecast service demand pressures and re-basing of budgets in the following key areas of service provision are provided below :

- Adult Social Care – a total of £6.782m has been included for 2026/27 rising to £17.754m in 2029/30 mainly for increased demand for services (in particular in residential care) and also in order so that services provided comply with statutory requirements and meet the needs of service users. This includes a total of £8.277m over the period of the MTFP for the increased charges from commissioned care providers due to increases in the National Living Wage rates, with the Budget 2025 published by the Government on 26 November 2025 announcing that the National Living Wage for 21 year olds and over will increase to £12.71 per hour from 1 April 2026 from the current level of £12.21 per hour (a £0.50 per hour and 4.1% increase). The amounts that are allocated in the updated MTFP to cover the increases expected as a result of this have been revised accordingly, with £1.877m being allocated in 2026/27 and £8.277m over the period of the MTFP.

- Children's Social Care – continuing increased demand for care and increased complexity of cases, in particular for external residential placements. £3.000m p.a. of funding has been provided for 2026/27 to 2028/29 and a further £1.500m in 2029/30.
- Integrated Transport Service – forecast growth in home to school transport for children and transport for vulnerable adults with £0.500m p.a. being provided from 2026/27.
- Potential shortfalls on income from strategic commercial investments arising from potential tenancy changes, with £1.000m p.a. being provided from 2026/27.
- Crematorium – reduced demand and associated reduction in income has meant a need to revise budgets with £0.250m p.a. being provided from 2026/27.
- Fleet Management – increased staff costs due to recruitment and retention challenges and a sharp increase in the cost of vehicle parts with £0.300m p.a. additional budget being provided from 2026/27.
- School meals catering – a shortfall in income due to rising food prices and the prices of meals not being increased accordingly due to a political decision taken by Executive not to increase prices in order to support families, there is a need to adjust the budget by £0.230m p.a. in 2026/27 rising to £0.371m p.a. by 2029/30.
- Waste Services - £2.279m remaining annual revenue costs are required to be incurred from 2026/27 onwards relating to Simpler Recycling – Legislation changes for Waste Streams as detailed in the report to Executive on 16 July 2025. The Government have confirmed as part of the Spending Review 2025 published on 11 June 2025 that local authorities will continue to receive Extended Producer Responsibility (EPR) funding (currently assumed to total £3.921m in 2026/27), and it is proposed that EPR funding will be used to cover the annual revenue costs arising from Simpler Recycling.
- Waste Disposal - the budget has been reviewed over the period of the MTFP taking into account latest estimates on tonnages and costs per tonne. This has included evaluation of the effect of the introduction of Simpler Recycling in 2026/27 on waste tonnages. It should also be noted that whilst outside the current MTFP period there is a new waste disposal contract and Tees Valley Energy Recovery Facility planned to operate from 2030 which could impact on the price per tonne of waste disposed that the Council has to pay.
- Emissions Trading Scheme (ETS) – the Government have announced the planned introduction of the ETS from 2028/29. This will increase waste disposal costs for local authorities, particularly those operating energy-from-waste (EfW) facilities or incinerators. This is because the ETS puts a price on carbon emissions, and waste management operations that produce emissions will need to purchase permits to cover their carbon footprint. It is currently estimated that this will cost £1m p.a. from 2028/29 but this will be updated as further information becomes available. EPR funding will be used to offset the costs of ETS.

Budget Savings

- 4.34 The estimated Government funding forecast to be available to the Council shown in Table 1 means that the Executive is currently able to propose that there is no requirement to implement any further additional budget savings in 2026/27. However, work will continue to identify and deliver efficiencies and savings in the future through robust budget monitoring and the Transformation Programme.

Savings already approved in previous years

- 4.35 It should however be noted that there are a number of budget savings totalling £3.517m relating to 2026/27 that were approved in previous years budget reports which are built into the MTFP, and the MTFP assumes that they will be fully achieved or replaced with alternative savings. These are detailed in Appendix 2.

