

<b>MIDDLESBROUGH COUNCIL</b>	
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<b>Report of:</b>	Corporate Director of Finance (s151 Officer) - Andrew Humble
<b>Relevant Executive Member:</b>	Executive Member for Finance - Cllr. Nicky Walker
<b>Submitted to:</b>	Executive
<b>Date:</b>	4 February 2026
<b>Title:</b>	Revenue and Capital Budget – Forecast Year-end Outturn position at Quarter Three 2025/26
<b>Report for:</b>	Decision
<b>Status:</b>	Public
<b>Council Plan priority:</b>	All
<b>Key decision:</b>	Yes
<b>Why:</b>	Decision(s) will incur expenditure or savings above £250,000 and have a significant impact in two or more wards
<b>Subject to call in?</b>	Yes
<b>Why:</b>	Non-Urgent Decision

Proposed decision(s)	
<p>That Executive:</p> <ul style="list-style-type: none"> <li>• <b>APPROVES</b> budget virements over £250,000 within the revenue budget (Appendix 1).</li> <li>• <b>APPROVES</b> budget virements over £250,000 within the Capital Programme (paragraph 4.47).</li> <li>• <b>APPROVES</b> the inclusion of new schemes and additions to existing schemes to the Capital Programme totalling £0.357m for 2025/26, which are all externally funded to either new or existing schemes (detailed in Appendix 5). Subject to approval this will increase the approved 2025/26 Capital Programme budget to £88.451m.</li> <li>• <b>NOTES</b> the Council's financial performance and forecast year-end financial outturns for revenue and capital budgets for the financial year 2025/26 as at Quarter Three, highlighting the budget pressures and the forecast year-end position if no further action is taken. At present, the revenue budget is forecast to be under pressure by <b>£1.675m (1.1%)</b> at year end after the proposed use of central contingences and other budgets.</li> <li>• <b>NOTES</b> that Directors continue to implement recovery plans, mitigations and financial controls aimed at reducing their forecast budget pressures and acknowledges the ongoing requirement for Directors to continue refining and implementing these plans to achieve a balanced budget by the end of 2025/26. In support of this corporate revenue budget spending controls will continue to be applied during 2025/26.</li> </ul>	

## Executive summary

This report advises the Executive of the Council's forecast year-end financial outturn as at Quarter Three 2025/26 and seeks approval of budget virements within the revenue budget and revisions to the capital programme in relation to activity in Quarter Three.

It is important to note that this report reflects forecast budget pressures at year end if no further mitigating actions are taken.

The report enables the Executive to discharge its financial management responsibilities by setting out the following position at Quarter Three (31st December 2025):

- General Fund Revenue Budget forecast outturn.
- virements.
- statement of the Council's reserves and provisions.
- Capital Programme forecast outturn.
- statement of the Council's borrowing and prudential indicators.
- statement of the level of debt owed to and to be recovered by the Council.
- actions that have been taken and are planned to be taken in order address the issues identified.

The forecast position at Quarter Three represents slightly improved overall position compared to Quarter Two, when the forecast year-end budget pressure was estimated at £1.804m after the proposed use of contingencies. This reflects the impact of actions already implemented and ongoing work to reduce financial pressures across Directorates.

The main highlights of the report are:

- the 2025/26 revenue budget forecast year-end outturn at Quarter Three indicates a projected budget pressure of £7.719m across Directorates and Central budgets. In line with the financial strategy, provisions have been made to mitigate this position through the planned use of central contingencies and other budgets totalling £6.044m. This approach, which includes offsetting pressures such as unachieved savings, is expected to reduce the **budget pressure to £1.675m (1.1%) by the year end** (see Table 1 in paragraph 4.10).
- the main areas of budget pressure remain within Children's and Adult Social Care, Environment and Community Services (including Bereavement Services, Fleet Services, and School Catering), and Strategic Commercial Properties (paragraphs 4.16 to 4.31). In some cases, these pressures are driven by under-achievement of income targets as well as increased expenditure. Directors have submitted recovery plans and mitigations aimed at reducing their forecast pressures, and there is an ongoing requirement for them to continue to refine and implement these plans to effectively manage their budgets for their Directorate for the remainder of the financial year. In support of this, corporate revenue budget spending controls will continue to be applied throughout 2025/26 to help manage financial pressures and reinforce budget discipline.
- the forecast year-end position includes **£7.675m of net savings currently forecast as undeliverable in 2025/26** (Table 2 and Appendix 2).
- the 2025/26 budgets and commitments against the central Corporate Contingency budget and Change Fund (paragraph 4.32 and Table 3)

- **forecast total usable unrestricted revenue reserves on 31 March 2026 of £25.937m** (Table 4 and Appendix 3). This is in line with that recommended by the Director of Finance and Transformation in the Reserves Policy for 2025/26 approved by Council on 19 February 2025 to rebuild the Council's financial resilience.
- **the forecast deficit of £9m for 2025/26 on the Dedicated School Grant**, increasing the **forecast cumulative deficit to £31.213m on 31 March 2026** (Table 5). This is a major risk as whilst the statutory override (which instructs Councils to account for the DSG deficits in a separate reserve and not to fund it by using its General Fund resources) has been extended recently it is due to end on 31 March 2028. The DSG recovery actions and risks to the Council's financial resilience are detailed in Appendix 4.
- **the addition of £0.357m for new schemes and additions to existing schemes (externally funded) to the Capital Programme in 2025/26** creating a revised budget of £88.451m for 2025/26 (paragraphs 4.45 and 4.51 and Appendix 5).
- **the 2025/26 Capital Programme forecast year-end outturn of £64.173m** which is a reduction of £24.278m from the revised £88.451m budget (Table 6). This is largely due to slippage of planned expenditure from 2025/26 into 2026/27 and future years (Appendix 6).
- **that £5.694m of qualifying revenue expenditure is planned to be funded from Flexible Use of Capital Receipts (FUoCR) for Transformation in 2025/26** in accordance with the FUoCR strategy for 2025/26 approved by Council on 26 March 2025 (paragraph 4.52 to 4.57 and Appendix 7).
- the level of Debtors as at 31st December 2025 (paragraph 4.58 Table 9).

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

- 1.1 The report discharges the responsibilities of the Executive to manage and control the revenue budget, capital programme, and overall balance sheet position of the Council.

<b>Our ambitions</b>	<b>Summary of how this report will support delivery of these ambitions and the underpinning aims</b>
<b>A successful and ambitious town</b>	This report covers both the revenue budget and capital programme of the Council and as a result it supports all the ambitions within the Council Plan.
<b>A healthy Place</b>	
<b>Safe and resilient communities</b>	
<b>Delivering best value</b>	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 arrangements in place, and that the Council is attempting to manage its finances within the budget approved by Council for 2025/26 and ensures that the

	Medium-Term Financial Plan to restore financial resilience and sustainability is not impacted.
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## 2. Recommendations

### 2.1 That Executive:

- **APPROVES** budget virements over £250,000 within the revenue budget (Appendix 1).
- **APPROVES** budget virements over £250,000 within the Capital Programme (paragraph 4.47).
- **APPROVES** the inclusion of new schemes and additions to existing schemes to the Capital Programme totalling £0.357m for 2025/26, which are all externally funded to either new or existing schemes (detailed in Appendix 5). Subject to approval this will increase the approved 2025/26 Capital Programme budget to £88.451m.
- **NOTES** the Council's financial performance and forecast year-end financial outturns for revenue and capital budgets for the financial year 2025/26 as at Quarter Three, highlighting the budget pressures and the forecast year-end position if no further action is taken. At present, the revenue budget is forecast to be under pressure by **£1.675m (1.1%)** at year end after the proposed use of central contingences and other budgets.
- **NOTES** that Directors continue to implement recovery plans, mitigations and financial controls aimed at reducing their forecast budget pressures and acknowledges the ongoing requirement for Directors to continue refining and implementing these plans to achieve a balanced budget by the end of 2025/26. In support of this corporate revenue budget spending controls will continue to be applied during 2025/26.

## 3. Rationale for the recommended decision(s)

- 3.1 To enable the effective management of finances, in line with the Council's Local Code of Corporate Governance, the Scheme of Delegation and financial regulations.

## 4. Background and relevant information

- 4.1 The Council's Scheme of Delegation gives the Executive collective responsibility for corporate strategic performance and financial management, monitoring and control. Standing Orders and Financial Procedures require the Executive's approval for major virements between revenue budgets, and in-year changes to the Council's Capital Programme within approved Council resources within the approved policy framework.

- 4.2 This report enables the Executive to discharge its financial management responsibilities by setting out the Council's financial position at Quarter Two 2025/26.
- 4.3 Financial Procedure Rule 18.38.3 of the Council's constitution requires the Executive's approval of revenue and capital programme budget virements over £250,000.
- 4.4 Financial Procedure Rule 18.80.2 requires approval by Executive of the write off of debt over financial thresholds set out in the Financial Limits Annex of the Council's Constitution, there are none for the purpose of the Quarter Two report.
- 4.5 The forecasts within this budget monitoring report as of 31 March 2026 have been prepared using the following major assumptions:
- all known staffing changes have been captured.
  - agreed pay award of 3.2% for local government officers for 2025/26 included.
  - income and expenditure forecasts have been prepared in conjunction with budget holders using the best information currently available.
  - forecast assume that current conditions and service delivery arrangements remain unchanged through to year-end, providing a prudent basis for monitoring and decision-making.

