

MIDDLESBROUGH COUNCIL	
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Report of:	Corporate Director of Finance (s151 Officer), Andrew Humble
Relevant Executive Member:	The Mayor, Chris Cooke Executive Member for Finance, Cllr. Nicky Walker
Submitted to:	Executive
Date:	8 July 2026
Title:	MTFP Update and 2027/28 Budget Development approach and timetable
Report for:	Decision
Status:	Public
Council Plan priority:	Delivering Best Value
Key decision:	No
Why:	Decision does not reach the threshold to be a key decision
Subject to call in?	Yes
Why:	Non urgent report

Proposed decision(s)	
That Executive:	
<ul style="list-style-type: none"> • APPROVES the budget development approach and timetable set out in Appendix 1 for developing the 2027/28 Budget and Medium-Term Financial Plan (MTFP) to 2030/31 • NOTES the update of the Council’s Medium Term Financial Plan (MTFP) 	

Executive summary

The approval of the budget development approach and timetable is required to ensure that the Council complies with its constitutional and statutory responsibilities in setting the annual budget and Medium-Term Financial Plan (MTFP). Under the Constitution (Section 10.6.1), the approval of the budget and Policy Framework is a non-executive function reserved to Full Council, with the Executive responsible for developing and recommending proposals for consideration. Establishing and agreeing a clear, robust approach and timetable at this stage enables the Executive to discharge its role effectively in formulating proposed budget options, ensures that there is sufficient time for Member engagement, scrutiny and consultation. It supports the delivery of a lawful, balanced and sustainable budget aligned to the Council Plan. This structured approach also ensures that the budget proposals are developed in line with the Council's governance arrangements and can be presented to Full Council for approval in accordance with statutory requirements.

This report provides an update on the Council's Medium-Term Financial Plan (MTFP) and sets out the proposed approach and timetable for developing the 2027/28 budget and MTFP to 2030/31.

The report is set within the context of the Council's Performance and Financial Management Framework (PFMF), which provides a structured, integrated approach to financial planning, performance monitoring and risk management. This ensures that the budget setting process is informed by up to date financial and service performance information, aligned to the Council Plan 2026-29 and subject to robust governance, challenge and Member engagement.

The financial context for 2027/28 is characterised by greater short-term funding stability, following the introduction of the Government's three-year Local Government Finance Settlement (2026/27 to 2028/29). The funding framework remains largely unchanged, with continued emphasis on allocating resources based on deprivation and demand. However, final funding allocations for 2027/28 are yet to be confirmed and will be subject to further updates during Autumn/Winter 2026.

Whilst the funding position has improved, the Council continues to face significant and ongoing financial challenges primarily driven by demand-led pressure and external cost factors. Key risks to the MTFP include:

- Demand pressures in Adult and Children's Social Care, where increasing complexity of need, workforce pressures and market conditions continue to drive costs, with further risks associated with potential future policy changes such as the Adult Social Care Fair Pay Agreement;
- Placement sufficiency and cost volatility in Children's Services, alongside continued reliance on agency staffing and emergency accommodation, although mitigating actions are being implemented through the Directorate Improvement Plan and workforce strategy;
- Waste Service pressures, including cost increases in waste disposal and the introduction of new statutory requirements under Simpler Recycling where funding remains uncertain;
- Income risks, particularly in relation to commercial property holdings, where market conditions continue to affect occupancy and rental income; and

- Future costs pressures and investment requirements, including emerging digital and service delivery initiatives, where feasibility work is ongoing but may result in future revenue commitments.

In addition, there remains uncertainty within key elements of the funding system, including business rates retention arrangements, the longer-term position beyond the current settlement period and wider national reform areas such as SEND funding.

Overall, whilst the Council's financial position has stabilised in the short term, the MTFP continues to be exposed to material financial risks and uncertainties. The budget development process will therefore focus on maintaining a balanced and sustainable financial position, strengthening financial resilience in line with the Reserves Policy and ensuring that resources are prioritised to deliver the Council Plan.

The proposed timetable and governance arrangements will support the development of robust, evidence-based budget proposals with ongoing engagement with Members and stakeholders, seeking to effectively gain approval of the 2027/28 budget and updated MTFP by Full Council in February 2027.

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

- 1.1 The report provides an update for the Executive of the issues affecting the Council's current Medium Term Financial Plan.
- 1.2 The report also seeks approval of the budget development approach and timetable within which Officers will work with the Mayor, Executive, and other elected members to develop the 2027/28 budget and Medium-Term Financial Plan (MTFP) for the four-year period to 2030/31

Our ambitions	Summary of how this report will support delivery of these ambitions and the underpinning aims
A successful and ambitious town	The MTFP underpins the delivery of the Council's vision for Middlesbrough and therefore supports all the ambitions within the Council Plan
A healthy Place	
Safe and resilient communities	
Delivering best value	The proposed recommendations are consistent with and will promote the achievement of the Council's general legal duty to achieve Best Value in accordance with Section 3 of the Local Government Act 1999 (as amended by s137 of the Local Government & Public Involvement in Health Act 2007). The report provides assurance that the Council has effective corporate governance and financial planning arrangements in place, and that the Council is working towards managing its finances by the development of a balanced budget for 2027/28 and MTFP to 2030/31 for approval by Council in February 2027, whilst also ensuring that resilience and sustainability are not impacted. The forward planning for and setting of a robust budget and balanced MTFP enables the Council to provide and deliver services within its overall corporate and financial planning framework.

