

<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>	10 June 2026
<b>Title:</b>	2025/26 Revenue & Capital Year End Outturn
<b>Report for:</b>	Decision
<b>Status:</b>	Public
<b>Council Plan priority:</b>	Delivering Best Value
<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 Report

<b>Proposed decision(s)</b>	
That the Executive:	
<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 4.93)</li> <li>• <b>Approves</b> the inclusion of new schemes and additions to existing schemes to the Capital Programme totalling £1.057m 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 £89.508m</li> <li>• <b>Notes</b> the Council's year-end financial outturn for the financial year 2025/26, with the final revenue outturn position being £1.793m overspend at year end after the use of central contingencies and other budgets.</li> <li>• <b>Notes</b> that this sum is to be met from the Savings Delivery Risk reserve of £2.000m, put aside to manage uncertainty in this area.</li> <li>• <b>Notes</b> the improved year-end position in relation to reserves in that usable unrestricted reserves have increased from £21.654m to £25.941m, an increase of £4.287m demonstrating that the overall financial position of the Council has again improved this year.</li> </ul>	

- **Notes** that provision was made in the 2026/27 budget for service demand pressures and re-basing of budgets (including for reduced income levels and legislative requirements) which address some of the key areas which contributed to the overspend in 2025/26.

### **Executive summary**

This report sets out the Council's final Revenue and Capital Year End Outturn position for 2025/26, together with the associated impact on reserves and the overall financial standing of the Council. It enables the Executive to discharge its responsibilities for financial management, governance and control, including approval of budget virements, updates to the Capital Programme, and noting the overall financial performance for the year.

The report, enables the Executive to discharge its financial management responsibilities by setting out the following position at Quarter Four (31<sup>st</sup> March 2026):

- General Fund Revenue Budget Outturn
- virements
- statement of the Council's reserves and provisions
- Capital Programme Outturn
- 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 to address the issued identified

The final revenue outturn position is an overspend of £1.793m after the application of corporate contingencies and other central resources. Whilst this represents a pressure against the approved budget, it reflects a significant improvement from earlier forecasts in the year, with the Quarter One forecast overspend of £4.482m reduced through robust financial management, delivery of mitigations and strong corporate oversight.

It is important to stress however this sum is to be met from the Savings Delivery Risk reserve of £2.000m, put aside to manage uncertainty in this area, and that overall, the position in relation to reserves has improved.

It is also important to note that the reported overspend for 2025/26 is not directly comparable to some previous years positions where overspends resulted in the depletion of reserves. The outturn reflects a planned and managed approach to financial risk whereby corporate contingencies, the Savings Delivery Risk Reserve, and other centrally held resources have been applied to support service pressures arising during the year.

This approach is consistent with strengthened financial governance arrangements and has enabled the Council to manage in year volatility while protecting and rebuilding financial resilience. As a result, despite the reported overspend, the Council has increased its usable unrestricted reserves from £21.654m to £25.941m, an increase of £4.287m demonstrating that the overall financial position has improved.

Whilst this is an improved reserves position the Council continues to work towards a target of a minimum of £35.000m usable reserves position as set out by the Section 151 Officer in the Financial Reserves Policy approved at Council on 18 February 2026.

The main highlights of the report are:

- the 2025/26 revenue budget year end outturn is an overspend of **£1.793m, 1.2%** of the overall 2025/26 budget of £143.304m. In line with the financial strategy, this was after the planned use of central contingencies and other budgets totalling **£6.546m**. The overspend of £1.889m will be funded from the Savings Delivery Reserve set aside for this purpose. The final outturn is shown in Table 1 in paragraph 4.15.
- provision was made in the 2026/27 budget for service demand pressures and re-basing of budgets (including for reduced income levels and legislative requirements) which address some of the key areas which contributed to the overspend in 2025/26.
- the overall outturn position continues to be driven by demand-led and statutory service pressures, most notably within **Children's Social Care, which reported a £7.455m overspend due to high-cost placements, workforce pressure and reliance on agency staff.**
- Adult Social Care also reported an outturn position of **£1.272m overspend reflecting ongoing demand for complex care**, partially offset by income and staff savings.
- other service areas reported a mix of overspend and underspends, with underspend in Corporate and Central budgets (including contingency, capital financing and use of one-off funds) making a significant contribution to offsetting Directorate pressures.
- the final revenue outturn position includes **£7.731m of net savings currently earmarked as undeliverable in 2025/26 as shown in Table 2 and Appendix 2.** In line with the approach adopted in setting the 2026/27 budget, these savings have been reviewed through the Medium-Term Financial Plan (MTFP) and have either been removed where no longer achievable, reprofiled to reflect more realistic delivery timescales, incorporated into the 2026/27 base budget. Any remaining savings will be monitored and reviewed throughout 2026/27 as part of the standard budget monitoring process.
- the 2025/26 budgets and use of central Corporate Contingency budget and Change Fund (paragraphs 4.69 and 4.70 and Table 3).
- the position demonstrates that while financial control has improved, there remain structural financial challenges, particularly in demand-led services, which will continue into 2026/27 and beyond.
- overall, the 2025/26 revenue outturn demonstrates that the Council is now managing financial pressures in a controlled and planned way, while continuing to rebuild reserves and strengthen resilience, in contrast to previous years where overspends were associated with the depletion of reserves.
- the **final in year deficit of £7.104m for 2025/26 on the Dedicated School Grant, increasing the cumulative deficit to £29.317m on 31 March 2026** (Table 5). The Dedicated Schools Grant (DSG) continues to be subject to a statutory override, requiring deficits to be held separately from the General Fund. The Government has confirmed that this override will now be extended to 31 March 2028, aligning with the transition to a reformed SEND system. In addition, local authorities will be

eligible for a High Needs Stability Grant covering up to 90% of the DSG deficit accrued to March 2026, subject to approval of a Local SEND reform Plan by the Department of Education. The DSG recovery actions and risk to the Council's financial resilience are detailed in Appendix 4.

- the **addition of £1.057m for new schemes and additions to existing schemes (externally funded) to the Capital Programme in 2025/26** creating a revised budget of £89.508m for 2025/26 (paragraphs 4.91 to 4.96 and Appendix 5).
- the **2025/26 final Capital Programme outturn is £56.477m**, representing an underspend of £32.972m (37%) against the revised budget of £89.508m budget (Table 6).
- this underspend is primarily due to slippage in project delivery, with £32.052m reprofiled into future years and contributions, alongside capital receipts and borrowing (Appendix 6).
- that £5.659m of qualifying revenue expenditure is 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 4.96 to 4.100 and Appendix 8)
- the level of Debtors as at 31 March 2026 (paragraph 4.106 to 4.107 and Table 9)

The recommendations are required to ensure compliance with the Council's Constitution and Financial Procedure Rules, particularly in relation to approval of significant virements and capital programme changes. The report enables the Executive to formally note and scrutinise the year-end financial position, and maintain effective governance, transparency and accountability for the management of public funds.

Approving the recommended actions ensures that the Council maintains robust financial control and governance arrangements. Budget changes accurately reflect service delivery and financial performance during the year. It ensures the Capital Programme remains aligned to funding and delivery timelines. It will also enable the Council to continue to strengthen financial resilience and support delivery of the MTFP.

The alternative option would be not to approve the budget virements or capital programme amendments, or not to formally note the outturn position. This would limit the Executive's ability to effectively manage and control the Council's financial position, weaken governance arrangements and reduce transparency in financial reporting.

## 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.

Our ambitions	Summary of how this report will support delivery of these ambitions and the underpinning aims
<b>A successful and ambitious town</b>	This report covers both the revenue 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.

## 2. Recommendations

2.1 That the Executive

- **Approves** budget virements over £250,000 within the revenue budget (Appendix 1)
- **Approves** budget virements over £250,000 within the Capital Programme (paragraph 4.93)
- **Approves** the inclusion of new schemes and additions to existing schemes to the Capital Programme totalling £1.057m 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 £89.508m
- **Notes** the Council’s year-end financial outturn for the financial year 2025/26, with the final revenue outturn position being £1.793m overspend at year end after the use of central contingencies and other budgets.
- **Notes** that this sum is to be met from the Savings Delivery Risk reserve of £2.000m, put aside to manage uncertainty in this area.
- **Notes** the improved year-end position in relation to reserves in that usable unrestricted reserves have increased from £21.654m to £25.941m, an increase of £4.287m demonstrating that the overall financial position of the Council has again improved this year.
- **Notes** that provision was made in the 2026/27 budget for service demand pressures and re-basing of budgets (including for reduced income levels and legislative requirements) which address some of the key areas which contributed to the overspend in 2025/26.

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

3.1 To enable the effective management of finances, in line with the Councils 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 2025/26 year-end financial position.

4.3 Financial Procedure Rules 12.6.45 and 12.6.132 of the Council constitution requires the Executive's approval of revenue and capital programme budget virements over £250,000.