Removal of savings now found to be unachievable in the manner originally intended

- 4.36 The Quarter One and Two budget monitoring reports highlighted a number of previously approved budget savings totalling £2.458m that are now unlikely to be achievable in the future in the manner originally intended, and it is now proposed that they are removed from the MTFP and funded from the increased Government funding estimated to be received. These total £2.458m p.a. with details provided below:

- Charging residents for issuing parking permits of £0.250m (ECS08) - as announced at Full Council on 26 March 2025 the plan to charge for residents parking permits approved as part of the 2024/25 budget setting process was being paused. It is proposed that the savings associated with this (totalling £0.250m) are submitted for removal from the Council's budget as part of the 2026/27 budget setting.
- Savings relating to Business Rates and Council Tax totalling £1.186m (FIN02-05) - whilst savings will be made as intended these are recognised in the Collection Fund rather than the General Fund. Due to the prescribed mechanisms for operating the Collection Fund under legislation, the savings in the Collection Fund do not impact the General Fund position until the next year in the form of a surplus on the Collection Fund which can be used in the budget setting. Budgeting for surpluses on the Collection Fund is not recommended, as whilst surpluses may exist on the Collection Fund which can be used for budget setting it is better practice to not budget for these in the MTFP. It is therefore recommended that these budgeted savings are considered for removal from the MTFP.
- Contractual Spend Review savings for 2025/26 (FIN13), which has now been identified as a double count of a 2024/25 saving (£0.700m).
- Senior Management Review savings of £0.244m (CEN02) agreed as part of the 2023/24 budget setting. The Senior Management Review proposed by the Chief Executive does not achieve any savings in the budget. This will allow the

Council to maintain a stable leadership team and continue the progress that is being made by the Council.

- Integrated Transport Unit - Recharge Discretionary Home to School Transport Services £0.078m (EDC05). It has not been possible to achieve this saving by the means previously intended. Any replacement savings arising from this will be reported in the quarterly budget monitoring reports.

Transformation

4.37 The Council will continue to change the way it delivers services and engages with the community, to reduce costs, maintain return on investment, and improve outcomes for residents. Due to the improved financial position there is no requirement to include any budget savings relating to this in the current revised MTFP. When budget savings occur these will be reported in the quarterly budget monitoring reports. This helps to move the focus from a savings led approach to one of continuous improvement to ensure the Council becomes more efficient in the future. Long term projects will be used to bring about town level change. Improving resident and town outcomes will be seen as a valuable return, with returns on investment potentially being over a longer term and they may land in other agencies focused on the town.

MTFP UPDATE

Key MTFP Assumptions

- 4.38 The MTFP is based on a number of assumptions that are subject to change prior to final budget setting by the Council in February 2026. The report reflects the latest information and analysis available from PIXEL of Government funding (RSG and Business Rates Top Up Grant) at the time of writing (as at 1/12/25) (paragraphs 4.16 and 4.17).
- 4.39 The full extent of the impact upon the Council's finances will only become clearer after the Provisional LGFS is analysed following the expected announcement in the week commencing 15 December 2025.
- 4.40 Any change in assumptions following the Provisional LGFS will be reflected and updated in the MTFP for presentation to the Executive on 4 February 2026 and will inform the final budget proposals at Full Council on 18 February 2026.
- 4.41 The following other key assumptions have currently been used in the development of the updated MTFP
- Other funding will be provided by the Government to the Council in the form of specific grants. These have been included based on the latest information currently available. As mentioned above in paragraphs 4.10 and 4.17 there is still a high level of uncertainty regarding which grants are to be rolled into RSG and also the level of grants for 2026/27 onwards. The Provisional LGFS should confirm this.

- Extended Produced Responsibility (EPR) funding has been assumed to continue. Based on information received from PackUK (the Government's chosen administrator for the scheme) it is assumed that this the funding will total £3.921m in 2026/27, and then it is currently assumed that this will reduce by 10% per annum until the funding in 2029/30 reduces to £2.745m.
- Assumed pay inflation of 3% for 2026/27, 2.5% for 2027/28 and 2% for 2028/29 onwards.
- Employer pension contribution rates have been revised to reflect the latest information provided by the Actuary that there will be a 1.5% reduction p.a. in contributions from 2026/27 (equalling an estimated annual reduction of £1.283m in the amount required to be paid), following the triennial valuation of the Teesside Pension Fund that took place on 31 March 2025. These are still subject to formal approval.
- Contractual inflation is provided for in the MTFP period, with £1.797m provided for 2026/27, reducing to £1.547m p.a. for 2027/28 to 2029/30, being provided for in relation to specific contracts, mainly around Adult Social Care purchasing budgets and Children's Care external residential and fostering contracts.
- No inflation is provided for general supplies and services budgets.
- A proposed inflationary increase of 2% p.a. on discretionary fees and charges budgets. This will be reviewed in light of inflation forecasts for the February budget report where a Fees and Charges Policy and Schedule of Charges will be included.
- Reserves levels are increased over the MTFP period as a minimum in line with the Reserves Policy approved by Council in February 2025 in order to achieve financial sustainability over the medium term and to meet any unplanned overspends resulting from failure to deliver the financial outturn within the approved budget. The Council must avoid unplanned use of reserves without plans to replenish them, in order to secure its financial recovery going forward.
- Income the Council receives from commercial developments has been amended to reflect latest information regarding occupancy and leases.
- That energy prices will be in line with current forecasts provided by NEPO (North East Purchasing Organisation). These will be updated as further information is received.
- Forecast Service Demand Pressures and Re-Basing of Budgets (including for reduced income levels and legislative requirements) have been included as detailed in paragraphs 4.31 to 4.33 and Table 2 and Appendix 1. These will be reviewed and challenged regularly and updated if required. Reserves set aside for this purpose will be utilised for variances within each year, prior to potential amendment of budgets at budget setting if deemed to be recurring after full evaluation.
- That all savings already approved in previous years will be fully achieved or replaced with alternative savings (paragraph 4.35 and detailed in Appendix 2), with the exception of those savings now found to be unachievable in the manner intended which are proposed to be removed from the MTFP (detailed in paragraph 4.36).
- No increase in core (general) Council Tax for 2026/27, but a 2% increase in Council Tax for 2026/27 is proposed by the Mayor and Executive to reflect the Adult Social Care Precept for 2026/27 in order to fund the increased costs of statutory duties within Adult Social Care. Currently a 2% increase p.a. has been assumed for the remainder of the Fair Funding Review 2.0 period