### **Revenue Budget**

- 4.6 The 2025/26 Revenue Budget, Medium Term Financial Plan 2025/26 to 2028/29, and Council Tax report to Council on 19 February 2025 set out the future financial position of the Council. Both this report and that report should be read together to fully understand the context within which the Council is operating and the financial challenges that it faces.
- 4.7 As part of that report a net revenue budget for 2025/26 of £143.304m was approved by Full Council. Within the report the Director of Finance and Transformation (S151 Officer) issued his Section 25 Report to Council Members which set out the basis upon which the revenue budget was considered to be robust and the basis upon which reserves were considered adequate.
- 4.8 While the Council has achieved significant improvement in its financial position from that which existed at the start of the 2024/25 financial year, supported by a much-improved financial settlement compared to previous years, there remains a need to maintain a strong focus on delivery of approved savings and to continue to provide assurance around strong governance and financial control. It is essential to control expenditure within the approved 2025/26 budget whilst continuing to pursue income generating opportunities through the Recover, Reset, Deliver Transformation Portfolio in order to balance the MTFP and stabilise the Council's financial position and rebuild its financial resilience. This requires the delivery of all approved 2025/26 savings plans in full. Budgetary control measures as detailed in the 2024/25 Revenue and Capital Outturn report to Executive on 11 June 2025 will continue to be implemented during 2025/26.
- 4.9 Table 1 below summarises the overall position per Directorate and shows that the 2025/26 forecast year-end outturn as of 31 December 2025 (Quarter Three) is a

forecast budget pressure of £7.719m (5.4%) against the approved budget of £143.304m before the use of central contingencies and other central budgets. It is important to note that this reflects forecast pressures at year end if no further mitigating actions are taken. These pressures will only materialise if recovery plans, and other actions are not successfully implemented. The Quarter Three forecast represents an improvement compared to Quarter Two, when the forecast year-end budget pressure was estimated at £7.813m before the use of central contingencies and other central budgets. While the improvement to date is modest, it demonstrates that the financial controls and actions currently in place have helped to mitigate further overspends and continue to play a critical role in reducing financial pressures across Directorates.

- 4.10 As shown at the bottom of Table 1, the 2025/26 revenue budget forecast year-end outturn at Quarter Three indicates a forecast budget pressure of £7.719m across Directorates and Central budgets. In line with the financial strategy, provisions have been made to mitigate this position through the planned use of central contingencies and other central budgets totalling £6.044m. This approach, which includes offsetting pressures such as unachieved savings, is expected to reduce the forecast budget pressure to £1.675m (1.1%) by year end, which is an improvement from the Quarter Two position of £1.804m. While the improvement to date is incremental, it reflects the impact of financial controls and actions already implemented, which have helped prevent further overspend and continue to support efforts to stabilise the position. It therefore remains essential that Directorates maintain these measures to make every effort to reduce their forecast budget pressure and deliver a balanced budget by year end. As part of the 2025/26 budget, £4.367m of one-off funding was allocated to the Middlesbrough Priorities Fund. To date, £1.521m has been committed for spend by 31 March 2026, with the remaining £2.846m proposed to be used to reduce the forecast outturn position, as shown in Table 1 below. Any further underspend in the Fund up to 31 March 2026 will also be used to offset any year-end forecast overspend. Funding for many of the schemes has been incorporated within the growth built into the 2026/27 budget where continuation of these services is considered a Council Plan priority.

**Table 1 – Summary of Net Revenue Budget Forecast Outturn 2025/26 at Quarter Three**

Directorate	MEMO FORECAST VARIANCE SPLIT					
	Current Full Year Budget	Forecast Outturn	Forecast Outturn Variance	Savings Delivery Variance	Other variances	Movement from Quarter Two
	£m	£m	£m	£m	£m	£m
			Adv /(Fav)	Adv /(Fav)	Adv /(Fav)	Adv /(Fav)
Adult Social Care	56.587	58.070	1.483	0.181	1.302	(0.154)
Public Health	0.086	0.086	(0.000)	0.000	(0.000)	(0.000)
Children's Care	57.817	66.058	8.241	3.833	4.408	0.237
Education & Partnerships	6.640	7.105	0.465	0.345	0.120	(0.004)
Regeneration	3.176	3.554	0.378	0.375	0.003	0.153
Environment & Communities	21.972	22.884	0.912	0.393	0.519	(0.010)
Legal & Governance	12.130	11.848	(0.282)	0.000	(0.282)	(0.031)
Finance	4.415	3.257	(1.158)	0.000	(1.158)	(0.420)
Chief Executive	0.259	0.259	0.000	0.000	0.000	0.000
<b>Total Directorates</b>	<b>163.082</b>	<b>173.121</b>	<b>10.039</b>	<b>5.127</b>	<b>4.912</b>	<b>(0.229)</b>
Central Budgets	(19.778)	(22.098)	(2.320)	2.548	(4.868)	0.134
<b>Total</b>	<b>143.304</b>	<b>151.023</b>	<b>7.719</b>	<b>7.675</b>	<b>0.044</b>	<b>(0.095)</b>

**Proposed use of central contingencies and other budgets to reduce forecast**

	£m	£m
Savings Delivery Risk Budget held centrally	(2.000)	0.000
Inflation & Growth held centrally	(0.206)	0.000
Corporate Contingency Budget	(0.517)	(0.035)
Middlesbrough Priorities Fund	(2.846)	0.000
Pay & Prices Contingency - amount remaining after use for agreed 3.2% pay award for 2025/26	(0.475)	0.000

**Remaining forecast outturn variance****1.675****(0.130)**

4.11 A summary of the main variances for each Directorate is included in paragraphs 4.16 to 4.31 including any recovery plans proposed by Directorates. Table 1 also includes a split of the forecast outturn variance between those due to potential non-delivery of required budget savings (detailed in paragraphs 4.12 to 4.15 and Appendix 2), and other variances.

**Budget Savings Delivery**

4.12 The budget for 2025/26 is predicated on the delivery of £11.626m in savings, comprising £6.786m of new savings and £4.840m of savings previously approved in 2024/25. The revised new savings figure reflects the proposed removal of £0.250m, which will be formally taken out of the Council's budget as part of the 2026/27 budget setting process. In the interim, a temporary virement has been approved, and the removal of these savings will be funded from the Corporate Contingency budget in 2025/26, as shown in Table 3.

4.13 In addition to these new budget savings required there was also a total of £2.291m of previous savings which were not fully achieved during 2024/25 and are remaining to be achieved in 2025/26. This makes a total of £13.917m of savings which are required to be achieved in 2025/26.

4.14 Table 2 provides a summary of projected delivery performance against savings required in 2025/26. Further detail on savings currently unachievable is included in Appendix 2. All identified savings will be subject to ongoing monitoring through the monthly Budget Challenge sessions with Directorates and will be reported through this

report. In addition, savings linked to transformational and corporate projects will continue to be overseen via the Directorate Performance Boards.

- 4.15 Any forecast unachieved savings in 2025/26 are required to be achieved in full or replaced fully with alternative approved savings in future years otherwise this will have a negative impact on the Council's MTFP. Unachieved savings will be reviewed at the start of 2026/27 to determine an alternative approach to delivery if required. Any savings that are deemed unachievable permanently will need to be submitted for Council approval to remove in the 2026/27 budget setting, and this will only be approved if finances allow.

**Table 2 – Savings Programme Assurance Summary for 2025/26 by Directorate**

Directorate	2025/26 Budgeted Savings Target  £m	2025/26 Forecast Savings Achieved  £m	2025/26 Savings (over) / under achieved £m
Adult Social Care	(2.733)	(2.552)	0.181
Children's Care	(4.112)	(0.279)	3.833
Education & Partnerships	(0.359)	(0.014)	0.345
Regeneration	(1.394)	(1.019)	0.375
Environment & Communities	(1.790)	(1.397)	0.393
Legal & Governance	(0.367)	(0.367)	-
Finance	(0.395)	(0.395)	-
Central	(2.767)	(0.219)	2.548
	<b>(13.917)</b>	<b>(6.242)</b>	<b>7.675</b>

### Directorate main variances

- 4.16 The explanations for Directorate major variances and current proposed mitigations, where appropriate, which have been agreed with Directorates following the Member led Budget Clinics, are summarised below.
- 4.17 Directors have submitted financial recovery plans and mitigations aimed at reducing their year-end forecast budget pressures, which reflects the position if no further actions are taken. There remains an ongoing requirement for these plans to continue to be implemented to support the achievement of a balanced budget for each Directorate by the end of 2025/26. While these measures may not fully address the financial challenges, the improved financial settlement has enabled the Council to better support genuine service demand and growth. However, where it is evident that potential risk identified as part of the budget monitoring process are expected to remain for 2026/27, plans to mitigate these risks for the remainder of 2025/26 and into 2026/27 will form a key part of the ongoing monitoring process. There will be continued enhanced budget monitoring, with a clear focus on monitoring financial risks, tracking how services deliver planned savings and ensuring they operate within their allocated budgets. Strong governance and accountability will be embedded in the development and delivery of financial resilience recovery plans. Alignment with the performance



management process to ensure strong governance and accountability is essential. Corporate revenue budget spending controls will continue to be applied throughout 2025/26 to reinforce financial discipline.

- 4.18 In developing the financial recovery plans, Directors considered actions that would not only address in-year budget pressures but also tackle recurring issues likely to impact the Medium-Term Financial Plan (MTFP). For the purposes of this report, the focus is on the short-term measures identified for implementation that are expected to have an immediate impact on the 2025/26 forecast position. While these measures may not fully eliminate financial pressures, particularly given the demand-led nature of many cost drivers, the implementation of robust financial controls remains critical. Strengthening financial governance fosters a culture of accountability and informed decision-making. Through constructive challenge and scrutiny, these controls help ensure that resources are used efficiently, value for money is achieved, and all viable options are considered before financial commitments are made. This approach underpins financial resilience and supports improved outcomes for communities through transparent and responsible service delivery.
- 4.19 A range of core financial controls are already in place across all departments and are being actively reinforced to support the financial recovery strategy. These include delegated authority for spending approvals, regular budget monitoring, demand management planning, procurement oversight, panel reviews for high-cost services, particularly in Children's and Adults social care, income and cost tracking, and close collaboration with Finance Business Partners. Strengthening the consistent application of these controls is key to maintaining financial discipline, improving forecasting, and ensuring value for money.
- 4.20 Proposed revenue budget virements above £250,000 require Executive approval, and those proposed following Quarter Three monitoring are set out at Appendix 1 for consideration and approval.