2. Recommendations

2.1 That the Executive

- **APPROVES** the budget development approach and timetable set out in Appendix 1 for developing the 2027/28 Budget and Medium-Term Financial Plan (MTFP) to 2030/31
- **NOTES** the update of the Council's Medium Term Financial Plan (MTFP)

3. Rationale for the recommended decision(s)

- 3.1 The forward planning for and setting of a robust budget and balanced MTFP enables the Council to provide and deliver services within its overall corporate and financial planning framework. The MTFP underpins the delivery of the Council's vision for Middlesbrough to be a thriving, healthier, safer, and more ambitious place where

people want to live, work, invest, and visit, and where we will support our residents to live fulfilling lives, to ensure that our communities thrive.

- 3.2 All Council elected members have a legal obligation to agree a balanced robust budget and set the Council Tax by 11 March 2027. In addition, the Council has a Best Value duty to demonstrate financial sustainability through the delivery of a balanced MTFP over a period of at least 3 years. The setting of the budget is part of the Performance and Financial Management Framework and therefore requires Full Council approval scheduled for 24 February 2027.
- 3.3 The Council is required to take a systematic, coherent, and controlled approach to addressing its ongoing financial challenges over the medium-term, while enabling the delivery of the Mayor's vision and priorities for Middlesbrough through delivery of the wider Council Plan.

4. Background and relevant information

- 4.1 Each year the Council engages in an annual financial planning and budget setting cycle with the intention to achieve a balanced annual revenue budget and MTFP, set the council tax, and set out the capital and treasury management strategy.
- 4.2 Following the introduction of the revised Performance and Financial Management Policy and accompanying Framework (PFMF) in 2026/27, the Council now operates within a strengthened and more integrated approach to financial and performance management. The framework embeds a structured plan-monitor-review-improve cycle, ensuring that financial planning is informed by continuous performance monitoring, robust financial oversight, and active risk management throughout the year.
- 4.3 Under this approach, the budget setting process is supported by a series of regular, formal governance arrangements, including Budget Holder meetings, Directorate Budget Reviews, and Integrated Performance and Budget Clinics. These arrangements provide timely insight into in-year financial performance, service delivery, emerging pressures, and delivery risks, enabling early identification of issues and more informed decision-making.
- 4.4 The Performance and Financial Management Framework will continue to support the development of the 2027/28 budget and Medium-Term Plan by ensuring that:
 - Financial forecasts are grounded in up-to-date performance, demand, and cost information
 - Emerging risks and pressures are identified and escalated at an early stage, allowing for timely mitigation
 - There is clear alignment between service performance, resource allocation and Council Plan priorities
 - Budget proposals are subject to ongoing challenge review, and refinement through established officer and Member governance processes.

As a result, the PFMF provides a more robust, transparent, and evidence-based foundation for financial planning, supporting the Council to maintain financial sustainability while delivering its strategic objectives.

- 4.5 The annual financial planning cycle is a continuous and iterative process, incorporating regular monitoring, challenge and refresh of assumptions through the Council's integrated governance arrangements. This includes Budget Holder meetings, Directorate Budget Reviews, and quarterly Integrated Performance and Budget Clinics, which collectively ensure that emerging financial challenges are identified early and reflected in financial planning.
- 4.6 At key stages throughout the financial year, financial assumptions are reviewed and updated considering new information and insight to inform robust budgetary control, in-year forecasting and medium to long term financial sustainability. Key areas of focus include:
- The Council's financial and operational performance, including outturn performance from the previous year and in year delivery against budget, savings plans, and agreed performance targets.
 - Changes in external factors outside the Council's control, including macroeconomics conditions (inflation, interest rates, pay awards), market conditions, national policy developments, and demographic trends impacting demand for services.
 - Internal performance and delivery factors, including the effectiveness, efficiency and sustainability of service delivery models in meeting the needs of residents, businesses and visitors, including opportunities for redesign and continuous improvement
 - The Council's financial resilience, including the adequacy of reserves, assessment of financial risks, and the cumulative impact of pressures, savings delivery and demand changes on the MTFP.

This integrated approach ensures that performance, finance and risk are considered together, supporting evidence-based decision making and early corrective actions where required.