(2027/28 to 2028/29), however this will be subject to further review (paragraph 4.27).

- For 2029/30 a Council Tax increase of 4.99% has been assumed as the Fair Funding Review 2.0 does not cover 2029/30 and no information has yet been provided regarding Government funding levels for 2029/30 and therefore the current maximum level of increase in Council Tax allowed has been applied.
- A Council Tax Base for 2026/27 of 37,062.20 assuming a Council Tax in year collection rate of 98.3% for 2026/27 as outlined in the report to Executive on 3 December 2025, producing approximately £1.138m in 2026/27 and on an ongoing basis, based on the 2025/26 Basic Council Tax. Currently similar levels of growth have been assumed for 2027/28 to 2029/30.
- Capital financing costs associated with borrowing have been reviewed to reflect the updated Capital Programme in the Revenue and Capital Budget – Forecast Year-end Outturn position at Quarter Two 2025/26 to Executive on 3 December 2025, and also to reflect the proposed new capital investment summarised in paragraphs 4.57 to 4.65 and detailed in Appendix 4. The s151 Officer has issued an affordability threshold that the total annual cost of principal and interest repayments should not exceed 10% of the Net Revenue budget over the period of the MTFP to 2029/30.

Changes to the MTFP since February 2025

4.42 There have been a number of changes to the MTFP since the report to Council in February 2025 and these are reflected in the updated MTFP in Table 3 below.

Updated MTFP before service budget growth

4.43 Table 3 below shows the major components of the updated MTFP before any service budget growth, reflecting the above amendments and budget assumptions, which are based upon the best information available at that time of writing the report.

4.44 This shows that based on the latest available information and budget assumptions there is currently £6.460m available for budget service growth in 2026/27 to reinvest in some direct services to the community and reinvestment in the resilience of enabling services. There is currently a balanced budget for 2027/28 and 2028/29. As mentioned above there is a high level of uncertainty relating to 2029/30, and the figures for 2029/30 will be reviewed and updated when further information is made available regarding Government funding levels.