4.4 Financial Procedure Rule 12.6.91 requires approval by the Executive of the write off of debt over financial thresholds set out in 12.6.132, there are none for the purpose of the final 2025/26 outturn report.

4.5 The outturn position within this final outturn report as at 31 March 2026 has been prepared using the following key assumptions:

- all known staffing costs and changes have been reflected within the final outturn position.
- the agreed pay award of 3.2% for local government officers for 2025/26 has been fully incorporated.
- income and expenditure positions have been finalised in conjunction with budget holders, based on actual activity and accruals where appropriate.
- the outturn position reflects actual service deliver arrangements and financial performance for the year, providing a robust and prudent basis for reporting the final position.

#### **Revenue Outturn 2025/26**

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.

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 compared to that at the start of the 2024/25 financial year, supported by a significantly

improved 2026/27 financial settlement relative to previous years, there remains an ongoing need to maintain strong financial discipline. The 2025/26 outturn demonstrates the importance of delivering approved savings in full and maintaining robust governance and financial control arrangements.

- 4.9 The outturn position reflects the extent to which expenditure has been managed within the approved 2025/26 budget, including the appropriate utilisation of approved contingencies. These measures have contributed to supporting delivery of the Medium-Term Financial Plan (MTFP), stabilising the Council's financial position and beginning to rebuild financial resilience. Budgetary control measures previously set out in the 2024/25 Revenue and Capital Outturn report to Executive on 11 June 2025, have continued to be implemented throughout 2025/26 and have underpinned the overall financial outturn.
- 4.10 Building on the improved financial position at outturn compared to previous years, the Council is well placed to implement a more integrated Performance and Financial Management Policy. This establishes a clear framework to ensure that performance, finance and risk are managed in a joined-up, transparent way, supporting stronger alignment between resources, service delivery and strategic priorities. The Policy promotes clear accountability, evidence-based decision making and regular, transparent reporting, enabling early identification of issues and effective corrective action. Its implementation, alongside a robust Medium-Term Financial Plan (MTFP), will further strengthen governance, support delivery of strategic objectives and enhance value for money for residents.
- 4.11 As shown at the bottom of Table 1, the 2025/26 final revenue outturn position at the year-end is an overspend of £1.793m (1.2%) against the approved budget of £143.304m across Directorates and Central Budgets, an increase of £0.118m since the Quarter Three forecasted outturn. The final outturn position should be viewed in the context of the Councils financial management approach, which incorporates the planned use of corporate contingency budgets, savings delivery risk provisions, and other central resources to manage uncertainty. The application of £6.546m of central contingencies and other budgets was built into the financial strategy, meaning the reported overspend represents the residual position after planned mitigation has been applied, rather than an unmanaged financial pressure. Financial controls and actions that were put in place have helped to mitigate further overspends and continue to play a critical role in reducing financial pressures across Directorates, reducing the initial Quarter One forecast overspend of £4.482m. It therefore remains essential that Directors maintain tight financial control going into 2026/27 of their financial positions.
- 4.12 As part of the 2025/26 budget, £4.367m of one-off funding was allocated to the Middlesbrough Priorities Fund. £1.392m has been spent by 31 March 2026, with the remaining £2.975m used to reduce the outturn position, as shown in Table 1 below. 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.
- 4.13 One of the main factors in the increase for Quarter Three to the final outturn is the continued and sustained demand within Children's Care. This reflects both the volume and complexity of cases, particularly the ongoing reliance on high-cost external

residential placements and continued pressures in staffing, including the reliance on agency workers. While the Children’s Services Prevention Grant of £2.123m has been applied to the Directorate’s final outturn position (having previously been held within Central Budgets), underlying pressures have continued to increase. Excluding this technical adjustment, the net increase since Quarter Three is £1.337m, the majority of which relates to staffing costs and placement pressures. This is consistent with the position reported throughout 2025/26, where Children’s Social Care has represented the most significant area of financial pressure driven by demand-led and statutory services.

4.14 The demand led pressures in Children’s Care are structural in nature and are expected to persist into 2026/27 and across the Medium-Term Financial Plan. This is recognised with the approved 2026/27 budget, which included additional recurring funding to reflect forecast demand, however, there remains significant financial risk if demand and complexity continue to exceed assumptions. The Section 25 statement highlights Children’s Social Care as a key area of ongoing financial risk due to the high levels of demand, complexity of need, and the cost of placements. It is therefore essential that Directors maintain tight financial control, strengthen demand management, and continue to deliver and embed financial recovery and continuous improvement to mitigate these pressures and ensure financial sustainability.

4.15 A summary of the main variances for each Directorate is included in paragraphs 4.22 to 4.68. Table 1 below also includes a split of the final outturn between non-delivery of required budget savings (detailed on paragraphs 4.16 to 4.21 and Appendix 2) and other variances. Table 1 below reflect the changes made as part of the Senior Management review from effective from 1 January 2026.

Table 1 - Summary of Net Revenue Budget Outturn 2025/26

Directorate	Original Budget Full Year £m	Current Full Year Budget £m	Outturn £m	Outturn Variance £m	Movement from Quarter Three £m	MEMO FORECAST	
						Savings Delivery Variance £m	Other variances £m
						Adv / (Fav)	Adv / (Fav)
				Adv / (Fav)	Adv / (Fav)		
Adult Social Care	55.192	56.283	57.555	1.272	(0.211)	0.018	1.254
Public Health	0.086	(0.326)	(0.722)	(0.396)	(0.396)	0.000	(0.396)
Children's Social Care	57.120	57.791	65.246	7.455	(0.786)	3.833	3.622
Education & Partnerships	6.445	6.712	7.060	0.348	(0.117)	0.345	0.003
Regeneration & Housing	3.500	3.991	3.606	(0.385)	(0.500)	0.375	(0.760)
Environment, Communities & Culture	19.042	20.598	21.706	1.108	(0.082)	0.393	0.715
Legal & Corporate Services	10.750	10.494	10.208	(0.286)	(0.054)	0.000	(0.286)
Finance	5.832	5.880	5.031	(0.849)	0.309	0.000	(0.849)
Chief Executive's Office	1.556	1.929	1.849	(0.080)	(0.015)	0.000	(0.080)
<b>Total Directorates</b>	<b>159.523</b>	<b>163.352</b>	<b>171.539</b>	<b>8.187</b>	<b>(1.852)</b>	<b>4.964</b>	<b>3.223</b>
Central Budgets	(22.765)	(26.594)	(26.442)	0.152	2.472	2.767	(2.615)
<i>Use of central contingencies.</i>							
Savings Delivery Risk	2.000	2.000	0.000	(2.000)	0.000	0.000	(2.000)
Inflation & Growth	0.206	0.206	0.000	(0.206)	0.000	0.000	(0.206)
Corporate Contingency	0.890	0.890	0.000	(0.890)	(0.373)	0.000	(0.890)
Middlesbrough Priorities Fund	2.975	2.975	0.000	(2.975)	(0.129)	0.000	(2.975)
Pay & Prices Contingency	0.475	0.475	0.000	(0.475)	0.000	0.000	(0.475)
<b>Total Central Budgets</b>	<b>(16.219)</b>	<b>(20.048)</b>	<b>(26.442)</b>	<b>(6.394)</b>	<b>1.970</b>	<b>2.767</b>	<b>(9.161)</b>
<b>Total</b>	<b>143.304</b>	<b>143.304</b>	<b>145.097</b>	<b>1.793</b>	<b>0.118</b>	<b>7.731</b>	<b>(5.938)</b>

## **Budget Savings Delivery**

- 4.16 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 has been 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.
- 4.17 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.
- 4.18 Table 2 provides a summary of delivery performance against savings required in 2025/26, with further detail included in Appendix 2. All savings continue to be subject to robust monitoring through Budget Clinics with Directorates and are reported through this process.
- 4.19 In line with the approach taken in setting the 2026/27 budget, savings assessed as not deliverable in 2025/26 have been reviewed and addressed through the Medium-Term Financial Plan (MTFP). This has included the removal of unachievable savings, the reprofiling of delivery timelines where operational or demand constraints delayed implementation, and the incorporation of any residual impact into the 2026/27 budget position. This has required the underlying budget position to be aligned accordingly, particularly with demand-led services, where the interaction between costs pressures and original saving assumptions has increased the sensitivity of budgets to changes in demand and activity levels.
- 4.20 As a result, there is a continued focus in strengthening core operational practice, improving demand management, and ensuring services are delivered as efficiently as possible within approved resource levels. This includes embedding good financial management, improving planning and forecasting, and ensuring that resources are targeted effectively to meet service needs. Savings linked to ongoing service improvement activity continue to be overseen through Integrated Performance and Budget Clinics to ensure alignment between service delivery and financial performance.
- 4.21 Any savings not fully delivered in 2025/26 will continue to be managed as part of the Council's Medium-Term Financial Plan (MTFP). At the start of 2026/27, all remaining savings will be subject to review to determine the most appropriate route to delivery, including whether they can be achieved through revised approaches, replacement savings, or longer-term continuous improvement activity. Where savings are no longer considered deliverable in their original form, this will be addressed through the established governance process as part of the ongoing development of the MTFP, ensuring that the Council maintains a balanced and sustainable financial position over the medium term.