***Adult Social Care: current forecast budget pressure at year end £1.483m***

Adult Social Care	Full Year Budget £m	Full Year Forecast £m	Forecast Over / (Under) spend £m
Revenue Outturn	56.587	58.070	1.483

- 4.21 A budget pressure of £1.483m is currently forecast for the Directorate at year end, the main reasons for this are detailed below:
- Prevention, Provider & Support Service: £0.165m*

Mainly because of unachieved savings and a shortfall of income in respect of the re-provisioning of Levick Court. Executive on 12<sup>th</sup> November 2025 approved a report regarding the reprovision of Levick Court. The proposed partnership with the Integrated Care Board (ICB) and Tees Esk and Wear Valleys NHS Trust (TEWV) aims to establish a financially sustainable model through joint commissioning and integrated clinical support. This model also allows for potential revenue generation if demand for health-commissioned beds exceeds the initial allocation of eight. A full financial appraisal and staffing model have been developed to ensure the block contract value will cover operational costs and support delivery of the £311,000

savings target set in 2024/25. The service has reduced the forecast position by the maximisation of a capital grant in relation to TCES equipment costs.

- *Purchasing - Growth: £2.181m*

This pressure has increased from £2.042m in Quarter Two. The increase is attributed to demand for high-cost care services, particularly residential care. The forecast includes an estimate of net future growth for the remainder of the financial year, including a provision for additional health income in relation to some of the new care packages, the position is closely monitored, and the position may change as the year progresses.

- *Purchasing - Residential: (£0.546m)*

Savings have been achieved through the recovery of overpayments for out of area placements. These overpayments occurred due to delayed notifications from care homes following service users' death. New procedures have been implemented to prevent recurrence.

- *Other Variances across the Directorate: (£0.317m)*

Within the predicted saving of £0.317m there are staffing pressures that amount to £0.309m, mainly within Specialist & Lifelong Services and Access & Safeguarding. However, anticipated staff turnover later in the year has led to a reduced forecast, this is not attributed to a specific service line at present.

- *To address the forecast budget pressures, the Directorate continues to implement the following measures:*

Levick Court Reprovision: as outlined above, the partnership with ICB and TEWV is expected to deliver savings and generate additional income.

Agency Staff Review: weekly reviews by the Director of Adult Social Services to ensure agency staff are being replaced with permanent hires where appropriate.

High-Cost Package Scrutiny: care package review, where all packages exceeding £5,000 per week are flagged for discussion at ASC Finance DMT sessions. This aims to reduce expenditure and identify commissioning gaps.

Transition Review: a focused review of transitions to promote closer joint working and prevent the implementation of high-cost packages prior to transfer to adult services.

Vacancy Freeze: a freeze on non-critical vacancies for the remainder of 2025/26 to control staffing costs.

**Public Health: forecast break even**

Public Health	Full Year Budget £m	Full Year Forecast £m	Forecast Over / (Under) spend £m
Revenue Outturn	0.086	0.086	(0.000)

- 4.22 An underspend of £0.467m is currently forecast on Public Health budgets for 2025/26, however in accordance with the grant conditions this will be transferred to the Public Health reserve at year end resulting in an overall break-even position forecast at year end. The Public Health Reserve totalled £1.686m at 31 March 2025 and plans are in place for this to be utilised on public health activities in accordance with the grant conditions.

**Children's Care: current forecast budget pressure at year end £8.241m**

Children's Care	Full Year Budget £m	Full Year Forecast £m	Forecast Over / (Under) spend £m
Revenue Outturn	57.817	66.058	8.241

- 4.23 An overall budget pressure of £8.241m is currently forecast for the Directorate at year end. However, with the application of the Children's Services Prevention grant of £2.123m, this is likely to reduce to £6.118m. While the grant income is already included in the Council's overall forecast position, it is currently held within Central Budgets in section 4.31 and shown within Central Budgets forecast figure. In relation to the grant, although the associated costs are currently reflected in the £8.241m, the expenditure is subject to assurance to ensure the expenditure meets the grant conditions. The Finance team is actively working through this assurance process, and once completed, the grant will be allocated to Children's Care. The main reasons for the forecast budget pressure within Children's Care are detailed below:

- **External Residential placements: £5.619m**  
The number of Children Looked After (CLA) in Middlesbrough has remained broadly stable. However, there has been an increase in external residential placements, rising from 77 on 30 June 2025 to 86 by 31 December 2025. Alongside this increase, higher costs are being driven by the complexity of placements needs compared to those budgeted.

It should be noted that a significant proportion (21.9%) of the Council's CLA are placed in residential type settings (113 children out of a total CLA of 515 as at 31 December 2025).

Three projects have been launched to reduce the CLA numbers and residential placements. While the Reunification Project has shown positive impact, the Modernising Fostering and Edge of Care initiative have yet to deliver reductions.

The forecast financial position has remained relatively in line with the position reported at Quarter Two, however this budget is likely to be volatile until the end of the financial year due to a number of highly complex placements currently in place, which are greater in number than in previous years.

As part of the financial recovery plan, Children's Care is reviewing the use of vacant internal beds, including changes to the statement of purpose for internal residential homes to improve occupancy. The service also aims to maximise use of block bed contracts (6-bed and 12-bed units) by identifying external placements suitable for transfer and securing referrals for the new provision.

Under the Fostering Project, Children's Care are identifying young people who could realistically move from residential to foster care, along with projected timelines. However, progress is constrained by foster carer availability. Although recruitment is ongoing, it currently only offsets those leaving the profession, resulting in no net increase.

A full review of placement planning across all related services is being undertaken along with placement plans for the next couple of years for existing young people in order to feed into the Council's MTFP for 2026/27 onwards. This includes the Fostering project and internal residential occupancy with a revised statement of purpose.

- *Fostering, Adoption and other internal placements: £0.023m*  
The forecast financial position has shifted slightly from an expected underspend of £0.122m to a small financial pressure of £0.023m. This change is primarily due to an increase of £0.053m within fostering and adoption, as IFA placements rose in December contrary to earlier forecast. However, internal fostering capacity has still not expanded as planned as per the allocated budget for 2025/26, which continues to limit the ability to reduce reliance on external placements.

Internal residential costs also increased by £0.053m, driven by homes not operating at full capacity and continued reliance on agency staff. A new Head of Service for Internal Residential commenced in January and will now be in a position to review current placement issues in line with the internal residential homes, statement of purpose, aiming to address capacity and efficiency challenges going forward.

- *Assessment & Safeguarding: £1.770m*  
Financial pressure within Assessment and Safeguarding has reduced slightly from £1.864m in quarter two to £1.770m in quarter three. This reduction reflects the application of £0.950m of additional resources through the flexible use of Capital Receipts to temporarily fund Referral & Assessments and MACH services. These resources have supported practice improvements, including enhanced management oversight to embed responses and thresholds, strengthen service delivery, improve multi-agency working, and reduce the risk for young people in Middlesbrough, while also addressing longer-term inspection implications.

However, the benefit of these additional resources has been largely offset by an increase in costs of £0.856m, driven by continued reliance on agency staff. Agency workers remain necessary to cover sickness, maternity leave and vacancies beyond the budgeted establishment, resulting in the service operating above its approved staffing structure. This reliance on agency staff continues to present significant requirements to Medium-Term Financial Planning (MTFP), alongside addressing

unachievable savings assumptions linked to reduced staffing levels. A small portion of the financial pressure also relates to Section 17 spending which currently accounts for approximately £0.370m of the total forecast financial pressure.

- **Other Variances across the Directorate: £0.829m**  
Across the remainder of the Children's Care directorate there are further financial pressures of £0.829m. This includes a £0.662m forecast pressure in Children Looked After and Children with Disabilities Services, driven by staffing pressures, particularly the use of agency staff, and emergency placements.
- **To address the forecast budget pressure, the Directorate continue to implement the following measures:**

Identification of expenditure to potentially be funded by Flexible Use of Capital Receipts (FuoCR) within Assessments and MACH services for improvements and Ofsted readiness has now been completed and is reflected in the financial forecast.

**Residential Placements:** All children who are cared for in external homes are being reviewed via the out of area panel chaired by the Director of Children's Services with the aim to assess quality, consider alternative step-down plans and other options for children and young people.

Maximise internal residential placements, including a review of the statement of purpose to improve occupancy.

Ensure the block bed contracts of which we have two (6-bed unit and 12-bed unit) are fully utilised.

**Recruitment & Retention Strategy:** Children's Care are in the final stages of appointing a recruitment lead who will lead in the recruitment and retention strategy.

In addition, the service will implement tighter controls in agency staff usage.

**High-Cost Package Scrutiny:** Placements exceeding £7,000 per week will require additional approval by the Director of Children's Care or the Director of Children's Services. This aims to reduce expenditure and identify commissioning gaps.

***Education & Partnerships: current forecast budget pressure at year end £0.465m***

Education & Partnerships	Full Year Budget £m	Full Year Forecast £m	Forecast Over / (Under) spend £m
Revenue Outturn	6.640	7.105	0.465

4.24 The forecast budget pressure of £0.465m within Education and Partnerships is due to the Integrated Transport Service, which provides home-to-school transport for children and transport for vulnerable adults.

- **Integrated Transport Unit: forecast budget pressure £0.465m**  
The pressure is primarily due to unachievable savings of £0.345m. Whilst preparing the Financial Recovery Plan the service reviewed each of the savings and believe they remain achievable within a more realistic timeframe, therefore whilst their Financial Recovery Plan may not necessarily achieve the required savings to ensure

a balanced position by the end of the year, they are confident that the savings can still be delivered in the following year.