Table 3: updated MTFP 2026/27 to 2029/30 before service budget growth

Budget Item	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	Cumulative £m
Net Budget brought forward	140.252	195.311	209.580	222.780	767.923
Pay Inflation / change in employers pension rate	2.330	3.101	2.543	2.594	10.568
Contractual inflation	1.797	1.547	1.547	1.547	6.438
Other Inflation	0.003	-	-	-	0.003
Fees & Charges inflation	(0.648)	(0.648)	(0.648)	(0.648)	(2.592)
Inflation subtotal	3.482	4.000	3.442	3.493	14.417
Service Demand pressures & rebasing of budgets					
Regeneration	1.075	(0.075)	-	-	1.000
Public Health	-	0.447	-	-	0.447
Environment & Community Services	3.121	(0.235)	1.589	0.205	4.680
Children's Care	3.084	3.000	3.000	1.500	10.584
Education & Partnerships	0.720	-	-	-	0.720
Adult Social Care	6.782	3.548	3.691	3.733	17.754
Legal & Governance Services	0.635	-	-	-	0.635
Finance	0.132	0.006	0.005	-	0.143
Service Demand pressures & rebasing of budgets	15.549	6.691	8.286	5.438	35.964
Top up of Financial Resilience Reserve	-	0.750	0.750	0.750	2.250
Annual contribution to Change Fund Reserve	(0.730)	0.730	-	-	-
Contingency Budget adjustments - including full removal of Contingency for Future Uncertainty	(1.052)	-	-	-	(1.052)
Additional top up of Financial Resilience Reserve 25/26 (removal - was for 25/26 only)	(1.370)	-	-	-	(1.370)
Middlesbrough Priorities Fund (removal - was for 25/26 only)	(4.367)	-	-	-	(4.367)
Delivery Risk Budget (removal - was for 25/26 only)	(2.000)	-	-	-	(2.000)
Grant Funding Adjustments, including grants rolled into formula	39.412	0.392	0.392	5.802	45.998
Capital Financing Requirement changes	0.500	1.706	0.329	-	2.535
Member Ward led schemes (continuation of funding currently provided by M'bro Priorities Fund)	0.235	-	-	-	0.235
Savings - approved in 25/26, 24/25 and prior budget rounds	(3.517)	-	-	-	(3.517)
Savings proposals now deemed to be unachievable - to be removed	2.458	-	-	-	2.458
Other adjustments	29.569	3.578	1.472	6.552	41.170
Planned contributions to (+) / from (-) Reserves to smooth budget over MTFP period	-	3.335	5.748	(1.332)	7.751
Projected Net Budget Requirement before Service Budget Growth	188.851	212.915	228.528	236.931	867.225
Projected Net Budget Requirement funded by:					
Council Tax	(78.458)	(81.188)	(83.973)	(89.324)	(332.943)
Business Rates	(51.641)	(52.409)	(53.175)	(53.939)	(211.164)
Revenue Support Grant	(65.212)	(79.318)	(91.380)	(93.668)	(329.578)
Assumed Funding	(195.311)	(212.915)	(228.528)	(236.931)	(873.685)
Updated Budget Gap + / Surplus () before Service Budget Growth	(6.460)	0.000	0.000	0.000	(6.460)

4.45 The draft budget and MTFP and the assumptions used will remain subject to review throughout the budget development and setting period as new information becomes available, before the final 2026/27 budget and MTFP is presented to Council for approval in February 2026.

Service Budget Growth in line with Mayor's priorities

- 4.46 After allocating the estimated additional Government funding in the order set out in paragraph 4.7, there remains an amount of £6.460m remaining to invest in service budget growth in order to reinvest in some direct services to the community and reinvestment in the resilience of enabling services, in line with the Mayor's priorities.
- 4.47 Directors in conjunction with their relevant Executive Members were requested to submit bids for funding. All bids were required to detail how they met the Mayor's priorities.
- 4.48 The Mayor and Executive have considered all bids within the available funding and propose that the service budget growth proposals contained in Appendix 3 and summarised in Table 4 below are subject to public consultation as part of the budget consultation process outlined in paragraphs 4.66 to 4.69. Appendix 3 demonstrates that the service budget growth proposals are linked to the achievement of the proposed outcomes contained within the Council Plan 2026/27-29: Outcomes Refresh report approved by Executive on 3 December 2025.