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

Directorate	2025/26 Budgeted Savings Target  £m	2025/26 Savings Achieved  £m	2025/26 Savings (over) / under achieved £m
Adult Social Care	(2.733)	(2.715)	0.018
Children's Social Care	(4.112)	(0.279)	3.833
Education & Partnerships	(0.359)	(0.014)	0.345
Regeneration & Housing	(1.394)	(1.019)	0.375
Environment, Communities & Culture	(1.790)	(1.397)	0.393
Legal & Corporate Services	(0.367)	(0.367)	-
Finance	(0.395)	(0.395)	-
Central	(2.767)	-	2.767
	<b>(13.917)</b>	<b>(6.186)</b>	<b>7.731</b>

### **Directorate Main Variances**

- 4.22 The explanations for Directorate major variances and key underlying drivers are summarised below. These reflect the position at year end following detailed review through the Council's governance arrangements, including Member-led Budget Clinics and wider corporate oversight processes.
- 4.23 Throughout 2025/26, the Council has continued to develop its financial management arrangements through enhanced monitoring, governance and Member oversight, building the foundations for the implementation of the Performance and Financial Management Policy and supporting Framework from 2026/27. These arrangements have focused on improving the integration of financial performance with service delivery and risk, ensuring that emerging issues are identified and addressed through structured governance processes. This includes regular budget monitoring, Directorate oversight, and Member engagement through Budget Clinics. The introduction of the Policy and Framework from 2026/27 will formalise and further embed this integrated approach, providing a consistent cycle of planning, monitoring, review and improvement across all Directorates, with clearer accountability and more systematic alignment between performance, finance and risk.
- 4.24 This approach ensures that Directorate financial performance is considered alongside operational delivery, demand and risk, enabling a clearer understanding of the drivers of variance at outturn. Through robust planning, monitoring and review processes, Directors are required to maintain a clear line of sight between service activity, performance outcomes and available resources, ensuring that budgets are managed within approved limits wherever possible. In doing so, there is a continued focus on embedding consistent operational practice, improving forecasting and planning, and

ensuring that resources are deployed as effectively as possible to meet service need with the approved budget.

4.25 A range of core financial controls are in place across all Directorates and form part of the Council's business as usual arrangements. These include regular budget monitoring and forecasting, Director level review meetings, Member and office clinic processes, procurement oversight, and robust scrutiny of high-cost demand-led activity. Consistent application of these controls, supported by clear accountability and appropriate challenge, remains essential to maintaining financial discipline, improving forecast accuracy and ensuring value for money.

4.26 Proposed revenue budget virements above £250,000 require Executive approval, and those proposed following final outturn are set out at Appendix 1 for consideration and approval.

### **Adult Social Care: Final Outturn position £1.272m**

Adult Social Care	Full Year Budget £m	Full Year Forecast £m	Forecast Over / (Under) spend £m
Revenue Outturn	56.283	57.555	1.272

4.27 The final outturn position for the Adult Social Care Directorate is a net overspend of £1.272m, which represents an improvement of £0.211m compared to the position forecast at Quarter Three. The final position reflects a combination of continued demand-led pressures, offset by staff savings, additional income and the maximisation of capital and health funding. The main components of the outturn position are set out below.

- Purchasing – Growth: £2.204m  
The final outturn position for Purchasing Growth, is an overspend of £2.204m, an increase of £0.023m compared to Quarter Three. This reflects ongoing demand for high-cost care services, particularly residential care, alongside the complexity of individual care packages. The position includes the benefit of additional health income in respect of some care packages; however, demand and market pressures continue to drive costs growth within this area.
- Purchasing – Residential: (£0.422m)  
The Purchasing Residential budget reports a final underspend of (£0.422m), compared to an underspend of (£0.546m) forecast at Quarter Three. The underspend continues to reflect recovery of overpayments relating to out of area placements, primarily arising from delayed notifications following service users' deaths. While recovery activity has remained effective, the reduction in the underspend reflects changes to service user contributions.
- Other Variances, inc. Prevention, Provider & Support Services: (£0.510)  
The combined outturn position across Prevention, Provider & Support Services and staffing-related variances reflects a mix of ongoing pressures and mitigating factors. Staff savings of approximately (£0.478m) have been delivered in excess of the corporate vacancy target, helping to offset pressures elsewhere in the Directorate. In addition, the outturn benefits from the maximisation of capital

resources relating to TCES equipment and Staying Put arrangements (£0.226m), additional health income associated with the day care services (£0.098m).

- 4.28 Executive approved the reprovisioning of Levick Court on 12 November 2025, establishing a partnership with the Integrated Care Board (ICB) and Tees Esk and Wear Valley NHS Trust (TEWV) to support a financially sustainable service model through joint commissioning and integrated clinic provision. Levick Court was successfully launched in February 2026. A full financial appraisal and staffing model has been developed to ensure that the agreed block contract value supports operational delivery. By year end, the service has achieved £0.293m of the £0.311m identified savings needed to deliver a service which is sustainable and economically viable, with the remaining balance to be delivered in 2026/27 as the service reaches full operational maturity. The model also provides scope for additional commissioned activity, subject to demand, including where health partners require access beyond the initial allocation of eight beds.
- 4.29 The final outturn position also reflects a significant increase in the provision for bad and doubtful debts. Following detailed year-end analysis, the bad debt provision has increased by approximately £0.546m, reflecting cases where service users are deceased with no residual estate, or where recovery is considered unlikely due to persistent non-payment.

**Public Health: Final Outturn position (£0.396m)**

Public Health	Full Year Budget £m	Full Year Forecast £m	Forecast Over / (Under) spend £m
Revenue Outturn	(0.326)	(0.722)	(0.396)

- 4.30 At final outturn, Public Health budgets reported an underspend of (£0.607m), which in accordance with grant conditions will be transferred to the Public Health reserve, resulting in a break-even position on the ringfenced Public Health grant. This reflects effective management of grant funded activity within the conditions of the grant. Following this transfer, the Public Health reserve will increase from £1.686m at 31 March 2025 to £2.293m at 31 March 2026, with plans in place for the reserve to be utilised on eligible public health related activity in future years in line with grant requirements
- 4.31 In addition, there is an underspend of (£0.396m) within the Council funded areas of the Directorate. This position is mainly attributable to the 2025/26 management fee due from the Council's leisure services provider (SLM) under the contract which had not been budgeted for. The management fee due has not yet been paid by SLM and the outturn has been made on a prudent basis to reflect this fact and ensuring that the outturn position reflects a cautious and realistic assessment at year end.

**Children's Social Care: Final Outturn position £7.455m**

Children's Care	Full Year Budget £m	Full Year Forecast £m	Forecast Over / (Under) spend £m
Revenue Outturn	57.791	65.246	7.455

4.32 At final outturn, Children's Services reports a net overspend of £7.455m after the application of the Children's Services Prevention Grant of £2.123m, which had previously been held within Central Budgets. This represents an increase of £1.337m compared to the Quarter Three position and reflects continued demand led pressures and workforce costs, particularly within Children Looked After, Assessment and Safeguarding services. The key drivers of the overspend remain consistent with those reported throughout the year.

4.33 During 2025/26, £2.229m of Flexible Use of Capital Receipts (FUoCR) was applied to support Children's Services activity, including initiatives such as Edge of Care and Modernising Fostering. This funding has supported service delivery and practice development during the year, however underlying costs of agency staffing, particularly within statutory frontline services remains the principal driver of the year-end overspend.

4.34 Children's Social Care has implemented a range of mitigating actions to manage in-year pressures, particularly those arising from high-cost placements and workforce costs. These include strengthened placement scrutiny through Director-led panels, maximising use of internal and block residential provision, and targeted work to step down children from residential to fostering placements. Controls over high-cost placements have been enhanced, alongside tighter management of agency staffing and development of a recruitment and retention strategy. Going into 2026/27, demand management initiatives such as reunification and edge of care programmes will begin to reduce reliance on residential care. Financially, the service has utilised flexible use of capital receipts to support service improvements and is benefiting from the Children's Services Prevention Grant, helping to mitigate the overall forecast pressure.