***Regeneration: current forecast budget pressure at year end £0.378m***

Regeneration	Full Year Budget £m	Full Year Forecast £m	Forecast Over / (Under) spend £m
Revenue Outturn	3.176	3.554	0.378

4.25 An overall forecast budget pressure of £0.378m is currently forecast for the Directorate at year end, the main reasons for this are detailed below

- *Strategic Commercial Properties £0.511m*  
£0.507m Boho Buildings - Currently only 20% of the buildings are occupied, resulting in lost rent and increased building related costs to the Council. A sector expert in managed accommodation has now been appointed and as from December 2025 will be actively seeking tenancies.

£0.011m Centre Square 1 and 2 - The major tenant at Centre Square 1 has renewed its lease agreement and reduce the space occupied, therefore increasing the cost to the Council due to the vacated space. The Council is actively seeking alternative tenancies for the remaining space.

£0.405m below budgeted income at Cleveland Centre and Captain Cook Square shopping centres.

The above pressures are partially alleviated by the Investment Property Contingency budget being fully utilised.

- *Other Variances across the Directorate including Unachieved Savings: (£0.133m)*  
The savings of £0.300m relating to homelessness will now not be achieved. Whilst actions are being undertaken which will address costs, the nature of the budgets which sit within other directorates and the increase in homeless cases will only result in cost reduction as opposed to budget savings. It is proposed that this saving is permanently replaced by a reduction in unrequired supplies and services budgets across Regeneration.

There will be an underachievement of a saving relating to the Captain Cook Museum of £0.075m due the service only receiving half of the £0.150m of sponsorship and donations income that were previously assumed. The unachieved element of the savings will be permanently covered by general savings across the Cultural Services.

4.26 There are other variances across the Directorate below £0.250m which reduce the total forecast budget pressure across the Regeneration Directorate to £0.378m.

***Environment & Communities: current forecast budget pressure at year end £0.912m***

Environment & Communities	Full Year Budget £m	Full Year Forecast £m	Forecast Over / (Under) spend £m
Revenue Outturn	21.972	22.884	0.912

4.27 There has been a significant improvement in the forecast budget pressure which was reported to be £1.898m at Quarter One and is now currently forecast at £0.912m for the Directorate at year end, the main reasons for this are detailed below:

- ***Bereavement Services £0.396m***

Bereavement Services forecast budget pressure of £0.396m is primarily due to a reduction in the number of cremations as previously reported, resulting in an anticipated income shortfall of £0.236m. Additionally, expenditure is expected to exceed budget by £0.160m, mainly due to the replacement of the digital display and music system. However, the facility remains in a financially stable position and is able to cover its running costs. The anticipated income levels have been impacted by competition from neighbouring facilities. Ongoing reviews of operations and processes are beginning to have a positive effect, and part of the cost pressure has been mitigated through the capitalisation of some of the digital display equipment and PlotBox, a new booking system.

- ***Catering Service £0.205m***

The financial pressure is due to rising food costs combined with school meal prices that have not been increased to reflect the cost of delivering the catering service. This position is influenced by the Executive's decision to not increase the price of school meals in order to support families. A decision is required as to whether to increase prices to cover costs or identify alternative mitigation.

- ***Fleet Services £0.288m***

Fleet Services are currently forecasting a budget pressure of £0.288m, an improvement from the previous forecast of £0.495m. This improvement reflects the successful recruitment of fitters to vacant posts, reducing the need for external repairs and maintenance. While this is a positive development, future financial pressures may persist due to ongoing challenges in recruiting and retaining mechanical fitters and rising vehicle parts costs. Expenditure on replacement parts is beginning to fall as some ageing fleet vehicles have been replaced. A recent service review recommended a hybrid vehicle replacement strategy, combining direct capital purchase with leasing. For leased vehicles, repair and maintenance costs would be included, helping to reduce future expenditure. Decisions to lease or purchase will be made on a case-by-case basis, supported by financial analysis to ensure value for money.

- ***Management Review Savings £0.374m***

Increased service demands, growth and a health and safety issue has meant that the Director of Environment and Community Services has had to delay his staffing restructure. This is expected to result in a pressure of £0.374m. The original

review will need to be re-configured to align with the updated service needs and is expected to complete in 2026/27.

- **Other Variances across the Directorate: (£0.351m)**  
Additional Capital Grant has been received following a Government Spending review, this has allowed the service to review and capitalise some of the works that have been completed or that are due to take place that were previously funded from the revenue budget. In addition, due to delays in recruitment particularly within Area Care temporary in year savings have been realised, all which have supported with the reduction of the forecast budget pressure.
- *To address the forecast budget pressures, the Directorate is continuing to implement the following measures:*

The Directorate is implementing a range of measures, within Environment Services, recruitment is limited to essential posts only, Public Protection is considering delaying recruitment to a small number of vacant positions to help manage in-year pressures and across all services, expenditure is monitored and assessed to ensure it is essential.

***Legal & Governance: current forecast underspend at year end (£0.282m)***

Legal & Governance	Full Year Budget £m	Full Year Forecast £m	Forecast Over / (Under) spend £m
Revenue Outturn	12.130	11.848	(0.282)

4.28 An overall underspend of (£0.282m) is currently forecast for the Directorate at year end, the main reasons for this are detailed below:

- **ICT Service: (£0.273m)**  
There are several posts that had been kept vacant until the new Head of Service commenced her role, resulting in (£0.326m) of forecast savings related to salaries in 2025/26.
- **Customer Centre / Mail and Print: £0.109m**  
Mail & Print costs are currently 22% higher than the previous year. To mitigate this, several cost-saving measures have already been implemented. Staff have been advised to use the economy mail option, saving 4.5p per letter with a potential reduction in costs of £0.020m. Residents and Business Services, the largest user of Mail and Print, is working closely with the team to identify further reductions. Additionally, the print contract is being transferred to a new supplier, and the mail contract has been extended for one year with the discount on economy post as mentioned above.
- Although Legal & Governance are forecasting an overall underspend of £0.282m, a Financial Recovery Plan has been submitted in response to areas facing ongoing pressure, particularly where demand is expected to continue into the next financial year.



***Finance: current forecast underspend at year end (£1.158m)***

Finance	Full Year Budget £m	Full Year Forecast £m	Forecast Over / (Under) spend £m
Revenue Outturn	4.415	3.257	(1.158)

4.29 An overall underspend of (£1.158m) is currently forecast for the Directorate at year end which is an increase of (£0.420m) since the quarter two report – the main reasons for this are detailed below:

- (£0.547m) within *Financial Planning & Business Partnering* mainly due to MTFP growth provided at 2025/26 budget setting not forecast to be fully utilised in 2025/26 as the associated staff review has not yet been implemented.
- £0.175m within *Corporate Finance* mainly due to pressures on bank charges and costs of cash collection.
- (£0.169m) within *Pensions Governance and Investments* due to staff savings on vacant posts.
- (£0.588m) within *Resident & Business Support (excluding Housing Benefits Subsidy)* Additional savings have been realised since quarter two of (£0.280m) due to additional grant income received in relation to what was expected, further staff savings and a forecast reduction in the bad debt provision.
- £0.078m in relation to Resident & Business Support Housing Benefit Subsidy. The forecast financial pressure had previously been reported as £0.166m, however the positions now looks to have improved since the forecast has been updated following the submission of the Mid-Term Subsidy claim.
- (£0.075m) within *Strategic Commissioning & Procurement* mainly due to staff savings from vacant posts and staff working reduced hours to those budgeted.
- (£0.033m) additional income in relation to *Central Support Services and Overheads charged to Grants*.

***Chief Executive: forecast break even***

Chief Executive	Full Year Budget £m	Full Year Forecast £m	Forecast Over / (Under) spend £m
Revenue Outturn	0.259	0.259	0.000

4.30 The Chief Executive budget is made up of the Chief Executive's salary budget, plus a small budget for supplies and services, and at this stage, it is forecast that this budget will be spent in full, with no variance to budget expected.

**Central Budgets: current forecast underspend at year end (£2.320m)**

Central Budgets	Full Year Budget £m	Full Year Forecast £m	Forecast Over / (Under) spend £m
Revenue Outturn	(19.778)	(22.098)	(2.320)

4.31 The main issues comprising the latest forecast position for Central budgets are detailed below, however it should be noted that due to the nature of the budgets contained in this area, including Central Contingency budgets, the position on Central budgets is volatile, and it is to be expected that the forecast position on these budgets will change between accounting reporting periods.

- (£1.000m) on *Capital Financing* due to a combination of Exceptional Financial Support (EFS) financed by borrowing now not being required and slippage within the capital programme, resulting in lower revenue costs of financing capital expenditure.
- (£0.624m) on *Centrally Held Grants* due to final confirmation of the Extended Producer Responsibility (EPR) Grant funding which was higher than anticipated at the time of budget setting.
- £0.244m savings target due to the *Senior Management Review* will now not be achieved in 2025/26.
- (£0.730m) savings on the *Change Fund*, the planned contribution to top up the Change Fund Reserve in 2025/26 is no longer deemed a requirement due to the current use of FUoCR to fund Transformation & Redundancy costs.
- (£2.123m) A centrally held Government Grant, the Children's Services Prevention Grant, as referenced in section 4.23, is currently contributing to the underspend within Central Budgets. Although the grant is included in the Council's overall forecast position, it is temporarily held centrally pending completion of an assurance process. The Finance team is actively working through this process to confirm the associated expenditure. Once assurance is complete, the grant will be allocated to Children's Care, thereby reducing their forecast budget pressure from £8.004m to £5.881m.
- (£0.391m) savings identified in relation to the *General Fund* in relation to expected DRF contributions from schools towards Capital Financing and *External Audit Fees*.
- £2.304m due to *Cross Cutting Savings* which are now not expected to be achieved due to the following:
  - £1.300m relating to Contractual Spend Review, £0.700 of which has now been identified as a double count of a 2024/25 saving. The remaining £0.600m not achieved is in part due to savings identified being in relation to capital contract, which do not contribute towards the revenue savings, however work will be ongoing into 2026/27 and is still expected to provide the savings.