Table 4: Summary of proposed service budget growth

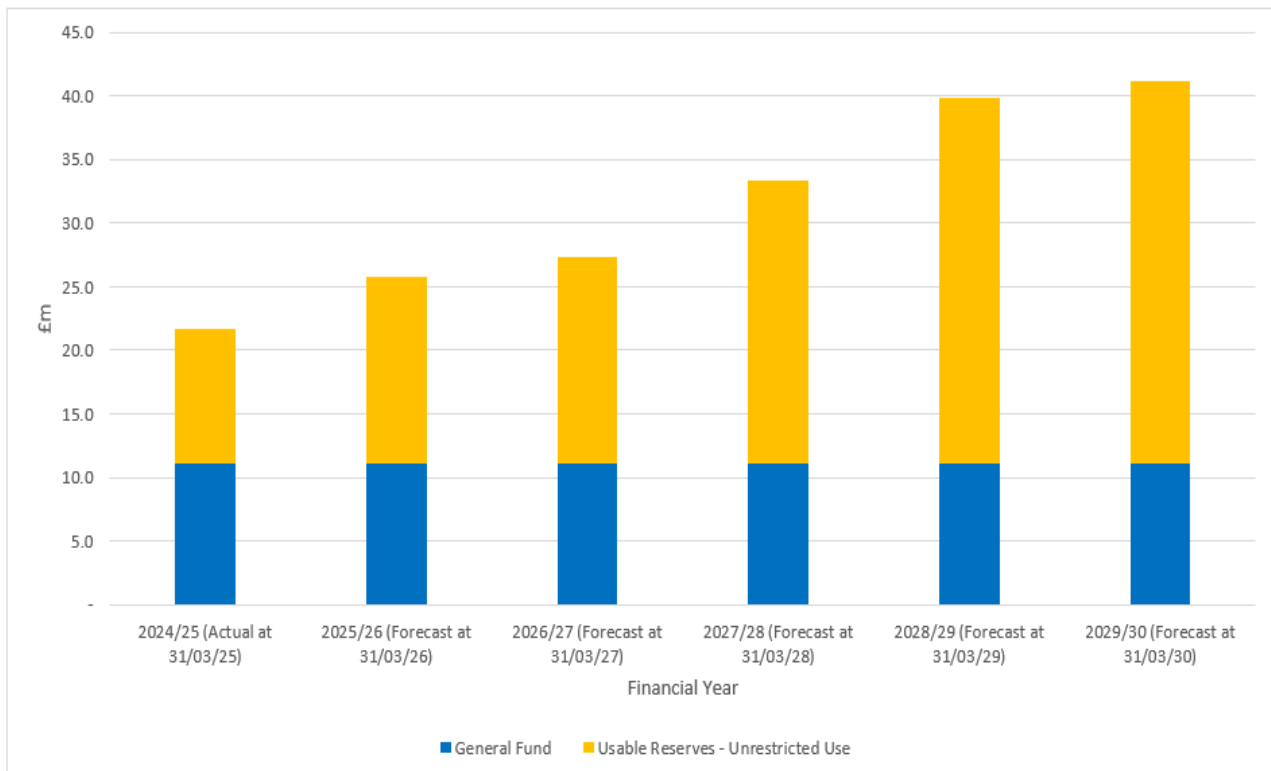
Growth Area	£m
Continuing to improve the look and feel of our Town	1.700
Making our town safer	0.650
Improving housing standards	0.300
Improving Play Parks	0.200
Supporting our communities	0.600
Supporting and protecting vulnerable residents	0.870
Childhood Enrichment	0.900
Supporting our carers and foster families	0.110
Supporting Growth and Jobs	0.630
Spending more on culture and events	0.500
Total Proposed Service Budget Growth	6.460

- 4.49 The budget consultation will request views from the public relating to the service budget growth proposals.
- 4.50 The finalisation of the level of Government funding which the Council will receive in the LGFS will determine how much is available for service budget growth, and following this and after taking account of views received as part of the budget consultation the final service budget growth proposals will be included in the final 2026/27 budget and MTFP report which will be considered by the Executive on 4 February 2026 and recommended to Council for consideration and approval on 18 February 2026.

RESERVES

- 4.51 Details of the current level of the Council's General Fund reserves and provisions were included in the Revenue and Capital Budget – Forecast Year-end Outturn position at Quarter Two 2025/26 report to Executive on 3 December 2025. The purposes for which the Council holds each reserve is set out in the Reserves Policy approved by Council as part of the 2025/26 budget setting on 19 February 2025.
- 4.52 The Council must continue to rebuild its unrestricted revenue reserves over the period of the MTFP in order to strengthen the Council's financial resilience and to provide sufficient resilience to support the management of risks in the delivery of the revenue budget over the current MTFP period. Reserves will increase in future years due to planned contributions to reserves as set out in the Reserves Policy in the 2025/26 Revenue Budget, Medium Term Financial 2025/26 to 2028/29, and Council Tax report to Council on 19 February 2025, and the budget proposed has no adverse effect on these planned increases over the MTFP period. This will be updated in the report to Council in February 2026.
- 4.53 Figure 1 below shows the current projected unrestricted usable reserves through to the end of 2029/30 after planned contributions; however this will depend on any unplanned drawdowns of reserves. It shows the plan to increase reserves to acceptable levels by the end of the MTFP period. The uncertainty regarding Government funding for 2029/30 onwards means reserves have been increased further than that originally planned.

Figure 1 - Forecast Unrestricted Usable Reserves from closing balance 2024/25 through to closing balance 2029/30 (following planned contributions and drawdowns)



Dedicated Schools Grant (DSG) deficit

- 4.54 As detailed in the Quarter Two budget report to Executive on 3 December 2025, the limited impact of measures taken to date and if the statutory override is removed without a government led solution in 2028, this presents a significant risk to the Council's financial position as the current forecast DSG deficit at 31 March 2026 of £31.213m is greater than all of the Council's forecast usable revenue reserves of £25.808m at 31 March 2026. Also the DSG deficit is currently forecast to increase in future years of the MTFP by more than the forecast increase in reserves. This is a real risk and concern to the Council's financial position in the future, as is the case with most other local authorities.
- 4.55 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.
- 4.56 The Government has indicated in the Budget 2025 published on 26 November 2025 that it is proposing that it will take over the future funding of Special Educational Needs and Disabilities (SEND) from 2028/29 when the statutory override ends at the end of 2027/28, and that they would not expect local authorities to fund future SEND costs from general funds. No details have yet been provided as to how they propose to deal with the historic DSG deficits that have been built up over the years and they have said that further details on the support for local authorities regarding this will be set out in the Provisional LGFS in December 2025.