- 4.7 This report represents the initial stage of the budget development process for the period 2027/28 to 2030/31. It builds upon the MTFP approved by the Council in February 2026, the 2025/26 financial outturn, and the latest in-year financial monitoring position reported through the quarterly integrated performance and financial management cycle.
- 4.8 The report sets out the financial framework, assumptions and governance arrangements within which Officers will work with the Mayor and Executive, supported by ongoing engagement with Elected Members, to develop detailed budget proposals. This process will be informed by evidence from performance monitoring, financial forecasting, risk analysis and continuous improvement ensuring that proposed budgets are deliverable prioritised and aligned to the Council Plan and available resources.
- 4.9 Consistent with the PFMF, the development of the 2027/28 budget and updated MTFP will be subject to robust challenge transparency and iterative refinement through established governance mechanism including Policy Development Group, Finance Resilience Working Group, and Performance and Budget Clinics.

MTFP Update

4.10 Since the budget report to Council on 18 February 2026, a number of developments have emerged which may impact the Council's current MTFP, as outlined in paragraphs 4.11 to 4.45. In some areas, further detail and validation is required before reliable financial impacts can be confirmed. As a result, figures have not been included where there is insufficient certainty. However, indicative costs or estimates are provided in some cases to give context where this is considered helpful. Work will continue to refine these assumptions as more information becomes available, and an updated MTFP will be presented to Executive on 9 December 2026 alongside the commencement of the 2027/28 budget consultation.

Local Government Funding

4.11 The 2027/28 financial year falls within the three-year Local Government Finance Settlement for 2026/27 to 2028/29, and as such there has been no separate funding settlement announcement for 2027/28. Instead, indicative allocations were published as part of the multi-year settlement, with final funding allocations expected to be confirmed in mid to late December 2026. This provides a degree of medium-term certainty for Middlesbrough Council compared to previous single-year settlements, supporting more effective financial planning. There is still the possibility the Government may change its stance regarding settlements for 2027/28 and 2028/29.

4.12 The Government has not yet indicated any material policy changes for 2027/28 and is continuing to operate within the framework established through the Fair Funding Review 2.0 and the 2025 Spending Review. This includes the continued use of revised needs and resources formulae, Recovery Grant arrangements, and social care distribution mechanisms. For Middlesbrough, this provides stability in the funding framework and reinforces the expectation that the direction of travel towards funding based on deprivation and demand will be maintained. However, there remains the possibility that the Government may revise its position for 2027/28 and 2028/29.

4.13 Nationally, Core Spending Power is expected to increase in 2027/28, with indicative assumptions suggesting a further uplift following the increase in 2026/27. For Middlesbrough, this is expected to translate into continued growth in funding, building on the positive impact of the revised funding formula and Recovery Grant allocations in 2026/27. However, final figures remain subject to confirmation and technical updates.

4.14 Funding for Adult Social Care is expected to increase further in 2027/28, with a larger proportion of additional national funding distributed through needs-based formulae. This is particularly significant for Middlesbrough given the level of demand pressures within adult social care services. Whilst this represents a positive funding trajectory, there remains a risk that increases in demand, provider costs and workforce pressures may continue to exceed available funding.

4.15 There remains some uncertainty within elements of the funding system, particularly in relation to the future treatment of business rates retention and pooling arrangements, where further consultation and clarification from Government is expected. For

Middlesbrough, this creates a degree of risk within income projections and reinforces the need for prudent assumptions within the MTFP.

4.16 The next key updates in the funding process are expected during the Autumn/Winter 2026, when the Government is likely to publish updated technical information, confirm detailed allocations, and set out any adjustments to the 2027/28 funding position. Whilst the overall framework is expected to remain in place, there are a number of areas that will continue to be monitored closely by the Council, including;

- The sufficiency of funding to meet adult social care demand and workforce pressure costs.
- Progress on SEND funding reform and any associated financial implications.
- Any changes to business rates equalisation and associated protections.
- The continuation of Recovery Grant and associated protections.
- The impact of potential local government reorganisation and devolution proposals.

4.17 Overall, the current position can be described as broadly stable in the funding framework, with no significant policy changes since the February 2026 settlement, but with a number of technical and financial uncertainties remaining that will be resolved through the detailed allocation process. These factors will be reflected in the Council's ongoing financial modelling and budget development process.

General economic climate

4.18 The following paragraphs provide an overview of the general economic climate and the main factors currently affecting the UK economy. These will be monitored closely, alongside the potential implications for the Council, in order to inform the Medium-Term Financial Plan (MTFP).

4.19 UK Gross Domestic Product (GDP) grew by 0.6% in the first quarter of 2026, representing the highest quarterly increase since early 2025 and an improvement on growth of 0.2% in the final quarter of 2025. Growth was driven primarily by the services sector, with business services, technology and advertising performing strongly. However, forecasters continue to expect more modest growth over the remainder of 2026, reflecting ongoing global uncertainty and domestic economic pressures. The Office for Budget Responsibility (OBR) forecasts UK GDP growth of around 1.1% in 2026.

4.20 Labour market conditions have continued to soften during 2026. Business surveys indicate subdued recruitment activity, with many employers reporting that higher employment costs, including increases in National Insurance Contributions and the National Living Wage, have constrained hiring intentions. The Bank of England's latest survey of businesses suggests firms expect a small reduction in employment levels over the coming years. Although unemployment remains relatively low by historical standards, labour demand has weakened as economic growth remains subdued.