- £1.004m of savings relating to Business Rates and Council Tax, which whilst savings have been 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, the savings in the Collection Fund do not impact the General Fund position until the next year and therefore these cannot be included within the revenue outturn for 2025/26 (see paragraph 4.57 for details)
- The ongoing effect of the above unachieved savings is being considered within the MTFP for future years, as noted in the separate report to this Executive.

### Contingency Budget and Change Fund

4.32 Table 3 summarises the 2025/26 budgets and commitments against the central Corporate Contingency budget and Change Fund Reserve which are controlled under the delegated powers of the S151 Officer.

**Table 3 – Summary of 2025/26 budget and commitments - Corporate Contingency Budget and Change Fund Reserve**

	Corporate Contingency	Change Fund Reserve
	£m	£m
Starting Budget 2025/26	1.327	2.766
Contributions 2025/26 ( <i>Planned contribution of £0.730m in 2025/26 no longer required due to use of Flexible Capital Receipts Funding for transformational expenditure</i> )	-	-
Temporary budget virement to ECS to cover unachieved Residents Parking Permit charges saving	(0.250)	-
<b>Available for use</b>	<b>1.077</b>	<b>2.766</b>
<b>Approved use to date</b>		
Middlesbrough Independent Improvement Advisory Board costs 2024/25 - residual costs falling into 2025/26	(0.009)	
Employers Pension Contribution Rate Review costs	(0.003)	
Interim Finance consultant - Infrastructure, assets and leasing	(0.002)	
Financial improvement - Interim finance lead - accounts closure and audit, financial reporting, systems, and control	(0.007)	
Armed Forces Day Council contribution	(0.001)	
Turner Prize contribution	(0.300)	
LGS Staff Review costs	(0.202)	
<i>Earmarked for potential use from Contingency Budget - if other budgets not available within Directorates</i>		
Education - Literacy work & events	(0.010)	
Finance - Community Grants - VE Day Celebrations	(0.027)	
General contingency for remainder of year	-	
<b>Approved use to date</b>	<b>(0.560)</b>	<b>-</b>
<b>BALANCE REMAINING CURRENTLY UNCOMMITTED ON CORPORATE CONTINGENCY</b>	<b>0.517</b>	
<b>- AVAILABLE TO MITIGATE FORECAST OVERSPEND</b>		
<b>FORECAST CLOSING BALANCE ON CHANGE FUND RESERVE AT 31/03/26</b>		<b>2.766</b>

## Council Reserves and Provisions

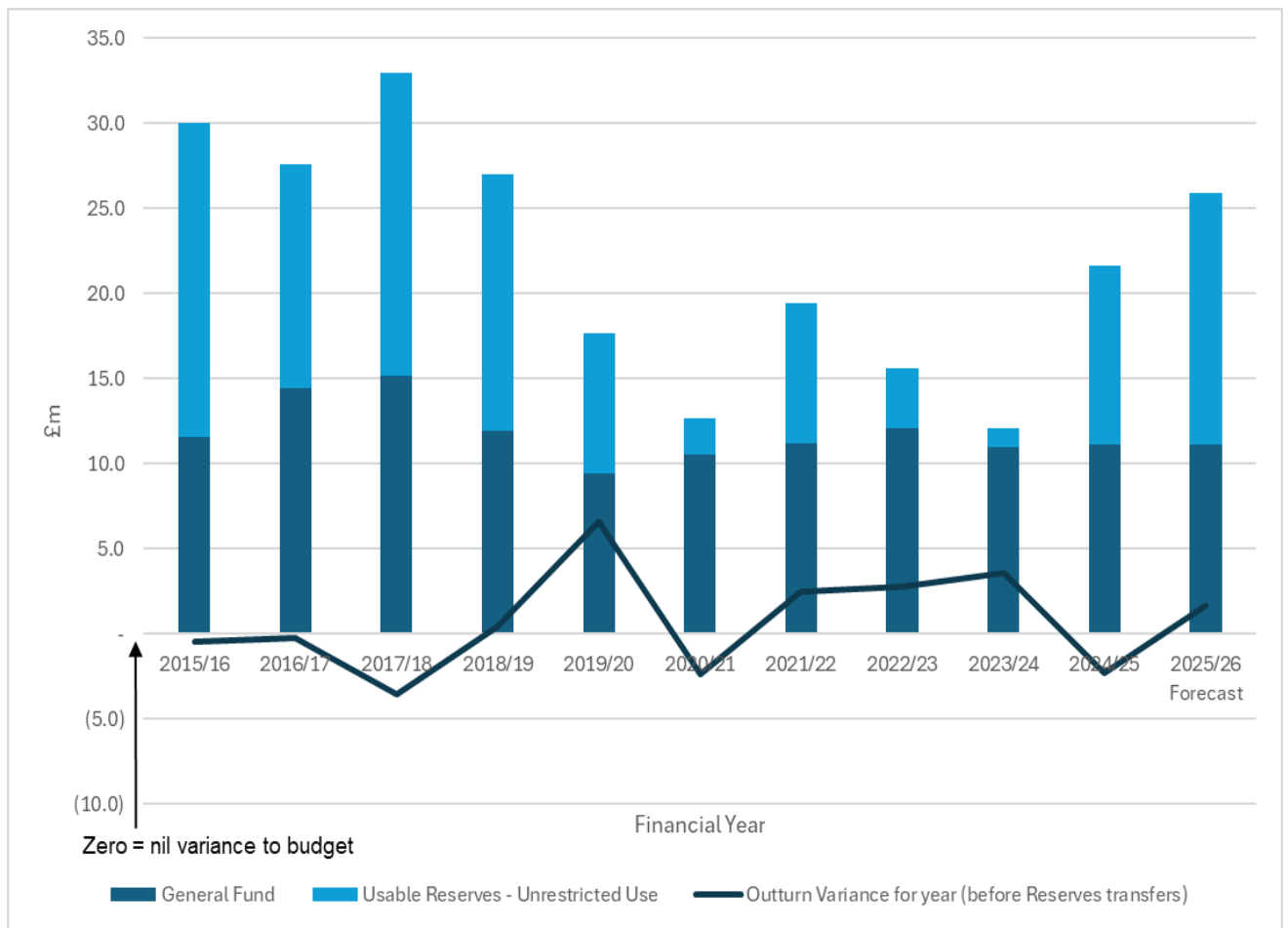
4.33 Table 4 summarises the Council's General Fund reserves and provisions showing the movement between 31 March 2025 and that currently forecast at 31 March 2026, with full details included in Appendix 3. It shows that the Council has forecast usable unrestricted revenue reserves on 31 March 2026 of £25.937m (highlighted yellow)

**Table 4 – Summary of General Fund Balance, Reserves, and Provisions**

	<u>Opening Balance 01/04/25</u>	<u>Forecast Use in Year</u>	<u>Projected Additional Contributions</u>	<u>Projected Transfers from / (to) General Fund</u>	<u>Projected Transfers between Reserves</u>	<u>Forecast 2025/26 year end outturn</u>	<u>Forecast Balance at 31/3/26</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
<b>GENERAL FUND RESERVE</b>	<b>11.100</b>	-	-	-	-	-	<b>11.100</b>
<b>USABLE EARMARKED RESERVES</b>							
Restricted Use	2.689	(0.513)	0.967	-	-	-	3.143
Unrestricted Use	10.554	-	5.958	-	-	(1.675)	14.837
	13.244	(0.513)	6.925	-	-	(1.675)	17.981
<b>UNUSABLE EARMARKED RESERVES</b>	(16.813)	-	-	(9.000)	-	-	(25.813)
<b>SCHOOL BALANCES</b>	3.050	-	-	-	-	-	3.050
<b>PROVISIONS</b>	3.814	-	-	-	-	-	3.814
	14.395	(0.513)	6.925	(9.000)	-	(1.675)	10.132

4.34 Figure 1 below shows the trajectory of Middlesbrough's unrestricted usable reserves from 2015/16 through to 2025/26 year-end forecast closing balance against both the recommended minimum reserves level and the reported outturn position per year.

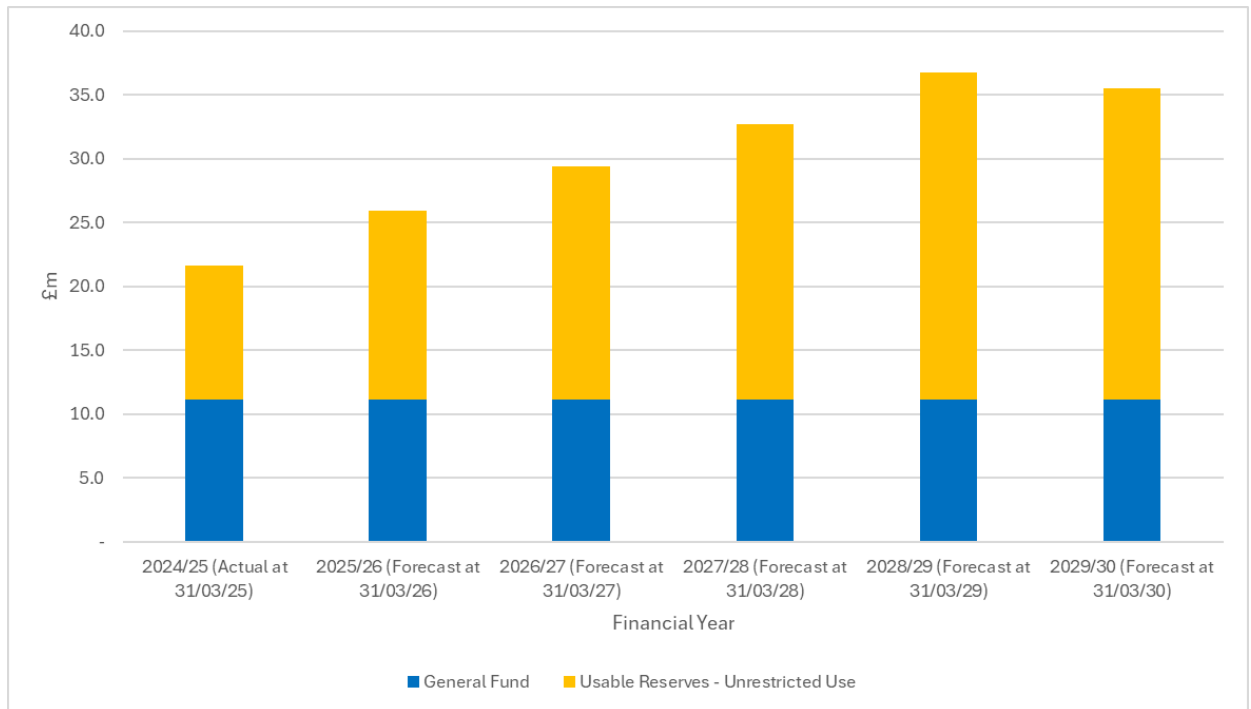
**Figure 1 - Middlesbrough Council - Unrestricted Reserves Balances from closing balance 2015/16 through to year-end forecast closing balance 2025/26 and reported outturn variance per year**



4.35 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.