CAPITAL PROGRAMME

- 4.57 The Council Plan for Middlesbrough acknowledges that a sustainable Capital Programme, and the strategy and controls to shape and manage it, is a critical contributor to the future ambitions, overall service delivery, and financial position of the Council going forwards.
- 4.58 The Council must consider how capital expenditure is paid for and what the long-term financial implications are of undertaking this investment. The Council is permitted to borrow funds to finance the Capital Programme under the Local Government Act 2003. It needs to consider the impact on the revenue budget in relation to repayment of borrowing proposed, how it funds the repayment of this debt and the period over which it is repaid.
- 4.59 The Council operates a strict approach to considering and prioritising schemes for inclusion in the Capital Programme set against available resources including a technical review process, as set out in the Capital Strategy which was approved by Council in February 2025.
- 4.60 The Council's Capital Programme is reviewed each quarter via the quarterly budget monitoring reports. A review of the Council's Capital Programme has taken place as part of the MTFP update. This included Directors in consultation with Executive Members submitting bids to the capital programme for the MTFP period commencing

2026/27 as part of a process agreed by the Corporate Capital Board. As there was a limited amount of capital available, bids were prioritised as follows:

1. Urgent Works
2. Health and Safety / Legislative Compliance
3. Asset Protection / Enhancement
4. Other – Must align to the Council Plan

In addition to the above, any bids that prove that there will be a revenue return on the capital investment will be considered separately.

- 4.61 The Corporate Capital Board met on 12 September 2025 to discuss the bids received and agreed to propose new capital schemes and additions to current schemes and an extension of schemes deemed Business as Usual totalling £16.310m in 2026/27 and rising to £56.173m by 2029/30 detailed in Appendix 4 to be included in the revised Capital Programme for the MTFP period commencing 2026/27. The capital investment will help to ensure the Capital Programme provides essential expenditure required to support the delivery of the Council's objectives and priorities. Appendix 4 provides details of the proposed capital investment and the reasons for their proposed inclusion.
- 4.62 The proposed new schemes will be subject to the same consultation as the revenue budget to enable stakeholders to submit their views with respect to the proposed new capital schemes.
- 4.63 There is still some work to do with respect to reviewing the profiling for the proposed new capital schemes in order to ensure stated work to be undertaken in the various years is realistic, and that this does not lead to future slippage in the revised Capital Programme in the future.
- 4.64 The Capital Programme will be further reviewed at Quarter Three. The final proposed new capital schemes will be included in the revised Capital Programme for the MTFP period commencing 2026/27 within the budget report to Executive and for consideration and approval by Full Council in February 2026 along with a Capital Strategy Report.
- 4.65 Provision has been made in the MTFP in respect of the potential capital financing costs arising from the new capital investment proposed to be included in the updated Capital Programme. As mentioned in paragraph 4.41 an affordability limit has been set by the Council's s151 Officer and the proposed capital investment will adhere to this. Although the proportion of the net revenue budget forecast to be spent on Capital Financing costs is increasing, this has been fully funded by additional budget allocations. The level is currently close to the 10% threshold which was indicated by CIPFA as an upper limit for debt financing costs when the Prudential Code was introduced in 2007. Full details regarding the current position regarding this were included in the Treasury Management – Mid Year Review 2025/26 report to Executive on 3 December 2025.

CONSULTATION

- 4.66 Consultation in respect of the budget proposals for service budget growth for 2026/27 (detailed in paragraphs 4.46 to 4.50 and Appendix 3) and the proposed level of Council Tax for 2026/27 (paragraph 4.27) will commence on 18 December 2025 and conclude on 11 January 2026, with appropriate impact assessments undertaken considering responses to the consultation.
- 4.67 It is planned that the budget consultation will closely involve elected members in proactively engaging stakeholders. It will have a clear brand identity and be promoted across social media and other channels, gathering both quantitative and qualitative information that will provide both real insight for the Council and real influence for respondents. The aim is to encourage more people to take part in the annual budget consultation.
- 4.68 It is planned that the consultation will be politically led and will include:
- a general public survey on the Council's website
 - a general consultation email address
 - a number of consultations with staff
 - a public budget consultation event led by the Executive Member for Finance and Director of Finance and Transformation at the Town Hall on 5 January 2026
 - briefings for all elected members
 - consultation with the Overview and Scrutiny Board
 - consultation with the Council's partners and the local business sector, including consultation with the town's Chamber of Commerce
- 4.69 The output of the consultation process will then be reported to Executive on 4 February 2026 and then to Full Council on 18 February 2026, which will:
- again refresh the MTFP following the Local Government Finance Settlement, set the 2026/27 budget and any associated service budget growth, and set the Council Tax level for 2026/27;
 - comply with the Public Sector Equality Duty and set out any impacts identified from the proposals for 2026/27 and future years.

