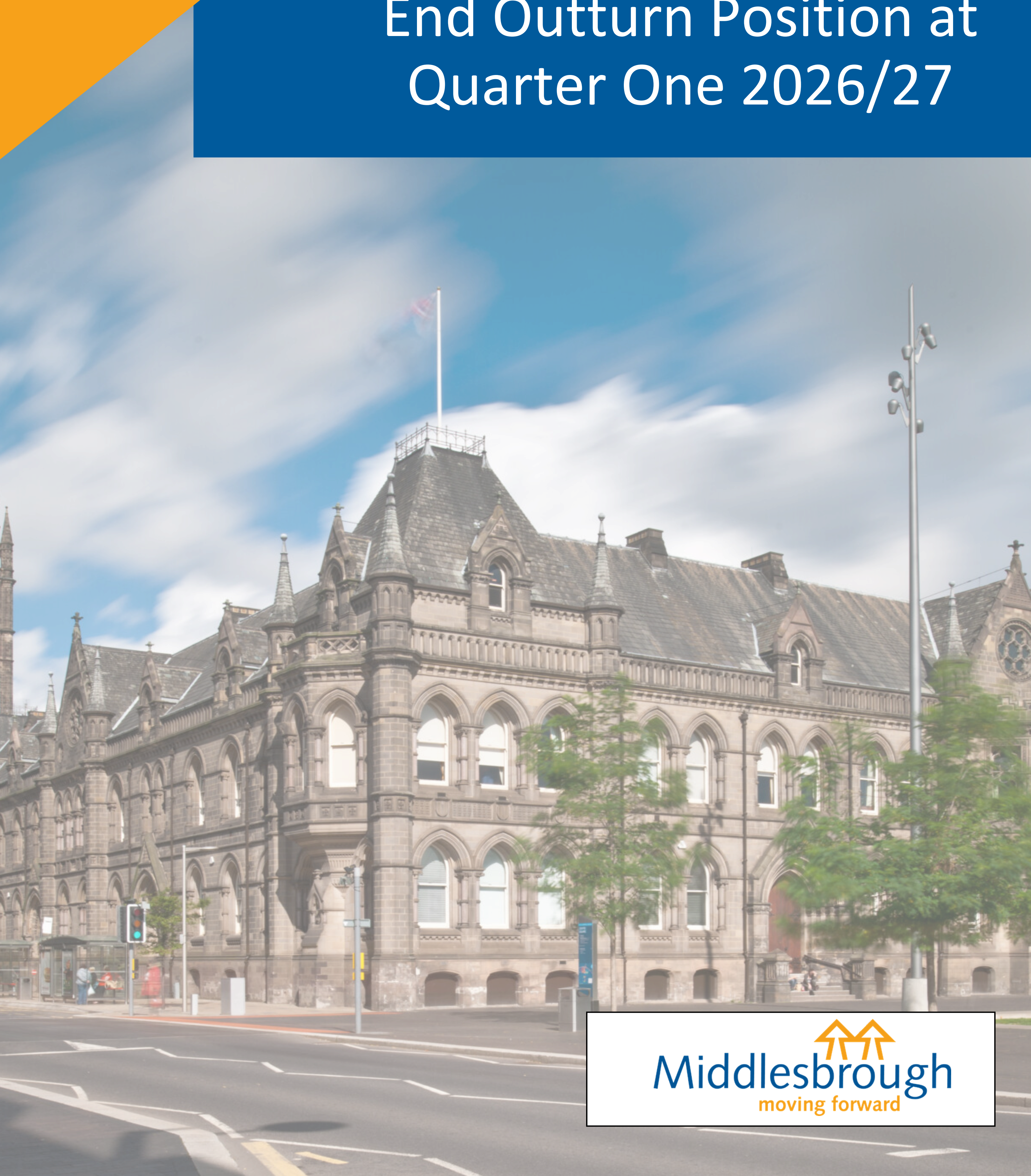
Appendix Two: Revenue and Capital Budget Forecast Year End Outturn Position at Quarter One 2026/27



Middlesbrough
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Appendix Two: Revenue and Capital Budget Forecast Year End Outturn Position as at Quarter One 2026/27

1 Executive Summary

1.1 This report presents the Council's forecast financial performance for 2026/27 as at Quarter One and enables Executive to discharge its responsibilities for financial management, governance and budgetary control. The report sets out the forecast year-end revenue and capital outturn position, progress against the approved savings and growth initiatives, the position on reserves and the key financial risks and actions being taken to improve the year-end position.