4.36 Figure 2 below shows the projected unrestricted usable reserves through to the end of 2029/30 after planned contributions; however this will depend on any unplanned drawdowns of reserves.

**Figure 2 - Forecast Unrestricted Usable Reserves from closing balance 2024/25 through to closing balance 2029/30 (following planned contributions and drawdowns)**



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

4.37 Local authorities receive a ring-fenced grant from central government each year, which can only be used to fund education – Dedicated Schools Grant (DSG). The DSG budget is accounted for separately to the main Revenue Budget. The funding comprises of a number of blocks:

- Schools Block
- Central School Services Block
- High Needs Block
- Early Years Block

4.38 Table 5 below summarises the latest position on the DSG budget and shows that there is a forecast budget pressure at year-end of £9.000m on DSG within 2025/26 and this when added to the cumulative deficit at the end of 2024/25 means that there is currently forecast a total cumulative deficit of £31.213m on 31 March 2026.

**Table 5 - Dedicated Schools Grant (DSG) after recoupment and deductions**

	2025/26 Income	2025/26 Expenditure	2025/26 Year-end Overspend	Balance as at 31/03/2025	Cumulative DSG Deficit as at 31/03/2026
	£m	£m	£m	£m	£m
Early years Block	22.674	22.674	0.000	(0.749)	(0.749)
Schools Block	12.526	12.526	0.000	(0.490)	(0.490)
High Needs Block	33.910	42.910	9.000	23.515	32.515
Central school services Block	1.136	1.136	0.000	(0.063)	(0.063)
<b>TOTAL</b>	<b>70.246</b>	<b>79.246</b>	<b>9.000</b>	<b>22.213</b>	<b>31.213</b>

- 4.39 The DSG is subject to a statutory override by central Government which instructs Councils to account for the DSG deficits and resulting negative balance in a separate reserve and not to fund it by using its General Fund resources. This was planned to end on 31 March 2026, however recently the Government have announced that this would be extended by a further two years to 31 March 2028 to tie in with the transition to a reformed Special Education Needs and Disabilities (SEND) system, details of which will be set out in a White Paper planned to be published in spring 2026.
- 4.40 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 forecast DSG deficit at 31 March 2026 of £31.213m is greater than all of the Council's forecast usable revenue reserves of £25.937m at 31 March 2026, and the DSG deficit is currently forecast to increase in future years of the MTFP by more than the forecast increase in reserves. Like many local authorities, this could result in the Council being subject to a s114 Notice in the future without a solution by the Government.
- 4.41 The Delivering Better Value (DBV) programme ended Summer 2025 and the results of this will be analysed and further work undertaken by the Education Service and Finance to look at options to improve the deficit figures during future years. However, there is a likelihood of significant deficits continuing to arise in future years and this will therefore remain a significant risk in the future even if the Government resolves the deficits accumulated from previous years.
- 4.42 Further details of the DSG budget and the management actions being taken alongside the DBV programme are provided in Appendix 4.
- 4.43 The DSG risk is included in the Council's Strategic Risk Register and was also reflected in the Annual Governance Statement for 2024/25 and will be for 2025/26.

## **Medium Term Financial Plan issues**

4.44 The Provisional Local Government Financial settlement for 2026/27, published on 17 December 2025 has allowed for demand-led pressures identified in Quarter Two to be supported, including additional funding for Catering to maintain affordable pupil meals, a realistic adjustment to Bereavement Services income, and provision for Strategic Investment Properties to reflect revised income assumptions. These measures address most issues highlighted at Quarter Two, except for Children's Social Care, where financial risk remains due to agency staffing costs exceeding agreed budgets and the demand-led use of external residential placements. More detail is provided in the update of the Council's Medium Term Financial Plan (MTFP) for which a separate 2026/27 Budget and Medium-Term Financial Plan 2026/27 to 2029/20 is included in the agenda for this Executive. Looking ahead to 2027/28 and beyond, potential financial consideration that need to be monitored include the temporary closure of the Town Hall for essential capital works, affecting Town Hall events, box office and registrars' income, and possible costs associated with Trade Waste collection. A contingency budget has been built into the MTFP to mitigate this financial risk.

## **2025/26 Capital Programme Forecast Outturn as at Quarter Three**

4.45 On 19 February 2025 Council approved a Capital Programme for 2025/26 of £74.798m (the original 2025/26 capital budget). This was revised to £82.571m as approved by Executive within the 2024/25 Revenue and Capital Outturn report of 11 June 2025 to take account of 2024/25 programme slippage and some new externally funded schemes. Accounting for additional programme slippage and new externally funded schemes, the budget was revised to £87.575m at Quarter One and subsequently to £88.094m at Quarter Two.

4.46 The budget has been revised at Quarter Three by the addition of a total of £0.357m of new externally funded schemes / additional external funding to existing schemes. The total additional funding of £0.357m has increased the capital programme for 2025/26 to £ 88.451m as at Quarter Three. Details of all the additional funding and the schemes to which it is attributed to are provided at Appendix 5.

4.47 There is one virement requested for approval by Executive between schemes in the Capital Programme approved by Council on 19 February 2025 which is funded from within existing Council resources over £0.250m, this is movement of budgets within Transformation to fund upcoming Transformation / Subject Matter Expertise initiatives. There are three additional virements that have already or do not require Executive approval. For information, all virements between schemes are provided at Appendix 5.

4.48 The 2025/26 projected outturn on capital expenditure at Quarter Three is £64.173m, the revised projection includes new and additions to existing schemes, reductions in existing schemes and programme slippage.

4.49 The £64.173m of planned expenditure is expected to be funded by:

- £35.309m (55%) grants and external funding / contributions
- £11.694m (18%) capital receipts
- £17.170m (27%) borrowing



**Table 6 – summary of capital programme approved budget, revised budget, forecast year end outturn and variance for 2025/26**

Directorate	2025/26 Capital Programme Budget (as approved by Council 19/2/25)	2025/26 Revised Capital Programme Budget (as per Executive report 11/6/25)	2025/26 Revised Capital Programme Budget (as at Quarter Two)	2025/26 Revised Capital Programme Budget (as at Quarter Three)	2025/26 Year-end Forecast Outturn	2025/26 Year-end Forecast Outturn Variance	2025/26 Year-end Forecast Outturn Variance against Revised Budget at Quarter Three	MEMO Explanation of Year-End Forecast Outturn Variance
	£m	£m	£m	£m	£m	£m	%	
Regeneration	32.716	32.617	34.170	34.450	26.616	(7.834)	(22.74)	Slippage £m
Environment and Community	20.198	24.774	26.628	26.657	19.162	(7.495)	(28.12)	Underspend £m
Public Health	0.779	0.971	1.042	1.042	0.942	(0.100)	9.60	
Education and Partnerships	7.553	10.241	12.176	12.264	4.766	(7.498)	(61.14)	
Children's Care	0.550	0.711	0.821	0.821	0.821	-	0.00	
Adult Social Care	3.701	3.925	3.925	3.925	3.850	(0.075)	1.91	
Legal and Governance Services	1.610	1.629	1.629	1.979	2.128	0.149	7.53	
Finance	0.191	0.203	0.203	0.203	0.194	(0.009)	4.43	
Transformation Programme	7.500	7.500	7.500	7.110	5.694	(1.416)	19.92	
<b>Total</b>	<b>74.798</b>	<b>82.571</b>	<b>88.094</b>	<b>88.451</b>	<b>64.173</b>	<b>(24.278)</b>	<b>(27.45)</b>	
								<b>(23.300)</b>
								<b>(0.978)</b>

4.50 Capital slippage results from a delay in delivery of projects compared to the planned delivery. Whilst expenditure remains within the approved project budget, this results in an in-year underspend which is required to be carried forward to future financial years. This is called slippage. The amount of slippage (currently forecast at £23.300m) is reprofiled and carried forward to 2026/27 to 2028/29 to reflect revisions to the expected delivery and expenditure timescale. £3.205m of the stated £23.300m slippage has been identified following reviews of the status of projects within the capital programme during Quarter Three. Additionally, expenditure assumptions relating to future years has also been reviewed. Details of all slippage / reprofiling of spending assumptions throughout the capital programme as at Quarter Three are shown in Appendix 6.

4.51 As at Quarter Three a total of £0.978m of underspend within schemes has been removed from the 2025/26 capital programme, £0.855m has been previously reported in the Quarter Two report and an additional £0.123m has been identified during the Quarter Three review.