4.35 The main components of the final outturn position are summarised below

- External Residential Placements: £5.151m  
The overspend on external residential placements has reduced from £5.619m at Quarter Three to £5.151m at outturn. While placement numbers have remained broadly stable, costs continue to be driven by the complexity of need and reliance on high-costs specialist provision. This remains a structural pressure within the service and is recognised within the Medium-Term Financial Plan and the Section 25 statement as a key area of financial risk.
- Fostering, Adoption and Internal Placements: (£0.927m)  
Fostering and Adoption now report an underspend of (£0.927m), a significant improvement from the Quarter Three position. This reflects, in part, the reversal of over accrued costs from 2024/25 that did not materialise, alongside a more considered approach for forecasting and accruals in 2025/26. While this has improved the outturn position, internal fostering capacity remains constrained and continues to limit the ability to reduce reliance on external placements.
- Assessment and Safeguarding: £3.281m

Assessment and Safeguarding represent the largest increase in pressure since Quarter Three, rising from £1.771m to £3.281m in outturn. This is primarily driven by continued reliance on agency staff to manage demand, vacancies and workforce instability with statutory frontline services

- **Staffing and Workforce Pressures**

Across the Directorate, ongoing workforce pressures particularly within Children Looked After and Assessment and Safeguarding, continue to drive higher than budgeted staffing costs. The reliance on agency staff has been necessary to maintain statutory service delivery but presents a significant affordability risk into future years. As highlighted, within the 2026/27 Budget Report and the Section 25 statement, the priority for 2026/27 is to stabilise the staffing structure, reduce agency reliance, and embed permanent capacity within approved budgets to improve both financial sustainability and service resilience.

### ***Education & Partnerships: Final Outturn position £0.348m***

Education & Partnerships	Full Year Budget £m	Full Year Forecast £m	Forecast Over / (Under) spend £m
Revenue Outturn	6.712	7.060	0.348

4.36 At final outturn, Education & Partnerships reports a net overspend of £0.348m, a reduction of (£0.117m) compared to the Quarter Three forecast. The position remains largely unchanged in nature and continues to relate to pressures within the Integrated Transport Unit (ITU), which provides home to school transport for children and transport for vulnerable adults.

4.37 The overspend primarily reflects previously agreed savings that were not fully delivered within 2025/26, largely due to demand and operational constraints within the service. These savings remain a focus for 2026/27, with the service expected either to deliver the agreed savings within a more realistic timeframe or to assess and develop alternative saving options where required. This approach aligns with the assumptions set out within the 2026/27 budget and Medium-Term Financial Plan, ensuring that the ongoing costs of the service is addressed in a sustainable way.

### ***Regeneration & Housing: Final Outturn position (£0.385m)***

Regeneration & Housing	Full Year Budget £m	Full Year Forecast £m	Forecast Over / (Under) spend £m
Revenue Outturn	3.991	3.606	(0.385)

4.38 At final outturn, the Regeneration & Housing Directorate reports a net underspend of (£0.385m), compared to a forecast overspend of £0.115m at Quarter Three. This movement reflects a combination of approved budget virements since Quarter Three and a significant one-off income item recognised at year end.

4.39 During the latter part of the year, budget virements relating to Public Protection and Street Lighting were approved, transferring budgets from Environment, Community & Cultural Services into Regeneration & Housing. These virements improved the Directorates overall position by £0.239m which is included in the final year-end position. In addition, the outturn benefits from a settlement payment received in relation

to the early surrender of a commercial lease, resulting in a one-off improvement in 2025/26. While this settlement has generated a favourable outturn in 2025/26, it should be noted that this will cause a short-term income pressure in 2026/27 until the vacated unit is brought back into use. The Council is currently in the process of securing a new tenant under a long-term lease, which will mitigate the longer-term impact and restore income levels thereafter.

- 4.40 Strategic Commercial Properties have faced significant challenges throughout the year. Boho Buildings report a final year end income shortfall of £0.545m. Currently, only 20% of the buildings are occupied, resulting in lost rental income and increased building related costs to the Council. A sector expert in managed accommodation has been appointed and, from December 2025, has been actively seeking tenancies.
- 4.41 The major tenant at Centre Square 1 renewed their lease agreement but reduced the space occupied, resulting in additional vacant space and a year-end financial pressure of £0.087m. The surrender of the lease referred to in paragraph 4.38 has resulted in a year-end saving of £0.390m in relation to Centre Square 2. The Council continues to actively seek alternative tenancies for the remaining vacant space.
- 4.42 The final outturn position for the Cleveland Centre and Captain Cook Square shopping centres is a combined financial pressure of £0.214m, reflecting income levels below budget. This represents an improvement compared to Quarter Three, when a shortfall of £0.405m was reported. These pressures have been partially offset by the Investment Property Contingency, with £0.419m fully utilised in 2025/26
- 4.43 The improved outturn position reflects prudent in-year financial management alongside proactive management of the Council's commercial assets. However, as highlighted within the Medium-Term Financial Plan, income from strategic commercial properties remains sensitive to market conditions and tenancy changes and will continue to be monitored closely.

### ***Environment, Communities & Culture: Final Outturn position £1.108m***

<b>Environment , Communities &amp; Culture</b>	<b>Full Year Budget £m</b>	<b>Full Year Forecast £m</b>	<b>Forecast Over / (Under) spend £m</b>
<b>Revenue Outturn</b>	<b>20.598</b>	<b>21.706</b>	<b>1.108</b>

- 4.44 At Quarter Three, Environment, Communities and Culture (ECC) reported a forecast overspend of £0.912m. Following approval of budget virements between Environment, Communities & Culture and Regeneration & Housing in relation to Public Protection and Street Lighting, this position has been restated to £1.108m. At final outturn, the Directorate reports an overspend of £1.108m, representing a small improvement against the underlying restated position. The principal drivers of the final position are set out below.
- 4.45 Bereavement Services: £0.321m - The overspend within Bereavement Services reflects the continuing reduced demand for cremations and the associated impact on income, alongside cost pressures with the service. While operational efficiencies have been implemented and some costs have been capitalised where appropriate, income

levels remain sensitive to competition from neighbouring facilities. This pressure has been recognised as ongoing, and additional budget provision has been included in the 2026/27 budget to mitigate the risk going forward.

- 4.46 School Meals Catering: £0.274m - The Catering Service overspend continues to be driven by rising food costs combined with the decision not to increase school meal prices to support families. The underlying pressure with catering services has been addressed through additional budget provision in the 2026/27 budget.
- 4.47 Fleet Services: £0.202m - Fleet service reports an overspend of £0.202m at outturn, reflecting ongoing recruitment and retention challenges and increased costs of vehicle parts. In the latter part of the financial year fitters have been recruited which reflects a stabilisation within staffing levels and reduced reliance on external repairs. However, cost pressures within the fleet services remain structural, and additional budget provision has been included with the 2026/27 budget to support the ongoing costs of service delivery.
- 4.48 During the latter part of the year, budget virements relating to Public Protection and Street Lighting were approved, transferring budget from Environment, Community & Cultural Services into Regeneration & Housing. These virements increased the Directorate's overall position by £0.239m, with the associated budget savings now reflected within Regeneration & Housings' final year-end position.
- 4.49 The remaining variance of £0.311m largely relates to unachieved savings of £0.393m, where increased service demand, growth pressures and a health and safety issue have required the Corporate Director of Environment, Communities and Culture to delay the planned staffing restructure.
- 4.50 In line with the 2026/27 budget and the Section 25 statement, these unachieved savings will be reviewed in the first quarter of 2026/27 to ensure they remain relevant and deliverable. Where necessary, the service will identify alternative, sustainable options to address the underlying budget requirement through the Medium-Term Financial Plan.
- 4.51 Overall, the Directorate's position reflects a combination of demand-led income pressures, cost inflation and service specific operational challenges. As set out in the 2026/27 Budget Report and Medium-Term Financial Plan, additional recurring budget provision has been included to address these pressures and support the sustainable delivery of services in future years.

**Legal & Corporate Services: Final Outturn position (£0.286m)**

Legal & Corporate Services	Full Year Budget £m	Full Year Forecast £m	Forecast Over / (Under) spend £m
Revenue Outturn	10.494	10.208	(0.286)

- 4.52 At final outturn, Legal & Corporate Services reports an underspend of (£0.286m), an improvement from the (£0.232m) underspend reported at Quarter Three. The improved position primarily reflects ongoing vacancies with ICT Services, which have continued beyond those assumed earlier in the year.

4.53 The underspend within ICT Services of (£0.254m) arises largely from a number of vacancies held pending structural and leadership arrangements. These staffing gaps have resulted in salary savings being realised at outturn.

4.54 During the year, responsibility for Strategy, Information and Governance transferred to the Chief Executives Office, along with a small underspend of (£0.065m) reported at Quarter Three. This transfer has not resulted in any material change to the overall outturn position for Legal & Corporate Services.

**Finance: Final Outturn position (£0.849m)**

Finance	Full Year Budget £m	Full Year Forecast £m	Forecast Over / (Under) spend £m
Revenue Outturn	5.880	5.031	(0.849)

4.55 At final outturn, the Directorate reports an underspend of (£0.849m), compared to an underspend of (£1.158m) forecast at Quarter Three, representing a movement of £0.309m. The main drivers of the outturn position are set out below.