4.21 Consumer Price Index (CPI) inflation remains above the Bank of England's 2% target. Whilst the inflationary pressures had begun to ease during late 2025 and early 2026, the outlook has become more uncertain due to escalating geopolitical tensions in the

Middle East, particularly the ongoing Iran and Israel conflict. The conflict has contributed to higher global oil and gas prices, driven by concerns over disruption to energy supplies and shipping routes through the Strait of Hormuz, a critical route for global energy exports. Higher energy prices have already fed through into increased fuel costs and are expected to place upward pressure on transport, manufacturing and supply chain costs across the wider economy. The Bank of England has identified the conflict as a significant inflationary risk and has warned that sustained increases in energy prices could lead to a further rise in inflation during 2026 and into 2027. Whilst the expectation remains that inflation will gradually return towards target over the medium term, the risk of a more prolonged period of above target inflation has increased, creating additional uncertainty for household budgets, business costs and local authority expenditure. For Middlesbrough Council, sustained increases in energy and fuel prices could increase the costs of commissioned care services, transport, waste collection and contractual inflation uplifts, placing further pressure on the Council's revenue budget and medium-term financial planning assumptions.

- 4.22 The Bank of England has maintained the Bank Interest Rate at 3.75% since February 2026, with the Monetary Policy Committee (MPC) citing continuing inflationary pressures and uncertainty surrounding global energy markets. Whilst interest rates are significantly lower than their recent peaks, the Bank has adopted a cautious approach and has indicated that future decisions will depend on the outlook for inflation and economic growth. Higher borrowing costs continue to affect households, businesses and local authorities, although market expectations are that interest rates will gradually decline over the medium term if inflationary pressures continue to ease.
- 4.23 Whilst the national economic outlook has improved modestly, significant financial risks remain for Middlesbrough Council over the medium term. Demand for statutory services particularly Adult Social Care, Children's Services and homelessness support, continues to grow at a pace that exceeds underlying inflation. Although the Government's multi-year finance settlement and Fair Funding Review 2.0 reforms are expected to deliver additional funding to Middlesbrough over the period to 2028/29, the Council continues to face substantial demand and cost pressures. The Council's latest Medium-Term Financial Plan identified forecast service demand pressure and budget rebasing requirements of £15.549m in 2026/27, rising to £34.963m by 2029/30, driven largely by increasing demand for care services, workforces' costs, inflation and legislative requirements. Current estimates indicate that Middlesbrough will benefit from increased government funding through the new funding formula over the settlement period, however, there remains uncertainty regarding future funding levels beyond 2028/29 and whether funding increases will fully offset demand-led expenditure growth. Consequently, the Council will continue to closely monitor economic conditions, inflation, labour market trends, social care demand and government funding announcements to ensure the ongoing sustainability of the Medium-Term Financial Plan.

Service Demand Pressures

- 4.24 As part of the Government's Simpler Recycling reforms, the Council will be required to introduce the separate collection of microplastics from April 2027. Whilst this supports national environmental objectives, the cost of implementation remains uncertain including collection arrangements, infrastructure requirements, and ongoing

operational costs. At present Department for Environment, Food & Rural Affairs (DEFRA) has not confirmed whether new burdens funding will be provided. Should funding not be sufficient or forthcoming this will create an unfunded pressure within the MTFP, the scale of which will be determined once detailed guidance and cost modelling is available.

- 4.25 At 2026/27 budget setting the budget for Waste Disposal was reviewed over the period of the MTFP taking into account latest estimates on tonnages and costs per tonne, however this needs to be closely monitored. Whilst the introduction of Simpler Recycling in 2026/27 may reduce residual tonnage over time, this is not yet certain and will depend on behavioural change and operational delivery. There is therefore a risk of short-term increases before any benefits from reduced disposal volume is realised. This will continue to be monitored through in-year financial reporting. It should also be noted that whilst outside the current MTFP period there is a new waste disposal contract and Tees Valley Energy Recovery Facility planned to operate from 2030 which will impact on the price per tonne of waste disposed that the Council has to pay. Further financial modelling of the latest agreed contracted price needs to be undertaken, and this will be included in the next review of the MTFP. The MTFP will also need to be reviewed when the Government announce further information relating to the planned introduction of the Emissions Trading Scheme (ETS) in 2028/29.
- 4.26 The MTFP includes provision for forecast demand growth in Adult Social Care, however the scale and pace of demand continue to represent a significant financial risk. Demand-led pressures, market volatility and provider costs increases remain highly sensitive to external factors. In addition, the proposed introduction of a Fair Pay Agreement for the Adult Social Care workforce from April 2028 is expected to increase provider costs materially. This is likely to result in further inflationary pressures on care packages and contracts beyond those currently assumed within the MTFP, requiring ongoing review and potential additional funding.
- 4.27 There are continuing pressures within Children's Social Care placements, driven by both increasing demand and rising complexity of need. Current budget assumptions do not fully reflect the costs of high-needs and specialist placements. A national shortage of foster carers is further constraining local capacity, leading to a greater reliance on external residential provision and high-cost placements. This represents a significant and volatile financial risk, as placement costs can vary materially depending on individual circumstances.
- 4.28 Due to limited placement capacity and urgent safeguarding requirements, there is an ongoing reliance on emergency accommodation, including short term provision. These arrangements are significantly more expensive and less sustainable than planned placements, creating unplanned and unpredictable cost pressures. While work is ongoing to improve placement sufficiency, this remains a high-risk area within the MTFP.
- 4.29 Workforce challenges have historically impacted service delivery within Children's Social Care, contributing to higher staff turnover and reliance on agency workers, with associated cost pressures. However, this position is now being actively addressed through the Directorate's Improvement Plan, which includes the development and implementation of a workforce strategy focused on recruitment, retention and