### Transformation

4.52 The Capital Programme 2025/26 to 2028/29 and Capital Strategy 2025/26 (Appendix 6) of the 2025/26 Revenue Budget, Medium Term Financial Plan and Council Tax setting report approved by Council on 19 February 2025 noted the inclusion of transformation and redundancy expenditure totalling £7.500m which can be capitalised under the Flexible Use of Capital Receipts Strategy (FUoCR) in 2025/26 (as part of the planned £26.700m Transformation Programme from 2024/25 to 2028/29), and the annual Flexible Use of Capital Receipts (FUoCR) Strategy for 2025/26 approved by Council on 26 March 2025 confirmed this and provided further details.

4.53 Two of the schemes that were previously within the Transformation element of the Capital Programme as stated in Appendix 7 have been moved to the respective Directorates that will manage the schemes:

- £5.000m of investment in Neighbourhood Hubs to support the Neighbourhood strategy is now included within the Regeneration Directorate.
- £4.500m of investment in ICT Infrastructure is now included within the Legal and Governance Services Directorate.

4.54 Both schemes will be funded through the £26.700m of capital receipts allocated to the Transformational Programme. The impact of this is that the funds available for revenue funding through the FUoCR strategy will reduce to £17.200m. Of the £17.200m allocation £4.447 has been spent to date, with ££5.694 forecast spend in 2025/26 leaving £7.059 for 2026/27 onwards as depicted in Appendix 7.

4.55 As at Quarter Three, the forecast spend in 2025/26 is £5.694m. At Quarter Two the projected spend was reported at £6.132m, however once this has been adjusted to account for the transfers to Capital of the Neighbourhood Hubs and ICT Infrastructure, this is reduced to £5.742m. Therefore, after the adjustment for this the projected spend at Quarter Three is a real decrease of £0.048m compared to Quarter Two.

4.56 The projected spend on Subject Matter Expertise has increased by £0.402m as new initiatives primarily relating to Adult and Children's Social Care have been approved. These costs have been funded through a reduction of £0.150m in assumed redundancy costs with the remainder coming from the contingency.

4.57 Table 7 summarises, and Appendix 7 details updated forecast year-end outturn expenditure for 2025/26 and forecast expenditure for the period 2026/27 to 2028/29 split over the various schemes and the proposed funding.

**Table 7 – Summary of Capital Programme 2025/26 to 2028/29**

Directorate	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m	2028/29 Forecast £m	TOTAL £m
Regeneration	26.616	30.016	28.348	7.783	92.763
Environment and Community Services	19.162	16.581	6.508	7.256	49.507
Public Health	0.942	-	-	-	0.942
Education and Partnerships	4.766	8.508	0.077	0.078	13.429
Children's Care	0.821	-	-	-	0.821
Adult Social Care	3.850	1.733	1.050	1.120	7.753
Legal and Governance Services	2.128	4.723	3.685	2.185	12.721
Finance	0.194	0.398	-	-	0.592
Transformation Programme	5.694	5.789	1.270	-	12.753
<b>Total EXPENDITURE</b>	<b>64.173</b>	<b>67.748</b>	<b>40.938</b>	<b>18.422</b>	<b>191.281</b>
<b>Funded by</b>					
Borrowing	17.170	15.006	11.360	-	43.536
Capital Receipts	6.000	11.960	16.060	14.231	48.251
Flexible Use of Capital Receipts	5.694	5.789	1.270	-	12.753
Grants	34.319	29.498	6.363	0.078	70.258
Contributions	0.990	5.495	5.885	4.113	16.483
<b>Total FUNDING</b>	<b>64.173</b>	<b>67.748</b>	<b>40.938</b>	<b>18.422</b>	<b>191.281</b>

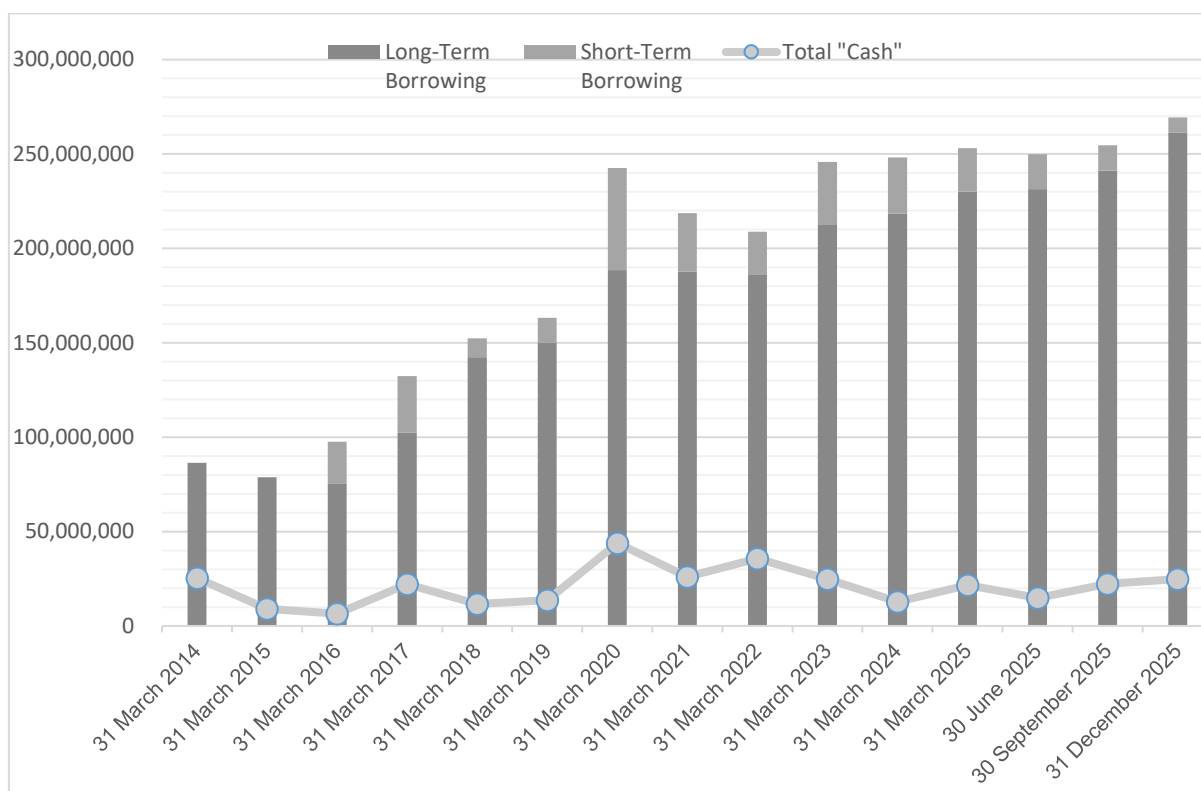
### **Treasury Management - Borrowing & Prudential Indicators**

- 4.58 The Council's investment and borrowing activity is managed in accordance with the Treasury Management Strategy (TMS) which is a key element of the MTFP alongside the annual revenue budget and capital programme which are approved by Council annually before the start of the financial year, with the TMS for 2025/26 approved by Council on 19 February 2025.
- 4.59 The affordability & sustainability of the Capital Programme and its total level of external borrowing and capital financing costs is self-regulated by the Council through a set of prudential indicators. CIPFA and central government view this approach as best practice in ensuring resources are allocated prudently to capital schemes and the local authority achieves value for money in the use of resources.
- 4.60 Investment and borrowing decisions are taken to manage the short, medium, and long-term cash needs of the Council and these are driven primarily by the following:
- the extent to which the Council finances its capital expenditure by borrowing which is measured by the Capital Financing Requirement (CFR)
  - the timing differences between operational income and expenditure flows
  - the level of cash backed reserves held, and.
  - current short to long term interest rate forecasts.
- 4.61 The budget and forecast positions on these prudential indicators at Quarter Three for 2025/26 are summarised in Table 8 below.

**Table 8 – Prudential Indicators – Quarter Three 2025/26**

	<u>Budget</u> <u>(as per</u> <u>March</u> <u>approval)</u> <u>(£M)</u>	<u>Forecast</u> <u>at Quarter</u> <u>Three</u> <u>(£M)</u>	<u>Variance</u> <u>(£M)</u>	<u>Variance</u> <u>as %</u> <u>of Budget</u> <u>(£M)</u>
Capital Expenditure	74.798	64.173	(10.625)	-14.20%
<u>Financing</u>				
External Sources	44.213	35.309	(8.904)	-20.14%
Own resources	13.500	11.694	(1.806)	-13.38%
Debt	17.085	17.170	0.085	0.50%
	74.798	64.173	(10.625)	-14.20%
Capital Financing Requirement	310.197	312.383	2.186	0.70%
External Debt	292.388	269.389	(22.999)	-7.87%
Investments	15.000	24.917	9.917	66.11%
Capital Financing	13.205	12.205	(1.000)	-7.57%
Cost as a % of Revenue Budget	9.21%	8.52%	-0.70%	

- 4.62 The Council's forecast Capital Expenditure outturn at Quarter Three is £64.173m compared to an original approved budget of £74.798m for 2025/26, a forecast decrease of £10.625m (14.2%) against the original approved budget for 2025/26. The decrease in capital expenditure is mainly due to the rephasing of schemes from 2025/26, to 2026/27 and later years.
- 4.63 During the third quarter of 2025/26, external borrowing increased from £254.605m on 1 October 2025, to £269.389m on 30 December 2025. This increase of £14.784m reflects a combination of new borrowing needed for the capital programme, new borrowing to fund other liquidity requirements, and the repayment of principal amounts on annuity debt. Public Works Loan Board rates have been around the 4.75% strategic trigger level during the third quarter so there have been several opportunities to borrow in this period.
- 4.64 The Council's total under borrowed position (external debt compared to the capital-financing requirement – or underlying need to borrow for the financial year) is £42.994m on 30 June 2025, or 13.7%. Total borrowing of circa £20m is required over the remainder of the financial year to finance the forecast spend on the capital programme and to keep liquidity balances at a sustainable level. The over-riding objective continues to be to demonstrate value for money and affordability from any borrowing decisions taken over the medium term, whilst using internal cash balances where possible.
- 4.65 The amount of external debt at £269.389m and the total underlying need to borrow of £312.383m, are both below the Council's authorised debt limit of £331.000m for the year. This is the threshold above which any borrowing would be unlawful. The difference relates to the contingency buffer included within the authorised limit for any unexpected and unbudgeted borrowing required by the Council outside of the capital programme.
- 4.66 The total annual cost of financing the capital programme is forecast at £12.205m, or 8.5% of the current net revenue budget. This is a £1.000m underspend against the approved budget, which relates to a combination of increased income above forecast for interest earned on cash balances, plus lower principal and interest costs due to rephasing on the capital programme. This underspend is temporary in nature and will move back towards the budget allocation during the period of the MTFP.
- 4.67 Cash balances have increased slightly during the quarter from £22.245m to £24.917m between the start of October and the end of December 2025. This reflects the capital and revenue spending plans of the Council to date in this financial year, and that cash balances have remained reasonably static over the period due to the external borrowing taken and other income received.
- 4.68 The debt and cash levels held by the Council and how these have changed over time is showing in the graph below.