4.56 Financial Planning & Business Partnering reports a year end position of a (£0.604m) underspend. The underspend reflects MTFP growth approved at the 2025/26 budget setting that was not fully utilised during the year, as the associated staffing review and restructure were not implemented until late in the financial year. The restructure has now been completed, with recruitment underway and a number of key roles appointed to. Remaining vacancies are expected to be filled during 2026/27.

4.57 Corporate Finance reports a year end overspend of £0.201m. The overspend reflects additional costs associated with bank charges and cash collection activities, which have exceeded budgeted levels.

4.58 Resident and Business Support, reports a year end position of a (£0.427m) underspend. The final underspend reflects a combination of staff savings, additional grant income. Compared to Quarter Three, the underspend has reduced from (£0.588m) to (£0.427m), primarily due to an additional £0.245m bad debt provision recognised at year end following a more detailed assessment of collectability.

4.59 Resident and Business Support: Housing Benefit Subsidy is reporting a final year end position of a £0.111m overspend. The final position reflects a slight improvement from the £0.166m pressure reported earlier in the year, following the final Year End Subsidy claim submission.

4.60 Strategic Commissioning and Procurement is reporting a final year end underspend of (£0.130m). The underspend reflects staffing related savings, including vacant posts and reduced working hours. In addition, an improvement since Quarter Three reflects additional income received through the Supplier Incentive Scheme, contributing to the final outturn position.

**Chief Executives Office: Final Outturn position (£0.080m)**

Chief Executive's Office	Full Year Budget £m	Full Year Forecast £m	Forecast Over / (Under) spend £m
Revenue Outturn	1.929	1.849	(0.080)

4.61 The underspend primarily reflects staffing variances that have arisen following approved budget movements between Directorates. In particular, as a result of service changes arising from the Senior Management Review since Quarter Three, responsibility for Strategy, Information and Governance transferred from Legal & Corporate Services to the Chief Executive's Office, along with the associated budget. Following this transfer, the outturn position reflects the combined budgets, with staffing vacancies contributing to the reported underspend. Without this budget virement, the position for the Chief Executive's Office would have been broadly in line with the approved budget at year end.

**Central Budgets: Final Outturn position (£6.394m)**

Central Budgets	Full Year Budget £m	Full Year Forecast £m	Forecast Over / (Under) spend £m
Revenue Outturn	(20.048)	(26.442)	(6.394)

4.62 The main components of the final outturn position for Central Budgets are set out below. These budgets include a number of corporate provisions and contingency allocations, and as such the position can vary between reporting periods as assumptions are updated and final allocations are confirmed.

4.63 A £0.444m pressure on the General Fund, primarily reflecting an income shortfall from the Levy Account Surplus, which the government confirmed in February would not be distributed in 2025/26 and an adjustment to business rates income in relation to Renewable Energy payments, including some prior years, which affect the General Fund.

4.64 A (£1.496m) underspend on Capital Financing, representing an increase from the (£1.000m) underspend reported at Quarter Three. This reflects lower than anticipated borrowing costs due to slippage within the capital programme and a reduced requirement for borrowing linked to Exceptional Financial Support (EFS).

4.65 A (£0.730m) underspend on the Change Fund, consistent with Quarter Three, as the planned contribution to the reserve in 2025/26 was no longer required due to the use of Flexible Use of Capital Receipts (FUoCR) to fund transformation and redundancy costs.

4.66 A £2.767m pressure relating to unachieved corporate savings, which remains consistent with the Quarter Three position in overall value but has been substantively addressed through the 2026/27 budget setting process. This includes:

- £0.244m linked to the Senior Management Review,
- £1.519m relating to Procurement and Contract Reviews, and
- £1.004m relating to Collection Fund savings.

The majority of these savings have now been removed or reprofiled, with only £0.819m remaining to be delivered in 2026/27. In line with the Council's financial strategy, these will be reviewed early in 2026/27 to ensure they remain realistic and deliverable, with alternative options identified where required.

4.67 In addition, there is a (£0.465m) improvement of centrally held grants, reflecting the final confirmation of Extended Producer Responsibility (EPR) funding, which is higher than originally estimated at the time of budget setting. A (£0.449m) underspend on External Audit Fees, reflecting updated accrual requirements following revised information received during the year.

4.68 The following corporate provisions have supported the improved outturn position throughout the financial year and are detailed in Table 1.

- A (£0.890m) underspend on Corporate Contingency, an improvement from the (£0.517m) forecast at Quarter Three, reflecting lower calls on contingency funding during the final quarter. The use of the Corporate Contingency budget in 2025/26 is detailed in Table 3 below.
- Utilisation of the £2.000m Savings Delivery Risk Budget, applied to support the overall financial position against unachieved savings, consistent with the Council's financial strategy.
- A (£0.681m) underspend on Pay and Prices and other inflation budgets, reflecting lower than anticipated cost pressures during the year.
- A (£2.975m) underspend of the Middlesbrough Priorities Fund where unapplied funding has been applied to offset Directorate pressures and support the overall outturn position.

4.69 Overall, the Central Budgets position has made a significant positive contribution to the final outturn, offsetting pressures within demand-led Directorates and supporting delivery of the Council's financial strategy. While some of these improvements are driven by one-off or timing factors, the position demonstrates the importance of maintaining robust corporate contingency and financial planning arrangements.

## Contingency Budget and Change Fund

**Table 3 – Use of Corporate Contingency and Change Fund in year**

	Corporate Contingency	Change Fund Reserve
	£m	£m
Starting Budget 2025/26	1.327	2.766
Temporary budget virement to ECS to cover unachieved Residents Parking Permit charges saving	(0.250)	-
Contributions 2025/26 (Planned contribution of £0.730m in 2025/26 no longer required due to use of Flexible Capital Receipts Funding for transformational expenditure)	-	-
<b>Available for use</b>	<b>1.077</b>	<b>2.766</b>
<b><u>Approved projects supported in year</u></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)	-
LCS Staff Review costs	(0.153)	-
Community Grants - VE Day Celebrations	(0.012)	-
<b>Total used in year</b>	<b>(0.187)</b>	<b>-</b>
<b>BALANCE OF CONTINGENCY UNUSED IN 2025/26</b>	<b>0.890</b>	
<b>CLOSING BALANCE ON CHANGE FUND RESERVE AT 31/03/26</b>		<b>2.766</b>

4.70 At Quarter Three, it was forecast that £0.517m of unused Contingency Funding would be available for use against the overall Council outturn position. The final balance on the unused element of the Contingency budget has increased to £0.890m. The change is largely due to the change to the profile of the Council contribution to the Turner Prize, which was planned to be funded in 2025/26, but will now not be required until 2026/27.

4.71 There have been no calls on the Change Fund during 2025/26 because of the use of Flexible Use of Capital Receipts for transformational expenditure. For the same reason, the budgeted contribution of £0.730m planned for 2025/26 was not required, this still leaves the balance on the Change Fund Reserve at the end of 2025/26 at £2.766m.

## Council Reserves and Provisions

4.72 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 £25.941m made up of £11.100m General Fund reserves and £14.841m Unrestricted Usable Earmarked reserves. (highlighted yellow)