workforce stability. In addition, key leadership roles have now been appointed, strengthening management capacity and providing greater oversight, stability and direction within the service. These measures are expected to reduce reliance on agency staff over time and improve workforce resilience. Whilst this represents a positive trajectory, there remains a residual financial risk in the short term as improvements take time to embed, and agency cost pressures may continue until the workforce stabilises.

- 4.30 The Council is currently exploring the potential use of AI-enabled digital solutions to support service delivery, improve efficiency and enhance customer outcomes. This work is at an early stage, including assessing potential use cases, implementation requirements, costs and anticipated benefits. Subject to the outcome of this work, there is expected to be a requirement for initial Capital investment, funded through the existing provision within the Capital Programme. However, there remains the potential ongoing revenue requirements to sustain and support these solutions. At this stage, the scale, timing and affordability of any investment remains uncertain and therefore represents a potential future cost for the MTFP, which will be refined as work progresses and cleared cost-benefit information becomes available.
- 4.31 Funding for the Neighbourhood Model has been identified through the Flexible Use of Capital Receipts (FUoCR) programme to support staffing costs associated with the implementation of the Neighbourhood Model until around January 2028. The Council has placed a significant strategic emphasis on neighbourhood based working and visible frontline services as part of its wider commitment to improving outcomes for residents and communities. Should a decision be taken to retain some or all the current staffing establishment beyond the implementation period in order to maintain service delivery within neighbourhoods, additional recurring funding of approximately £1.3m per annum, would need to be incorporated into the MTFP
- 4.32 The commercial property market remains challenging with ongoing economic uncertainty affecting rental demand, occupancy levels and income streams. The recent loss of a national retailer within the Cleveland Centre highlights the risk of declining rental income and increase voids, which may impact the Council's revenue position. This represents an ongoing financial risk to income budgets, which will need to be actively managed through asset management strategies and market engagement.
- 4.33 Funding from both the Police and Crime Commissioner (PCC) and UK Shared Prosperity Fund (UKSPF) has now been withdrawn, resulting in the loss of grant funding that currently supports 16 Street Warden posts. Existing contracts are due to expire on 31 March 2027. Should a decision be taken to maintain current service levels beyond this date, ongoing annual funding of approximately £0.655m would need to be incorporated into the MTFP.
- 4.34 Within the 2026/27 Revenue Budget report, consultation feedback included suggestions to reduce the charge for the green waste service and to introduce a reduction in car parking charges. Both proposals would have a financial impact on the Council's budget and Medium-Term Financial Plan (MTFP). Executive will consider these options once further information and detailed financial analysis has been completed, with the implications to be incorporated into the MTFP update report due to be presented to Executive in October 2026.

- 4.35 Should Middlesbrough Council be successful in securing the UK City of Culture 2029 Bid, a one-off Council financial contribution (value to be determined) may be required to support programme delivery and to meet local commitments associated with hosting the event, however the Council will seek external investments and funding opportunities to mitigate any requirement for Council funding. This requirement would be in addition to, and intended to maximise the impact of, the £10m Government award.
- 4.36 Real support service income targets. After an initial in-depth review of internal support services reallocations was undertaken in 2025/26, a second stage, focusing on support services recharges to third party accounts that generate 'real' income to the Council, is planned for 2026/27. In previous years, there has been a shortfall against the budgeted income target for 'real' support services income, and this is expected to continue. The scale of the ongoing shortfall is yet to be determined. However, once established it is recommended that as this is a corporate income target, funding is provided through the MTFP to reset the income target at a realistic level.