1.2 The Council's approved net revenue budget for 2026/27 is £200.840m. At Quarter One, the Council is forecasting a year-end financial pressure of **£8.479m** (4.22%) after the use of corporate contingencies if no further action is taken. This forecast represents the position before the full impact of planned mitigating actions and Financial Recovery Plans are realised. The Leadership Management Team and Executive recognise the severity of the current forecast outturn position, and the need for urgent action. As part of this, Directors have been required to identify and implement immediate actions to reduce forecast overspends and strengthen financial resilience.

1.3 The most significant pressure continues to be within Children's Social Care **£8.472m** driven primarily by agency staffing, emergency resource workers, increasing numbers of children looked after and high-cost external placements. Additional pressures are forecast within Environment, Communities and Culture **£1.342m**, Regeneration & Housing **£0.488m** and Adult Social Care & Health **£0.199m.** These pressures are partially offset by favourable positions within Central Budgets, Finance and the Chief Executives Department.

1.4 Quarter One Officer and Member Integrated Performance and Budget Clinics have been completed across all Directorates. Through these arrangements, financial performance, service delivery and risks have been reviewed collectively and a range of mitigating actions, strengthened financial controls and financial recovery measures have been agreed. Directors are now required to submit Financial Recovery Plans to the Section 151 Officer identifying both financial controls and measurable in-year recovery actions to support delivery of the most sustainable year-end position possible.

1.5 The report also highlights that:

- The approved £6.460m Council Plan growth initiatives are progressing broadly in line with expectations, with implementation continuing across service areas. Any forecast underspend reflects implementation phasing and recruitment timelines rather than non-delivery of approved growth.

- The Council continues to monitor delivery of £9.040m of savings requirements carried forward into 2026/27, including legacy Children's

Services savings that are being formally closed through established governance arrangements.

- Capital expenditure is forecast at £88.861m against a revised programme of £94.940m, resulting in forecast slippage of £6.079m into future years.

- The current forecast overspend if not addressed will impact on the level of usable unrestricted revenue reserves and would impact on progress towards achieving the Council's preferred financial resilience targets as set out in the Reserves Policy. This reinforces the need for immediate action to reduce forecast overspends and protect reserves.

- The forecast cumulative Dedicated Schools Grant (DSG) deficit is expected to increase to £38.316m by March 2027. Whilst national reforms and the Local SEND Reform Plan (still to be approved by the DfE), provide a route towards longer-term sustainability, DSG remains a significant financial risk for the Council.

1.6 Overall, the Quarter One forecast is consistent with the key financial risks identified through the Medium-Term Financial Plan and the Council's S151 Officer's Section 25 Statement. Maintaining strict financial discipline, delivering Financial Recovery Plans, reducing forecast overspends, and protecting reserves will remain critical priorities throughout the remainder of 2026/27

2 Financial Performance Overview

Background and relevant information

2.1 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.

2.2 This report enables the Executive to discharge its financial management responsibilities by setting out the Council's 2026/27 year-end financial position.

2.3 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.

2.4 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 2026/27 Quarter One forecast outturn report.

2.5 The Quarter One outturn forecast position report as at 31 March 2027 has been prepared using the following key assumptions:

- all known staffing costs and changes have been reflected within the anticipated outturn position.
- income and expenditure positions have been prepared in conjunction with budget holders, based on actual activity and accruals where appropriate.
- the national local government pay award for 2026/27 has not yet been agreed. The current pay offer is a 3.3% increase, an increase from the 3% increase assumed at 2026/27 budget setting, and if agreed this would result in an additional estimated cost pressure of circa £0.350m p.a., which has been accounted for in the forecast outturn position.

Revenue Budget 2026/27

2.6 The 2026/27 Revenue Budget, Medium Term Financial Plan 2026/27 to 2029/30, and Council Tax report to Council on 18 February 2026 set out the future financial position of the Council.