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

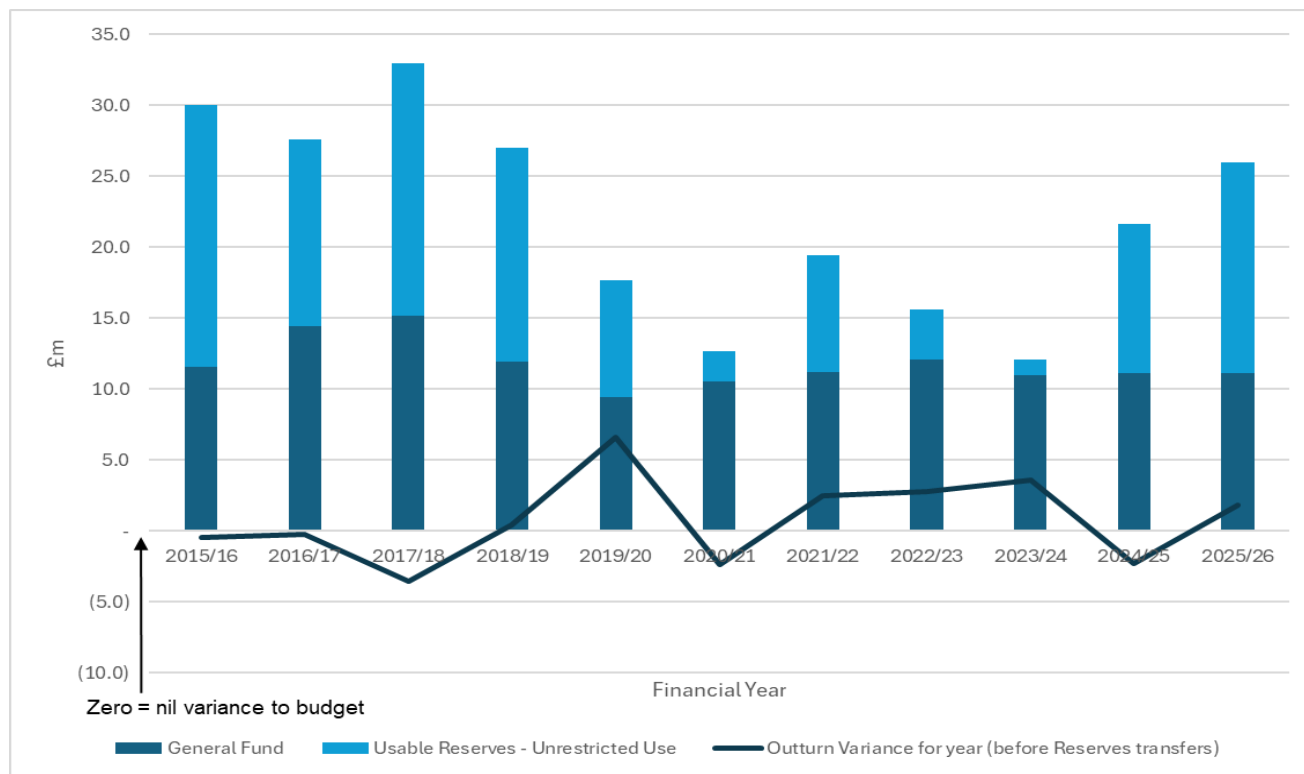
	<u>Opening Balance 01/04/25</u>	<u>Use in Year</u>	<u>Additional Budgeted Contributions</u>	<u>Transfers from / (to) General Fund</u>	<u>Transfers between Reserves</u>	<u>Balance at year-end</u>	<u>Outturn variance transferred to Reserves (from) / to General Fund</u>	<u>Closing Balance at 31/03/26</u>
	£m	£m	£m	£m	£m	£m	£m	£m
<b>GENERAL FUND RESERVE</b>	<b>11.100</b>	-	-	-	-	<b>11.100</b>	-	<b>11.100</b>
<b>USABLE EARMARKED RESERVES</b>								
Restricted Use	2.689	(0.013)	-	0.871	-	3.547	-	3.547
Unrestricted Use	10.554	-	5.888	0.192	-	16.634	(1.793)	14.841
	13.244	(0.013)	5.888	1.063	-	20.182	(1.793)	18.389
<b>UNUSABLE EARMARKED RESERVE</b>	(16.813)	(7.782)	-	-	-	(24.595)	-	(24.595)
<b>SCHOOL BALANCES</b>	3.050	0.987	-	-	-	4.037	-	4.037
<b>PROVISIONS</b>	3.814	0.484	-	-	-	4.298	-	4.298
	<b>14.395</b>	<b>(6.324)</b>	<b>5.888</b>	<b>1.063</b>	-	<b>15.022</b>	<b>(1.793)</b>	<b>13.229</b>

**NOTE**

The year-end balances may be subject to further change due to further technical adjustments which may be required as part of the closure of the Council's accounts. These will be mainly relating to the closure of the Collection Fund accounts, DSG, school balances, and Insurance Fund. There may also be potential changes required as part of the external audit of the Council's accounts. The final year-end balances will be reported in the Council's Statement of Accounts for 2025/26, and in the final outturn report for the financial year.

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 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**

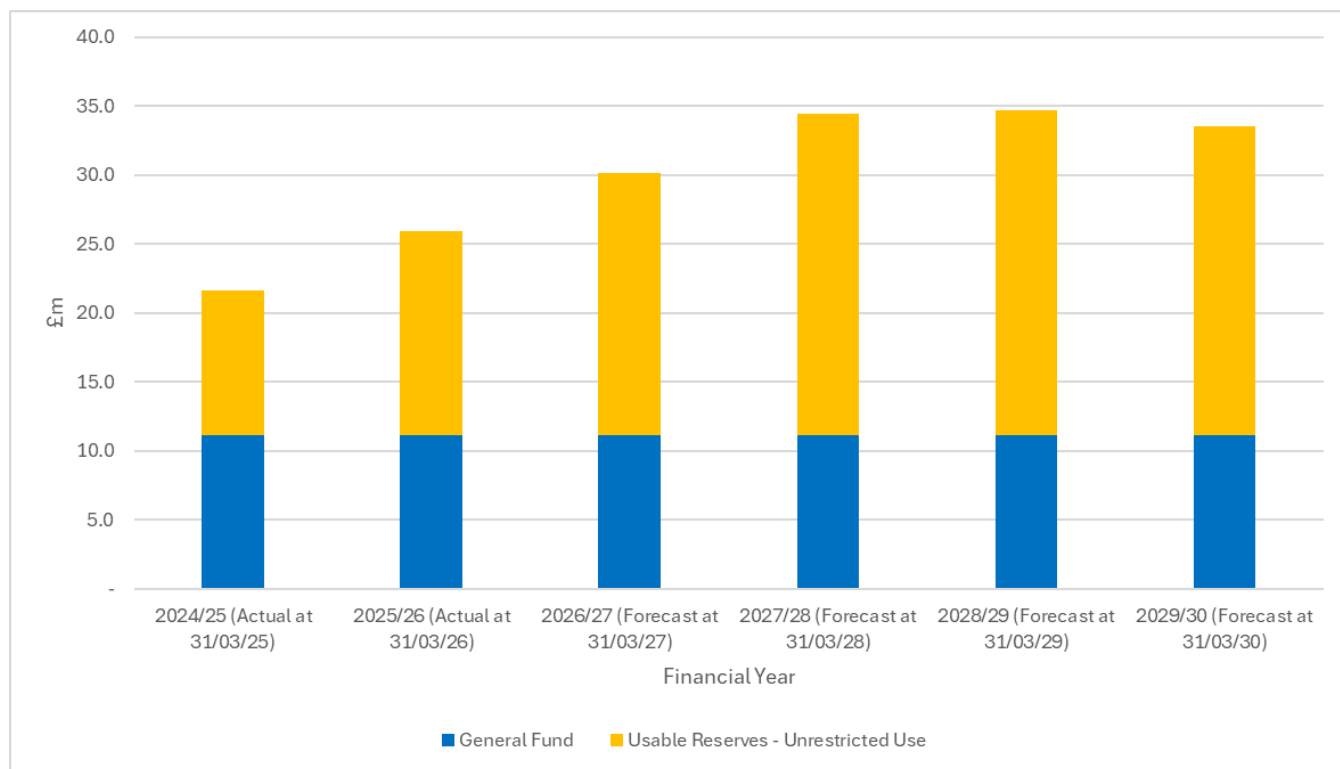


4.73 The strength of reserves illustrated in Figure 1, shows a clear positive trajectory in unrestricted balances in recent years, despite continued in-year service pressure. This reflects the Council's strategy of rebuilding resilience through disciplined financial management and the planned use of contingencies and planned resources rather than reactive use of reserves.

4.74 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 2026/27 Revenue Budget, Medium Term Financial Plan 2026/27 to 2029/30, and Council Tax report to Council on 18 February 2026.

4.75 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)**

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

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

4.77 Table 5 below summarises the final outturn position for the DSG budget. This shows an in-year overspend on the High Needs Block of £9.072m, partially offset by an underspend on the Early Years Block of (£1.968m), resulting in a net in-year overspend of £7.104m. The cumulative DSG deficit at 31 March 2026 is £29.317m.

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

	2025/26 Actual Income	2025/26 Actual Expenditure	2025/26 Year End Outturn	Balance as at 31/03/2025	Forecast Cumulative DSG Deficit as at 31/03/2026
	£m	£m	£m	£m	£m
Early years	25.741	23.774	(1.967)	(0.749)	(2.716)
Schools Block	13.277	13.277	0.000	(0.490)	(0.490)
High Needs	33.159	42.230	9.071	23.515	32.586
Central school services block	1.136	1.136	0.000	(0.063)	(0.063)
<b>TOTAL</b>	<b>73.313</b>	<b>80.417</b>	<b>7.104</b>	<b>22.213</b>	<b>29.317</b>

\*The income figure includes the 0.5% transfer from schools block to High Needs Block agreed at School Management Forum January 2025