Member engagement in developing the budget and MTFP

- 4.70 As detailed in the September Executive report the annual budget financial planning cycle requires a collaborative and co-ordinated approach by all elected members and officers in order to achieve a balanced budget and MTFP and ensure the financial sustainability of the Council. Briefings for all elected members will be arranged at various points of the process to ensure that key issues are understood, including the holding of a full briefing to all elected members when these Executive papers were circulated on 9 December 2025.
- 4.71 The Financial Resilience Working Group (FRWG) comprising cross party member representation will continue to play a key role in the budget setting process with meetings of the Group continuing to be held during the process.

5. Ward Member Engagement if relevant and appropriate

- 5.1 As detailed in paragraph 4.70 all elected members, including ward members, have a role to play in the budget setting process.

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

- 6.1 The Council is required by law to set a balanced budget and to operate robust and meaningful financial planning arrangements and this report sets out the development process and timeline for achieving that objective. Therefore, no other options are feasible.

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

Topic	Impact
Financial (including procurement and Social Value)	<p>This report represents a key step in the budget process and reports on the current position at the time of writing the report which includes initial analysis of the Local Government Policy Statement published by the Government on 20 November 2025, however this is before the Provisional Local Government Finance Settlement is published (scheduled for the week commencing 15 December 2025). The figures contained within the report and the budget proposals are therefore subject to further review and change once the detail of the Provisional Local Government Finance Settlement is published.</p> <p>The detailed financial implications associated with the report are set out throughout the main body of the report, and are summarised below.</p> <p>The current estimate of the increase in Government funding resulting from the Government's Fair Funding 2.0 Review for Middlesbrough Council is £10.653m in 2026/27, £14.485m in 2027/28, and £12.438m in 2028/29 (Table 1 in paragraph 4.17).</p> <p>There are forecast service demand pressures and re-basing of budgets (including for reduced income levels and legislative requirements) totalling £15.549m for 2026/27 rising to £35.963m in 2029/30 (paragraphs 4.31 to 4.33 and Appendix 1). It is also proposed that savings totalling £2.458m p.a. are removed from the MTFP, which are now found to be unachievable in the manner originally intended (paragraph 4.36).</p> <p>Sufficient Government funding is expected to enable the Mayor and Executive to have options, including the proposal to reinvest £6.460m from 2026/27 in some direct services to the community and reinvestment in the resilience of</p>

	<p>enabling services (detailed in Appendix 3), and also propose that there is no increase in core (general) Council Tax, but a 2% increase in Council Tax for 2026/27 relating to the Adult Social Care precept to reflect the increased costs of the statutory duties required for Adult Social Care (paragraph 4.27). These are proposed to meet the Mayor's priorities in the Council Plan.</p> <p>The budget proposals will mean that the proposed draft budgets for 2026/27 to 2029/30 are currently balanced (Table 3 in paragraph 4.44). As noted in paragraph 4.44 there is a high level of uncertainty relating to 2029/30, and the figures for 2029/30 will be reviewed and updated when further information is made available regarding Government funding levels.</p> <p>The report also proposes new capital schemes and additions to current schemes and extension of schemes deemed Business as Usual totalling £16.310m in 2026/27 and rising to £56.173m by 2029/30 (detailed in Appendix 4).</p> <p>The funding available will be confirmed in the Local Government Finance Settlement, and the budget process will culminate in the Chief Finance Officer's (S151 Officer) assessment of the robustness of the proposed budget and adequacy of reserves statement contained within the final report presented to Executive and Council in February 2026, followed by approval of the Budget, MTFP, Capital Programme, Treasury Management Strategy and annual Council Tax by Council.</p> <p>There are no direct Procurement implications arising from the report, but there are potentially Procurement implications arising from the budget proposals for service budget growth if they are approved as part of the Council budget in February 2026.</p> <p>A number of the service budget growth proposals should positively provide Social value.</p>
Legal	<p>The Council is required under legislation to set a balanced budget for each year. The Medium Term Financial Plan and revenue and capital budgets form part of the Council's policy framework, as set out in its constitution. The approach outlined within the document will enable the Council to operate within the resources available and continue to meet its many statutory duties.</p> <p>Elected members (individually and collectively) have a fiduciary duty to local taxpayers and so duty to facilitate,</p>