Savings now found to be unachievable

- 4.37 As reflected in the 2025/26 Revenue Outturn report, some previously approved budget savings are now unlikely to be achievable in the future and potentially will need to be removed from the MTFP or replaced with other savings. These are summarised below, and will be considered as part of the updated MTFP to Executive in December 2026:
- 4.38 Contractual spend review savings of £0.619m (2024/25 original target of £0.700m, of which £0.081m has been permanently achieved). Despite best endeavours, it has now become apparent that the remainder of this saving cannot now be achieved in the manner originally intended. Whilst business as usual work continues to be ongoing in reviewing and renegotiating contracts wherever possible, it has not been possible to reduce the budgeted savings target as many of the savings relate to capital funded expenditure, rather than revenue. It is therefore recommended that this budgeted saving is considered for removal from the MTFP, and any savings on contract expenditure will be reflected within individual Directorate outturns.
- 4.39 Digitise Procurement savings of £0.200m (2025/26 saving) was originally intended to be achieved through the use of a third party to competitively procure goods and services. Again, this saving has not materialised in the manner expected, and so it is recommended that this saving is considered for removal from the MTFP, and any savings through this initiative will instead be reflected within individual Directorate outturns.

Dedicated Schools Grant (DSG)

- 4.40 As highlighted in the outturn position, the level of the DSG deficit and the ongoing uncertainty regarding its future treatment continues to represent a significant financial risk to the Council. Whilst the Government has confirmed a High Needs Stability Grant of up to 90% of accumulated deficits to March 2026, this is subject to approval and delivery of the Local SEND Reform Plan and therefore does not fully remove the

underlying financial risk. There is also uncertainty regarding the Government's position relating to deficits that occur post March 2026.

- 4.41 The DSG position remains driven by sustained demand, complexity of need and cost pressures, particularly within the High Needs Block, including continued growth in Education, Health and Care Plans, increasing reliance on high-cost specialist placements and wider system pressures such as alternative provision and home to school transport.
- 4.42 There remains a risk that demand continues to outpace the impact of local mitigation actions, particularly where improvements in inclusion, early intervention and placement sufficiency take time to deliver measurable financial benefits. In addition, the Council remains exposed to delivery risk associated with the Local SEND Reform Plan, including the potential that required outcomes are not achieved at sufficient pace to stabilise the position.
- 4.43 Accordingly, the DSG deficit and its trajectory will need to continue to be closely monitored and reflected within future updates of the Medium-Term Financial Plan with a particular focus on delivery of the Local SEND Reform Plan and the sustainability of the High Needs Block.

Pay Awards

- 4.44 On 24 March 2026, National Employers made a final one-year pay offer of a 3.3% increase to salaries and allowances for eligible staff for 2026/27. This offer has initially been rejected by the trade unions, and negotiations are currently ongoing. The employer offer is higher than the assumptions in the 2026/27 budget and MTFP (which allowed for 3% in 2026/27, 2.5% in 2027/28 and 2.0% thereafter). If the 3.3% increase is implemented, it would increase costs by around £0.360m in 2026/27 with ongoing impacts in future years. The MTFP will be updated to reflect this and reported to Executive in October 2026.

Local Government Pension Scheme (LGPS)

- 4.45 The triennial valuation of the Teesside Pension Fund was completed on 31 March 2025 and set employer contribution rates for the period 2026/27 to 2028/29. The agreed contribution rate is 11.5%, a reduction from the previous 13%. This reduction has been reflected in the 2026/27 budget and Medium-Term Financial Plan (MTFP). The next triennial valuation will take place on 31 March 2028 and will set the employer contribution rates for 2029/30 to 2031/32, at which point the 2029/30 budget and MTFP will be updated to reflect any changes,

Budget Strategy

- 4.46 The Council will maintain a robust Medium-Term Financial Plan (MTFP) to ensure financial sustainability over the period of the MTFP while demonstrating Best Value in the use of resources.
- 4.47 In accordance with the Performance and Financial Management Framework (PFMF) and the refreshed Council Plan 2026-29, the budget strategy adopts an integrated

approach to planning, monitoring and review, ensuring that financial decisions are informed by performance, demand and risk. Following the transition in 2026/27 from the time limited Transformation Programme to a Continuous Improvement model, improvement activity is now embedded within Directorate operations and supported through the Council's performance management framework.

The key objectives of the 2027/28 budget and MTFP are to:

- Set a balanced budget and sustainable General Fund revenue budget.
- Deliver a balanced MTFP based on robust and realistic assumptions.
- Maintain alignment with the Reserves Policy, ensuring adequate General Fund balances and sufficient earmarked reserves to support financial resilience.
- Align resources to Council Plan outcomes, statutory requirements and Best Value principles
- Embed a culture of continuous improvement to support ongoing enhancement of services and financial performance

4.48 The budget strategy will be delivered through the Council's PFMF and Continuous Improvement model, with focus on the following priorities:

- Integrated management of performance, finance and risk supported by regular monitoring and challenge through established governance arrangements (including Budget Holder meetings, Directorate reviews and Performance and budget Clinics).
- Continuous improvement and service optimisation, ensuring services are delivered efficiently and outcomes are improved through embedded, Director led activity.
- Improved demand and costs management, strengthening forecasting and financial planning through better use of data and modelling.
- Demand management and prevention, reducing pressures on high-cost statutory services.
- Prioritisation of resources, ensuring services remain aligned to the Council Plan outcomes and are affordable within available resources.
- Effective management of assets and capital resources, supporting service delivery and longer-term financial sustainability.
- Income maximisation, including optimisation of fees and charges and debt recovery.
- Strong financial control and governance including fraud prevention and compliance with financial regulations.