- 4.78 The Dedicated Schools Grant (DSG) continues to be subject to a statutory override, requiring deficits to be held separately from the General Fund. The Government has confirmed that this override will now be extended to 31 March 2028, aligning with the transition to a reformed SEND system. In addition, local authorities will be eligible for a High Needs Stability Grant covering up to 90% of the DSG deficit accrued to March 2026, subject to approval of a Local SEND reform Plan by the Department of Education. The remaining 10% has been provided for within the reserves in the Medium-Term Financial Plan approved by Council in February 2026.
- 4.79 Middlesbrough Council is well advanced in developing a comprehensive and robust plan, working closely with partners to set out a sustainable approach to managing demand, improving outcomes and stabilising the High Needs Block. While the DSG deficit remains a significant financial pressure and is forecast to continue in the short term, these national reforms, alongside local delivery of the SEND Reform Plan, provide a clearer pathway towards long-term sustainability.
- 4.80 While national developments, including the extension of the statutory override and the introduction of the High Needs Stability Grant, provide a more structured pathway for managing DSG deficits, there remains a significant degree of financial risk. The current DSG deficit of £29.317m at 31 March 2026 exceeds the Council's usable revenue reserves of £25.941m and is forecast to continue to grow over the medium term. Although the Council is progressing a robust SEND Reform Plan to support longer-term sustainability, the financial position remains dependent on the successful delivery of these reforms and continued Government support.
- 4.81 Further details of the DSG budget and the management actions being taken alongside the delivery of the SEND Reform Plan programme are provided in Appendix 4.
- 4.82 The DSG risk is included in the Council's Strategic Risk Register and is reflected in the Annual Governance Statement for 2025/26

## **Medium Term Financial Plan issues**

- 4.83 The 2026/27 budget incorporated additional resources to support known demand pressures, however, underlying financial challenges remain. Whilst the year-end position demonstrates that a significant proportion of in-year pressures have been mitigated, the Council continues to face structural and demand-led pressures, particularly in statutory services. Since the budget was set, there has also been increased economic uncertainty, with continued inflationary pressures and global instability potentially increasing costs beyond original assumptions
- 4.84 The Final Local Government Finance Settlement for 2026/27, published on 9 February 2026, provided additional funding which strengthened the Council's financial position, and provided support for service led demand and enabled budget growth to be provided in a number of areas. This additional funding, alongside improved financial governance, has contributed to an improved level of financial resilience compared to previous years.
- 4.85 Despite this, the final outturn confirms that a number of in-year pressures persist, most notably within Children's Social Care. This continues to be a significant area of concern, driven by increasing demand, complexity of need, reliance on agency staffing, and a high cost of external residential placements. These pressures have been sustained over a number of years and represent a structural financial challenge, requiring continued intervention, demand management, and service transformation to ensure long-term sustainability.
- 4.86 The outturn position also reflects ongoing inflationary pressures, service demand volatility and uncertainty in income streams. Whilst the 2026/27 budget has been set on a balanced basis and is considered deliverable, this is dependent on strict adherence to financial discipline, including effective cost control, delivery of all approved savings, and robust in-year monitoring. Directors are required to manage expenditure within approved budgets without exception, as failure to do so would place additional pressure on already low reserve levels and undermine the Council's financial resilience.
- 4.87 Looking ahead to 2027/28 and beyond, a number of risks require continued monitoring. These include:
- Sustained demand and cost pressures in Children's and Adults Social Care
  - Continued reliance on agency staffing and challenges in maintaining sufficient permanent workforce capacity
  - Delivery risk associated with existing savings programmes
  - Income volatility across commercial and fee-generating services
  - The financial impact of planned capital activity, including the temporary closure of the Town Hall
  - Ongoing pressures in areas such as waste disposal, homelessness and transport
  - The continuing uncertainty surrounding Dedicated Schools Grant (DSG) deficits and future SEND reform

Although provision has been made within the MTFP for demand pressures and risk, the scale and persistence of these issues mean that further mitigating actions may be required as part of future financial planning cycles.

4.88 The next review of the MTFP will take place in September 2026, with an interim update presented in July 2026 as part of the Budget Development approach and Timetable report. A full refresh of the MTFP will be presented to Executive in September 2026 as part of the 2027/28 Budget and MTFP 2027/28 to 2030/32 Update report, ensuring the Council continues to respond to emerging financial risks and uncertainties.

4.89 The Council will continue to utilise its Transformational Programme and continuous improvement approach to identify and deliver efficiencies, modernise service delivery and strengthen financial sustainability. This includes improving demand management, service redesign and ensuring both financial and non-financial benefits are realised from transformational activity.

4.90 A range of strengthened budgetary control and governance measures will continue to be embedded across the organisation, including:

- Monthly budget monitoring supported by Finance Business Partners
- Quarterly Directorate budget review meetings and regular engagement at Directorate Management Team meetings.
- Quarterly integrated budget and performance clinics chaired by the Section 151 Officer.
- Quarterly Member-led budget clinics, with monthly oversight for Children's Services
- Targeted service reviews in areas of significant financial pressure
- Ongoing vacancy management and strict controls on agency recruitment
- Enhanced controls over non-essential expenditure
- Continued development of Business World and Power BI reporting to improve financial visibility
- Improved data quality and financial processes through training and system enhancements
- Strengthened procurement compliance
- Enhanced governance arrangements for the capital programme

These measures support a strengthened financial management culture across the Council and are critical to maintaining budgetary control and rebuilding financial resilience.

4.91 Overall, the approach to financial management reflects a continued focus on robust governance, improved forecasting, strengthened financial controls and delivery of planned savings, alongside the need to embed sustainable financial practices across all services.

4.92 Key risks impacting the MTFP remain centred on:

- Demand-led pressures, particularly in Children's and Adult Social Care
- Delivery of existing savings commitments
- Inflation and economic uncertainty impacting costs and income
- Risk associated with DSG deficits and future funding arrangements for SEND

- Income volatility and commercial risks
- Waste disposal and environmental cost pressures

### **2025/26 Capital Programme Outturn**

4.93 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 and again to £88.451m from an additional £0.357m in Quarter Three to add new externally funded schemes / additional external funding to existing schemes.

4.94 The budget has been further revised at Quarter Four by the addition of a total of £1.057m of new externally funded schemes / additional external funding to existing schemes. The total additional funding of £1.057m has increased the capital programme for 2025/26 to £ 89.508m as at Quarter Four. Details of all the additional funding and the schemes to which it is attributed to are provided at Appendix 5.

4.95 The final outturn at 31 March 2026 is expenditure of £56.477m, an underspend of £26.094m (31%) against the original budget adjusted for 2024/25 slippage, £31.974m (36%) against the Quarter Three 2025/26 revised budget, and £33.031m (37%) against the final 2025/26 budget.

4.96 The £56.477m of expenditure was funded by:

- £32.153m (57%) grants and external funding / contributions
- £11.659m (21%) capital receipts
- £12.665m (22%) borrowing

**Table 6 – summary of capital programme approved budget, revised budget, final outturn and variance***Table 6 - Summary of Capital Programme approved budget, revised budget and actual year end outturn and variance for 2025/26*

Directorate	2025/26	2025/26	2025/26	2025/26	2025/26	2025/26	2025/26	2025/26	MEMO Explanation of Year- End Forecast Outturn Variance	
	Capital Programme Budget (as approved by Council 19/2/25)	Revised Capital Programme Budget (as per Executive report 11/6/25)	Revised Capital Programme Budget (as at Quarter Two)	Revised Capital Programme Budget (as at Quarter Three)	Revised Capital Programme Budget (as at Quarter Four)	Year-end Actual Outturn	Year-end Outturn Variance	Year-end Outturn Variance against Revised Budget at Quarter Four		
	£m	£m	£m	£m		£m	£m	%	Slippage £m	Underspend £m
Regeneration	32.716	32.617	34.170	34.450	<b>34.450</b>	<b>24.953</b>	(9.497)	-27.57%	(9.497)	-
Environment and Community	20.198	24.774	26.628	26.657	<b>27.553</b>	<b>15.452</b>	(12.101)	-43.92%	(11.439)	(0.662)
Public Health	0.779	0.971	1.042	1.042	<b>1.034</b>	<b>0.933</b>	(0.101)	-9.77%	-	(0.101)
Education and Partnerships	7.553	10.241	12.176	12.264	<b>12.264</b>	<b>2.822</b>	(9.442)	-76.99%	(9.246)	(0.196)
Children's Care	0.550	0.711	0.821	0.821	<b>0.791</b>	<b>0.522</b>	(0.269)	-34.01%	(0.269)	-
Adult Social Care	3.701	3.925	3.925	3.925	<b>4.124</b>	<b>3.698</b>	(0.426)	-10.33%	(0.406)	(0.020)
Legal and Governance Services	1.610	1.629	1.629	1.979	<b>1.979</b>	<b>2.367</b>	0.388	19.61%	0.388	-
Finance	0.191	0.203	0.203	0.203	<b>0.203</b>	<b>0.071</b>	(0.132)	-65.02%	(0.132)	-
Transformation Programme	7.500	7.500	7.500	7.110	<b>7.110</b>	<b>5.659</b>	(1.451)	-20.41%	(1.451)	-
<b>Total</b>	<b>74.798</b>	<b>82.571</b>	<b>88.094</b>	<b>88.451</b>	<b>89.508</b>	<b>56.477</b>	<b>(33.031)</b>	<b>-36.90%</b>	<b>(32.052)</b>	<b>(0.979)</b>

4.97 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 confirmed amount of slippage from 2025/26 of £32.052m is reprofiled and carried forward to financial years 2026/27 to 2029/30 to reflect revisions to the expected delivery and expenditure timescales. £8.752m of the stated £32.052m slippage has been identified following reviews of the status of the projects within the capital programme during Quarter Four. Details of capital slippage for 2025/26 as at Quarter Four are shown in Appendix 6.