2.7 As part of that report a net revenue budget for 2026/27 of £200.840m was approved by Full Council. Within the report the Corporate Director of Finance (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

2.8 The Council has achieved significant improvement in its financial position in recent years, supported by a significantly improved 2026/27 financial settlement relative to previous years. However there remains an ongoing need to maintain strong financial discipline in order to manage expected overspends and meet the Council's Reserves Policy. The forecast for Quarter One 2026/27 demonstrates the importance of delivering approved savings and maintaining robust governance and financial control arrangements.

2.9 The Council's net revenue budget for 2026/27 is £200.840m. At Quarter One, the Council is forecasting a year-end overspend of **£8.580m** before the application of any further recovery actions or use of available corporate mitigations.

2.10 The most significant forecast pressures are within Children's Social Care **£8.472m** and Environment, Communities and Culture **£1.342m**, together accounting for the majority of the forecast overspend. Additional pressures are forecast within Regeneration & Housing **£0.488m** and Adult Social Care & Health **£0.199m**. These are partially offset by a favourable position on Finance, Central Budgets and Chief Executive's Directorate of **(£1.921m)** and balanced positions across Education & Partnerships.

2.11 The current forecast position continues to be driven by increasing demand and placement costs within Children's Social Care, income shortfalls and service delivery pressures across Environment, Communities & Culture services, and commercial income challenges within Regeneration & Housing. Central Budgets continue to provide some mitigation through favourable forecast on capital financing and centrally held grant funding.

2.12 Quarter One Integrated Performance & Finance Budget Clinics have been completed with Executive Members to scrutinise emerging financial risks, demand pressures and savings delivery issues across all Directorates. Directors are working closely with Finance Business Partners to identify, develop and implement appropriate mitigating actions and recovery plans, with the objective of reducing forecast overspends and delivering the most financially sustainable outturn position possible by the end of 2026/27.

2.13 A summary of the main variances for each Directorate is included in paragraphs 2.22 to 2.45. Table 1 below summarises the overall position per Directorate and shows that the 2026/27 forecast year end outturn at 30th June 2026 (Quarter One) is an overspend of **£8.479m (4.22%)** against the approved budget of £200.840m

Table 1 – Summary by Directorate

Directorate	Original Budget Full Year £m	Current Full Year Budget £m	Forecast Outturn £m	Forecast Outturn Variance £m	MEMO FORECAST VARIANCE SPLIT: Savings Delivery Variance £m	MEMO FORECAST VARIANCE SPLIT: Underlying variances £m
				Adv /(Fav)	Adv /(Fav)	Adv /(Fav)
Adult Social Care & Health	68.299	68.299	68.498	0.199	0.000	0.199
Public Health	0.536	0.536	0.536	0.000	0.000	0.000
Children's Care	59.067	59.067	67.539	8.472	1.483	6.989
Education & Partnerships	7.625	7.625	7.625	0.000	0.000	0.000
Regeneration & Housing	5.479	5.479	5.967	0.488	0.200	0.288
Environment, Communities & Culture	26.972	26.972	28.314	1.342	0.343	0.999
Legal & Corporate Services	11.114	11.114	11.154	0.040	0.000	0.040
Finance	4.909	4.909	4.835	(0.074)	0.000	(0.074)
Chief Executives Department	2.407	2.407	2.357	(0.050)	0.000	(0.050)
Total Directorates	**186.408**	**186.408**	**196.824**	**10.416**	**2.026**	**8.390**
Central Budgets	14.432	14.432	12.596	(1.836)	0.819	(2.655)
Total	**200.840**	**200.840**	**209.420**	**8.580**	**2.845**	**5.735**

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

	£m
Corporate Contingency Budget	(0.101)
Remaining forecast outturn variance	**8.479**

2.14 As shown at the bottom of Table 1, if actions to reduce the overspend are not successful, it is currently proposed to use the remaining available Corporate Contingency of (£0.101m).

2.15 As part of the 2026/27 budget, £6.460m if service growth aligned to Council Plan priorities was approved by the Council. The proposals were developed by the Mayor, in conjunction with Directors and relevant Executive Members to support the delivery of priority outcomes for residents. Implementation of the approved growth has commenced across all service areas and progress is being monitored through established governance arrangements. While some elements of the programme are experiencing minor delays due to recruitment and onboarding timescales, delivery is generally progressing in line with expectations. A summary of current financial progress against each growth area is set out in the table below.