4.49 Resource allocation within the MTFP will be informed by strategic priorities, the data generated through the PFMF, and the requirement to maintain financial resilience in line with the Reserves Policy.

In determining priorities, the Council will apply the following principles.

- Supporting sustainable Council Tax funding decisions.
- Addressing demand-led and inflationary pressures, particularly within statutory services.
- Ensuring budgets are aligned to underlying demand and cost drivers

- Reviewing and resolving unachievable of high-risk savings assumptions
- Prioritising investment aligned to Council Plan outcomes, where affordable.

All decisions will reflect the need to maintain adequate reserves and ensure that ongoing expenditure is supported by sustainable funding with reserves used appropriately to manage risk and support financial stability.

4.50 The 2027/28 budget and MTFP will be developed through established governance arrangements, ensuring robust challenge, transparency and Member engagement.

This will include

- Oversight through Policy Development Group, Financial Resilience Working Group, and Performance and Budget Clinics.
- Regular engagement with the Mayor and Executive.
- Structured briefings for all Elected Members at key stages.
- Formal reporting of draft and final proposals to Executive and Full Council.

This approach ensures that the budget is developed on clear evidence based, aligned to strategic priorities and supports a sustainable financial position over the medium term.

Budget Development Timetable

4.51 It is proposed that the Council adopts the following key activities and timetable summarised in Table 1 and Table 2 and detailed in Appendix 1, so that suitable proposals for the MTFP 2027/28 to 2030/31 can be published for public consultation in December 2026 before final decisions are made by Council in February 2027.

Table 1 – Proposed Budget Setting and Medium-Term Financial Planning (MTFP) Governance Arrangements – Key Activities.

Key Activity	Frequency / Period	Lead
Policy Development Group (PDG)	Fortnightly	S151 Officer
Financial Resilience Working Group	Monthly	S151 Officer
All Member Updates	As Specified	S151 Officer
All Revenue and Capital bids in relation to MTFP	30th September 2026	Service Directors

Table 2 – Proposed Budget Setting and Medium-Term Financial Planning (MTFP) – Annual Cycle

Date	Responsible	Activity
July 2026 – January 2027	Executive Member for Finance / S151 Officer	Cross Party Engagement and Oversight, including Monthly Financial Resilience Working Group meetings.
June 2026 – November 2026	LMT / Executive	Development of budget proposals – Fortnightly PDG

July 2026	Elected Mayor / S151 Officer	All Elected Members Briefing – Budget timetable and approach
31 st July 2026	LMT / Executive	Revenue - High level submissions for consideration and potential inclusion in the Medium-Term Financial Plan (MTFP)
31 st July 2026	LMT / Executive	Capital - High level proposals to be submitted for early consideration, prioritisation, and alignment with emerging MTFP and capital strategy assumptions
7 th October 2026	Executive	Executive Report – 2027/28 budget and Medium-Term Financial Plan (MTFP) 2027/28 to 2030/31 Update
October 2026	Elected Mayor / S151 Officer	All Elected Members Briefing – MTFP update and 2027/28 budget development
30 th September 2026	LMT / Executive	Revenue - Detailed submissions, including full financial workings and supporting evidence
30 th September 2026	LMT / Executive	Detailed capital submission including full financial appraisals, funding sources, deliverability, and risk assessments, to be submitted via Finance Business Partners using agreed templates.
October 2026 (subject to confirmation)	Finance	Local Government Finance Policy Statement (Published by Government)
11 th November 2026	Executive	Approval of Council Tax Base for 2027/28
9 th December 2026	Executive	Executive Report- 2027/28 Draft Budget Report and MTFP to 2030/31
10 th December 2026 – 14 th January 2027	Finance	Budget consultations period with public, political groups, OSB, Business community and other stakeholders
December 2026	Elected Mayor / S151 Officer	All Elected Members Briefing – 2027/28 Draft Budget Proposals
Late December 2026 (date subject to confirmation)	Finance	Consider Provisional Local Government Finance Settlement and effect on budget proposals
January 2027	Elected Mayor / S151 Officer / LMT	Amend budget proposals considering consultation, feedback, updated officer advise and consider any alternative budget proposals.
Late January 2027 / early February 2027	Elected Mayor / S151 Officer	All Elected Member Briefing – 2027/28 Budget Proposals
Early February 2027 (date subject to confirmation)	Finance	Consider Final Local Government Finance Settlement

3rd February 2027	Executive	Executive Report – 2027/28 Revenue Budget, 2027/28 Council Tax, revised MTFP to 2030/31, and Capital Strategy 2027/28
24 th February 2027	Council	Full Council – to consider and set 2027/28 Revenue Budget, 2027/28 Council Tax, revised MTFP to 2030/31 and Capital Strategy 2027/28

Member engagement in developing the budget and MTFP

4.52 The annual budget financial planning cycle requires a collaborative and co-ordinated approach by all elected members and officers in order to achieve a balanced budget and MTFP and ensure the financial sustainability of the Council. As outlined above in Tables 1 and 2, briefings for all elected members will be arranged at various points of the process to ensure that key issues are understood. The Financial Resilience Working Group (FRWG) comprising cross party membership representation will be re-established and will play a key role in the budget setting process. The first meeting will be held in July, and these will run through to the end of January.