	<p>rather than frustrate, the setting of a lawful budget, and not to do so would bring damaging legal, financial, operational, and reputational consequences for the Council, and precepting authorities such as the police, fire service and local parish councils. It may also give rise to personal liability for individual members for misfeasance in public office, negligence, or breach of statutory duty, should they be found to be purposely failing to set a lawful budget.</p>
Risk	<p>The revision of the Council's Medium Term Financial Plan for 2026/27 to 2029/30 plays a fundamental role in ensuring that the Council Plan is delivered effectively.</p> <p>The proposed approach will ensure a positive impact on the strategic risk (SR01) that the Council fails to maintain a balanced budget and Medium Term Financial Plan. The proposed approach also aligns with legal requirements around consultation and assessing the impact of proposals. It therefore impacts positively on the risks that the Council could fail to achieve good governance or comply with the law (SR01 and SR04).</p> <p>The lack of the finalisation of Government funding available to the Council presents a risk to the Council that the estimates made based on information available at the time of the writing of the report are incorrect and that the budget proposals relating to service budget growth and council tax increases will need to be reviewed and amended before finalisation as part of the budget report to Council in February 2026.</p> <p>The uncertainties of the economic environment over the short to medium term present a high risk to the authority as reflected in the pressures being experienced and reflected in the Quarter Two forecast year-end overspend for 2025/26. It is essential that Directors in consultation with Executive Members are focused upon developing and delivering financial recovery plans to control expenditure within the approved budget for 2025/26. Any increases in the overspend in 2025/26 will impact upon the 2026/27 budget and MTFP to 2029/30.</p>
Human Rights, Public Sector Equality Duty and Community Cohesion	<p>The Council must ensure that, in line with the Public Sector Equality Duty, that any budget saving proposals, other budget proposals, or proposed Council Tax increases thought to impact on those with protected characteristics are assessed, mitigated where possible and/or justified. As such impact assessments for the proposed service budget growth and council tax increase will be undertaken as part of the budget process and included as part of the budget report to Council in February 2026.</p>

Reducing Poverty	A number of the service budget growth proposals should positively help to reduce poverty.
Climate Change / Environmental	The proposed recommendations in this report do not directly impact on Climate Change/Environmental issues.
Children and Young People Cared for by the Authority and Care Leavers	A number of the service budget growth proposals should positively impact upon Children and Young People Cared for by the Authority and Care Leavers.
Data Protection	The proposed recommendations in this report do not directly impact on Data Protection issues.

Actions to be taken to implement the recommended decision(s)

Action	Responsible Officer	Deadline
Consultation on the proposed draft budget and service budget growth and Council Tax proposals for 2026/27 will commence on 18 December 2025 and conclude on 11 January 2026, with appropriate impact assessments undertaken considering responses to the consultation	Director of Finance and Transformation (s151 Officer)	11/1/26
The output of the consultation process will be reported as part of the Revenue Budget, Council Tax, Medium Term Financial Plan, and Capital Strategy 2026/27 report to Executive on 4 February 2026 and Full Council on 18 February 2026	Director of Finance and Transformation (s151 Officer)	18/2/26

Appendices

1	Forecast Service Demand Pressures and Re-basing of Budgets (including for reduced income levels and legislative requirements)
2	Savings approved in previous years
3	Proposed Service Budget Growth
4	New Capital Schemes and additions to current schemes and extension of schemes deemed Business as Usual

Background papers

Body	Report title	Date
Executive	2025/26 Budget, Medium Term Financial Plan 2025/26 to 2028/29, and Council Tax setting	5/2/25
Council	2025/26 Budget, Medium Term Financial Plan 2025/26 to 2028/29, and Council Tax setting	19/2/25
Executive	2024/25 Outturn Report	11/6/25
Executive	Medium Term Financial Plan (MTFP) update and 2026/27 budget development approach and timetable	3/9/25
Executive	Revenue and Capital Budget – Forecast Year-end Outturn position at Quarter One 2025/26	3/9/25
Executive	Revenue and Capital Budget – Forecast Year-end Outturn position at Quarter Two 2025/26	3/12/25
Executive	Calculation of Council Tax Base for 2026/27	3/12/25
Executive	Treasury Management Mid-Year Review – 2025/26	3/12/25
Executive	Council Plan 2026/27-29: Outcomes Refresh	3/12/25

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