**Figure 3 – Borrowing and cash held from 2013/14 to date**

### **Collection Fund - Council Tax and Business Rates income**

- 4.69 Income received from Council Tax and Business Rates (NNDR) is a major source of revenue income for the Council and funds around 62% of its annual net budget in delivering all Council services. It is accounted for separately from the General Fund in the Collection Fund which is heavily regulated by Government. Due to the prescribed mechanisms for operating the Collection Fund, the financial impact of any 2025/26 income collection variances do not immediately affect the General Fund position. By illustration, the impact of any estimated surplus or deficit variance on the Collection Fund for 2025/26 is fed into the development of the 2026/27 budget and MTFP and any cost / benefit does not impact the 2025/26 financial year.
- 4.70 There is currently an estimated forecast surplus on the Collection Fund for 2025/26 of £2.352m. After deducting preceptors' shares (Police, Fire & Central Government), the amount available to Middlesbrough is forecast to be £1.922m. The estimated surplus is unavailable in 2025/26 but becomes available legally to support the development of the 2026/27 budget once the distributable shares have been set.
- 4.71 Paragraph 4.25 of the 2026/27 Draft Budget and Medium-Term Financial Plan 2026/27 to 2029/30 report to this Executive, details the proposed use of this estimated Collection Fund surplus for 2025/26 in the 2026/27 budget setting process.

### **Debt Recovery Performance**

4.72 A key workstream within the plans to recover the Council's financial position is the renewed focus upon recovering monies owed to the Council from the following sources

- Council Tax
- Business Rates
- Sundry (general) debt
- Housing Benefit Overpayments

4.73 The Council's approach to improving debt recovery performance whilst maintaining appropriate support to residents and businesses who are entitled to available help, advice and support, was detailed in Appendix 11 of the Quarter Three 2024/25 report. The position at Quarter Three 2025/26 (30 December 2025) is shown in Table 9 below.

**Table 9 – Debt Collection Performance Quarter Two 2025/26 (as of 30 September 2025)**

Category of Collectable Debt	Balance at 01/04/2025 (£m)	Movement in-year (£m)	Balance at 31/12/2025 (£m)
Council Tax	40.683	(5.977)	34.706
Business Rates	8.508	(2.081)	6.427
Sundry Debt	8.905	(1.423)	7.482
Housing Benefits Overpayments	5.358	(0.458)	4.900
<b>Total</b>	<b>63.454</b>	<b>(9.938)</b>	<b>53.516</b>

*Note that the figures for Council Tax and Business Rates are Middlesbrough's share of the Collection Fund debt (Council Tax 83% and Business Rates 49%).*

4.74 The financial procedure rules (Financial Procedure Rule 18.80.2 and Financial Limits Annex) for the Council set out the thresholds for debt write offs between the S151 Officer (and nominated deputies) and the Executive. These are set out in Table 10 below for information:

**Table 10 – Debt write of levels as per the Constiution**

Category of Collectable Debt	S151 Officer (Amount per debtor)	Executive (Amount per debtor)
Council Tax	£0 - £10,000	Above £10,000
Business Rates	£0 - £100,000	Above £100,000
Sundry Debt (single debts)	£0 - £10,000	Above £10,000
Sundry Debt (subscription debts)	£0 - £50,000	Above £50,000
Housing Benefits Overpayments	£0 - £10,000	Above £10,000

- 4.75 All debts raised by the Council require an element of recovery to receive the cash amounts from the appropriate third parties. Due to the wide range of income streams and the volumes of debts raised, there are times where amounts cannot always be recovered, for example council tax debts due to lack of household income, business rates due to companies being wound up, sundry debts due to changing circumstances etc.
- 4.76 Where all avenues for collection of the debt have been exhausted and these can be significant and take several financial years, there is no choice but to write these debts off, generally against the revenue budget which received the benefit of the income previously.
- 4.77 It is recommended accounting practice to assess the level of debts and their recoverability at the end of each financial year, both at directorate level or corporately. Where there is the possibility of non-recovery, an assessment of the likelihood of this happening against the financial value should be calculated for each debt, and the appropriate amount placed in a bad debt provision. This will then act as a buffer against any amounts that subsequently need to be written off.
- 4.78 Most of these debts that do need to be written off are relatively low in value and can be considered and approved by the Corporate Director of Finance (s151 Officer). However, there has only been partial delegation of debt write offs to the s151 Officer under the Constitution (financial procedure rules). The amounts delegated (set at the 2023 review and under guidance from CIPFA and in comparison with other councils of a similar size and as shown in Table 10) are nil for the purposes of the Quarter Three report.
- 4.79 In exceptional circumstances following appropriate due diligence being applied over all aspects of the collection process and with no prospect of recovery for the reasons given, debt amounts that cannot be recovered and need to be written off, do exceed these levels and these will be required to be submitted to Executive for approval.
- 4.80 A separate report will be presented to Executive later in 2025/26 for approval of the write off a number of such debts, detailing the debtor involved, date raised, amount involved, recovery action taken to date, and the reason why this debt cannot be collected.

## **5. Ward Member Engagement if relevant and appropriate**

- 5.1 Not applicable

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

- 6.1 The alternative would be to not approve the revenue budget virements over £250,000 and the changes to the Council's capital programme, and to not report on the Council's forecast year-end financial outturn for the financial year 2025/26. This would not enable the Executive to discharge their responsibilities to manage and control the revenue budget, capital programme and overall balance sheet position of the Council.

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

<b>Topic</b>	<b>Impact</b>
Financial (including procurement and Social Value)	<p>This report sets out the implications associated with the financial performance of the Council in managing its revenue, grant and capital resources for the financial year 2025/26 and the financial implications are incorporated throughout.</p> <p>The report should be read in conjunction with the 2025/26 Budget, Medium Term Financial Plan 2025/26 to 2028/29, and Council Tax setting report presented to Council on 19 February 2025 and with the Treasury Management Mid-Year Review 2025/26, reports presented to Executive on 3 December 2025, to fully understand the financial position of the Council.</p> <p>In addition, it should also be read in conjunction with as part of this agenda the Prudential Indicators 2026/27 to 2029/20 and Treasury Management Annual Strategy Report 2026/27 and 2026/27 Revenue Budget, Medium Term Financial Plan, and Council tax setting reports.</p>
Legal	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).
Risk	In line with the Council's Risk Management Policy, the corporate Strategic Risk Register will be reported to this Executive as part of the Corporate Performance Quarter Three 2025/26 report.
Human Rights, Public Sector Equality Duty and Community Cohesion	The complete overall impact assessment included in Appendix 3 of the 2025/26 budget report to Council on 19 February 2025, along with all the individual impact assessments found that there was a justified adverse impact from these proposals in order to ensure the Council is able to maintain a balanced budget and continue to meet its statutory obligations.
Reducing Poverty	The proposed recommendations in this report do not directly impact on Reducing 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	The proposed recommendations in this report do not directly impact on 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.



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

Action	Responsible Officer	Deadline
Subject to approval by Executive revenue budget virements detailed in Appendix 1 to be actioned.	Head of Financial Planning & Business Partnering	28/02/26
Subject to approval by Executive, amendments to the capital programme for 2025/26 to be actioned.	Head of Financial Planning & Business Partnering	28/02/26
Corporate revenue budget spending controls will continue to be applied to Directorates in 2025/26.	Director of Finance and Transformation (s151 Officer)	31/3/26
Directors to continue to implement their Financial Recovery Plans and mitigations in order to reduce their forecast budget pressures and seek to achieve a balanced budget for their Directorate by the end of 2025/26.	All Directors	31/3/26

## Appendices

1	Proposed revenue budget virements above £250,000 at Quarter Three 2025/26
2	Details of savings currently classified as unachievable at Quarter Three 2025/26
3	Detail of Forecast Reserves and Provisions Movements in 2025/26
4	Dedicated Schools Grant
5	Capital Programme Quarter Three 2025/26 – New External Funding, Additions to Council Funded Schemes, and Virements Between Schemes
6	Capital Programme Quarter Three 2025/26 – Details of capital slippage
7	Revised Capital Programme Forecasts 2025/26 to 2028/29

## 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
Council	Prudential Indicators and Treasury Management Strategy 2025/26 report	19/2/25

Council	Flexible Use of Capital Receipts Strategy 2025/26	26/3/25
Executive	2024/25 Outturn Report	11/6/25
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	Treasury Management Mid-Year Review 2025/26	3/12/25
Executive	Prudential Indicators 2026/27 to 2029/20 and Treasury Management Annual Strategy Report 2026/27	4/02/26
Executive	2026/27 Revenue Budget, Medium Term Financial Plan, and Council tax setting	4/02/26

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