5. Ward Member Engagement if relevant and appropriate

5.1 As detailed in paragraph 4.52 all elected members, including ward members, have a role to play in the budget setting process.

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

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

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

Topic	Impact
Financial (including Social Value)	<p>This report represents the first step in a budget process that will continue over the coming months with further detailed consideration of the outcomes being evaluated prior to the Executive considering and approving a draft budget for public consultation in December 2026.</p> <p>The budget process will culminate in the Chief Finance Officer's (S151 Officer) assessment of the robustness of the proposed budget and adequacy of reserves statement contained within the final report presented to Executive and Council in February 2027, followed by approval of the Budget, MTFP, Capital Programme, Treasury Management Strategy and annual Council Tax by Council.</p>
Procurement	There are no direct procurement implications from this report.

<p>Legal</p>	<p>The Council is required under legislation to set a balanced budget for each year. The Medium-Term Financial Plan and revenue and capital budgets form part of the Council’s policy framework, as set out in its constitution. The approach outlined within the document will enable the Council to operate within the resources available and continue to meet its many statutory duties.</p>
<p>Risk</p>	<p>The S151 Officer is required to provide statutory advice to the Council on the robustness of the budget estimates and adequacy of reserves, as such, an assurance was provided to Full Council at the time it set the 2026/27 budget it had been reasonably based on the best available information and assumptions.</p> <p>Maintaining strong financial governance and continuing to build and protect reserves is critical to the Council’s financial sustainability. However, the continued uncertainty within the wider economic environment over the short to medium term presents a significant risk to the Authority, as evidenced by the financial pressures reflected in the 2025/26 outturn position.</p> <p>It is therefore essential that Directors, in consultation with Executive Members, maintain a strong focus on proactive budget management and control, ensuring expenditure is contained within the approved budget for 2026/27. This includes a continued emphasis on identifying opportunities to mitigate in-year pressures, avoiding overspends and, where possible, strengthening the Council’s reserve position to improve financial resilience.</p> <p>Any overspend arising in the year will place additional pressure on the 2026/27 budget and the Medium-Term Financial Plan (MTFP) to 2030/31, reducing financial flexibility and increasing the requirement for further savings or use of reserves.</p> <p>The development of the Council’s MTFP is periodically reviewed and will build upon projections for the current period and beyond as further details and analysis become available. Throughout the budget process a range of different options will be considered including various levels of council tax, investment, expenditure reductions and income generation proposals. These will be regularly reported and thoroughly considered as part of an iterative process involving LMT, the Elected Mayor, Executive Members and briefings to all elected members. Impact assessments will be considered before final decisions are taken on whether to implement each proposal.</p>

<p>Human Rights, Public Sector Equality Duty and Community Cohesion</p>	<p>The Council must ensure that, in line with the Public Sector Equality Duty, that any budget saving proposals, other budget proposals, or proposed Council Tax increases thought to impact on those with protected characteristics are assessed, mitigated where possible and/or justified. As such impact assessments for any savings proposals will be undertaken as part of the budget process and included as part of the budget report to Council in February 2027.</p> <p>The Public Sector Equality Duty (PSED) (as set out in the Equality Act 2010) places a statutory duty on the Council in exercising its functions, to have regard to the need to:</p> <ul style="list-style-type: none"> • eliminate discrimination, harassment and victimisation; • advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and • foster good relations between persons who share a relevant protected characteristic and persons who do not share it. • advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to: <ul style="list-style-type: none"> - remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic; - take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it; and - encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low. <p>The protected characteristics are: age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation. Where proposed decisions may be relevant to one or more of these protected characteristics, the Council is obliged to assess the impact. If there is judged to be an adverse impact on these</p>
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	characteristics that is relevant to the duty above steps are taken to consider whether it can be avoided or mitigated. Where it cannot be avoided or mitigated, a decision can only be taken if it can be justified.
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
Leadership Management Team (LMT) in consultation with Executive Members to develop detailed service plans and budget proposals in accordance with the Council's priorities and Budget Strategy (4.46 to 4.50), informed by the Performance and Financial Management Framework (PFMF) and updated MTFP assumptions and risks.	Leadership Management Team (LMT) / Executive Members	30/09/2026

Appendices

1	2027/28 Budget Setting – Detailed Budget Timetable
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Background papers

Body	Report title	Date
Executive	2026/27 Revenue Budget, Medium Term Financial Plan and Council Tax Setting	04/02/2026
Council	2026/27 Revenue Budget Medium Term Financial Plan and Council Tax Setting	18/02/2026
Executive	2025/26 Revenue and Capital Year End Outturn	10/06/2026

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