## **Transformation**

4.98 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 a maximum of £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.

4.99 In addition to the two schemes totalling £9.500m as detailed in the Quarter Three report, a further scheme that was previously within the Transformation element of the Capital Programme as stated in Appendix 7 has been moved to the respective Directorate that will manage the schemes:

- £0.350m Demonstration Home for adaptation within Adult Social Care

4.100 The scheme 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 FUCR strategy will reduce to £16.850m. Of the £16.850m allocation £4.447m was spent in 2024/25 and £5.659m has been spent in 2025/26 leaving £6.744m for 2026/27 onwards as depicted in Appendix 7.

4.101 Full details of the Transformation expenditure funded through FUCR in 2025/26 are provided in Appendix 8, along with links to savings. Expenditure relating to Transformation will be reviewed on a regular basis and updates will be provided to Executive and Council where appropriate.

4.102 Table 7 summarises, and Appendix 7 details updated year-end outturn expenditure for 2025/26 and forecast expenditure for the period 2026/27 to 2029/30 split over the various schemes and the proposed funding.

**Table 7 - Summary of Capital Programme 2025/26 to 2029/30**

Directorate	Forecast Expenditure					TOTAL
	2025/26	2026/27	2027/28	2028/29	2029/30	
Regeneration & Housing	24.953	39.860	39.171	19.208	8.370	131.562
Environment, Communities and Culture	15.452	26.344	6.808	8.306	11.808	68.718
Public Health	0.933	0.001	-	-	-	0.934
Education and Partnerships	2.822	12.822	0.132	0.078	-	15.854
Children's Social Care	0.522	0.269	-	-	-	0.791
Adult Social Care	3.698	2.434	1.050	1.120	1.120	9.422
Legal and Corporate Services	2.367	4.484	3.685	2.185	2.185	14.906
Finance	0.071	0.334	0.187	-	-	0.592
Transformation	5.659	5.272	1.472	-	-	12.403
						-
<b>Total Expenditure</b>	<b>56.477</b>	<b>91.820</b>	<b>52.505</b>	<b>30.897</b>	<b>23.483</b>	<b>255.182</b>

Funded By	Forecast Expenditure					TOTAL
	2025/26	2026/27	2027/28	2028/29	2029/30	
	£m	£m	£m	£m	£m	£m
Borrowing	12.602	30.860	22.038	11.475	9.605	86.580
Leases	0.063	0.150	0.087	-	-	0.300
Capital Receipts	6.000	11.960	16.060	14.231	12.878	61.129
Flexible Use of Capital Receipts	5.659	5.272	1.472	-	-	12.403
Grants	26.858	37.106	6.933	1.078	1.000	72.975
Contributions	5.295	6.472	5.915	4.113	-	21.795
						-
<b>Total FUNDING</b>	<b>56.477</b>	<b>91.820</b>	<b>52.505</b>	<b>30.897</b>	<b>23.483</b>	<b>255.182</b>

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

4.103 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 latest Treasury Management Strategy 2026/27 approved by Council on 18 February 2026.

4.104 Treasury Management activity is governed by the Prudential Indicators which are set within the TMS. The Council uses external expert Treasury advisors (Arlingclose) to inform the development of its strategy and operational in year decisions. A Prudential Indicators and Treasury Management Outturn 2025/26 report will be taken to Executive in July 2026.

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

4.105 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 expenditure in delivering all Council services. It is accounted for within the Collection Fund and operates under the Government regulations, separately to the Council's general fund. Due to the prescribed mechanisms for operating the Collection Fund, the financial impact of any 2025/26 income collection variances from the estimated forecast done at Quarter Three (which is used in setting the Council Tax for 2026/27) do not immediately affect the General Fund position. By illustration, the impact of any final surplus or deficit variance on the Collection Fund for 2025/26 is fed into the development of the 2027/28 budget and MTFP process and any cost/benefit does not impact the 2026/27 financial year directly. Table 11 below shows the Collection Fund position for 2025/26.

**Table 11 – Collection Fund 2025/26 outturn position**

<b>COLLECTION FUND BALANCE</b>	<b>Council Tax (£m)</b>	<b>Business Rates (£m)</b>	<b>Total (£m)</b>
Balance brought forward at 1 April 2025	(4.908)	1.728	(3.180)
Contribution for Previous Years Surplus / (Deficit)	3.934	(0.468)	3.466
Deficit / (Surplus) for the year	(2.231)	0.758	(1.473)
<b>Balance carried forward at 31 March 2026</b>	<b>(3.205)</b>	<b>2.018</b>	<b>(1.187)</b>
<b>Allocated to:</b>	83.4%	49%	
Middlesbrough Council (precepting share)	(2.673)	0.989	(1.684)
Amount incorporated in budget for 2026/27	2.547	(0.459)	2.088
<b>Additional deficit to factor into 2027/28 budget</b>	<b>(0.126)</b>	<b>0.530</b>	<b>0.404</b>

4.106 The 2026/27 MTFP presented to Council in February 2026 included the estimated effect of Council Tax and Business Rates income. In the context of the current economic climate and the Cost-of-Living Crisis, there is an ongoing risk to the levels of collection of these taxes which may result adversely upon collection rates. The actual in-year collection rates for 2025/26 were 92.9% for Council Tax and 95.5% for Business Rates. Overall collection rates remain respectable and presents as a surplus on the collection fund as precepted amounts have been prudently set lower than actual collection rates (particularly on council tax). Over a period (circa. 10 years) Council Tax collection rates (pre-welfare reform) were around 98.7% and post welfare reform are circa 97.6%, with business rates hovering around 97.7%.

4.107 The position on business rates has been more challenging in recent years and is now showing a deficit balance carried forward of more than £2.0m. This reflects the difficulty in growing and retaining businesses in the local area in recent times.

4.108 Any combined net deficit in the table above affecting the 2027/28 budget process, will be managed using unrestricted usable reserves as part of the MTFP.

### **Debt Recovery Performance**

4.109 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

4.110 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. Progress has been included in quarterly monitoring reports throughout 2025/26 with the position at year-end 2025/26 (31 March 2026) shown in Table 12 below.

**Table 12 – Debt Collection Performance 2025/26**

<b>Category of Collectable Debt</b>	<b>Balance at 1/4/25 (£m)</b>	<b>Movement in-year (£m)</b>	<b>Balance at 31/3/26 (£m)</b>
Council Tax	40.683	2.936	43.619
Business Rates	8.508	(1.118)	7.390
Sundry Debt	8.905	(1.563)	7.342
Housing Benefits Overpayments	5.358	(0.446)	4.912
<b>Total</b>	<b>63.454</b>	<b>(0.191)</b>	<b>63.263</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%).*

A separate report will be presented to Executive later in 2026/27, for approval, writing 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 not to approve the revenue budget virements over £250,000 and the changes to the Council's capital programme, and to not report the Council's final outturn position 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)

Topic	Impact
Financial (including Social Value)	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. The report should be read in conjunction with the 2026/27 Revenue Budget, Medium Term Financial Plan, and Council Tax setting, report presented to Council on 18 February 2026 and with the Treasury Management Mid-Year Review 2025/26 report presented to Executive on 3 December 2025, to fully understand the financial position of the Council.
Procurement	The are no direct impacts on procurement
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 2025/26 Outturn 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.

## 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	30/06/2026
Subject to approval by Executive, amendments to the capital programme for 2025/26 to be actioned.	Head of Financial Planning & Business Partnering	30/06/2026

## Appendices

1	Appendix 1 – Proposed revenue budget virements above £250,000 at Quarter Four 2025/26
2	Appendix 2 – Details of savings classified as unachievable in 2025/26
3	Appendix 3 – Reverses & Provisions for Q4 2025/26
4	Appendix 4 – Dedicated Schools Grant
5	Appendix 5 – Capital New Funding and Virement at Q4
6	Appendix 6 – Details of Capital Slippage at Q4
7	Appendix 7 – Revised Capital Forecast to 2029-30
8	Appendix 8 – Transformation Expenditure Funded Through FUoCR 2025/26

## 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
Executive	Revenue and Capital Budget – Forecast Year-end Outturn position at Quarter Three 2025/26	4/02/26
Council	2026/27 Revenue Budget, Medium Term Financial Plan, and Council Tax setting	18/02/26
Council	Prudential Indicators 2026/27 to 2029/30 and Treasury Management Annual Strategy Report 2026/27	18/02/26

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