2.16 It is worth noting that the current forecast underspend if already is already included in the overall forecast outturn position and primarily reflects the phased implementation of approved growth proposals, including the time required to complete recruitment, mobilise new service delivery and finalise implementation plans. These timing differences are not currently expected to impact delivery of the intended outcomes or long-term objectives associated with the approved growth. Many growth initiatives are now operational, with expenditure expected to increase during the remainder of 2026/27 as services become fully established. During Quarter One a number of key initiatives progressed, including agreement of the Making Middlesbrough Thrive approach, with further detail on delivery and outcomes to be reported to Executive in December. Investment in CCTV infrastructure also forms part of the Council's ongoing commitment to tackling anti-social behaviour and crime across the town. While crime levels remain a concern, anti-social behaviour incidents reduced during Quarter One, providing an encouraging indication of progress. As many of the growth initiatives have only recently become operational, not all associated performance indicators were available for Quarter One reporting. A more comprehensive update on service performance, outcomes and the delivery of approved growth proposals, including reporting against relevant KPIs, will therefore be provided from Quarter Two onwards. Consequently, the approved service growth is expected to be fully embedded and operating on a business as usual basis by 2027/28.

Table 2 – Growth Initiatives

Growth Initiative - By Growth area	Budget 2026/27 £m	Forecast 2026/27 £m	Forecast Outturn Variance £m
			Adv / (Fav)
Continuing to improve the look and feel of out Town	1.700	1.536	(0.164)
Childhood Enrichment	0.900	0.650	(0.250)
Supporting firms to provide jobs of the future	0.630	0.406	(0.224)
Spending more on culture and events	0.500	0.500	0.000
Making our town safer	0.650	0.500	(0.150)
Improving planning and housing standards	0.300	0.203	(0.097)
Improving Play Parks	0.200	0.200	0.000
Supporting our communities	0.600	0.600	0.000
Supporting and protecting vulnerable residents	0.870	0.695	(0.175)
Supporting our carers and foster families	0.110	0.068	(0.042)
Total	**6.460**	**5.358**	**(1.102)**

Budget Savings Programme

2.17 The budget for 2026/27 is predicated on the delivery of £3.517m of savings previously approved in 2024/25 and 2025/26. There was no requirement for the Council to make any additional further budget savings in 2026/27 other than those already included in the current MTFP, however work will continue to identify and deliver efficiencies and savings in the future through robust budget monitoring and continuous improvement.

2.18 In the 2025/26 Revenue & Capital Year End Outturn report there were £7.731m of undelivered savings plus £0.250m in relation to Residents Parking Scheme that was offset by a temporary in year budget virement, however it remained unachievable in relation to the impact on 2026/27. £2.458m was removed from the MTFP as per the 2026/27 Revenue Budget, Medium Term Financial Plan, and Council Tax setting report approved at Council on 18th February 2026, after it was deemed unlikely that the savings would be achieved in the manner originally intended. This resulted in £9.040m of savings to be achieved within 2026/27.

2.19 Table 3 provides a summary of delivery performance against savings required in 2026/27, with further detail included in Appendix F2. All savings continue to be subject to robust monitoring through Integrated Performance and Budget Clinics with Directorates and are reported through this process.

2.20 Any savings not fully delivered in 2026/27 will continue to be managed as part of the Council's Medium-Term Financial Plan (MTFP). 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.

2.21 Children's Social Care unachieved savings of **£3.833m** carried forward from previous years and associated with historic transformation projects will be formally closed through the Council's governance arrangements. Whilst these savings have not been delivered through the original transformation activity as intended, the service has managed the financial impact over time by reducing budgets within the areas where the savings were expected to be achieved. As a result, the budget reductions remain embedded within the service's base budget. However, due to passage of time, changes in service demand, the Ofsted ILACS inspection outcome and wider national reform, the original assumptions underpinning the savings are no longer valid and it is no longer possible to demonstrate delivery through the intended projects. Consequently, the reduced budget provision in these areas is likely to continue to contribute towards future budget pressures and forecast overspends. Discussions are ongoing regarding the future use of transformation funding to support delivery of the Children's Services Improvement Plan, manage budget pressures and review the funding of existing resources currently supported from this budget. The savings related to the following areas;

- Internal residential
- Workforce development
- Maximising grants
- Modernising foster care
- Edge of care.

<u>Table 3 – Savings Programme Assurance Summary for 2026/27 by Directorate</u>

Directorate	2026/27 Budgeted Savings Target	2026/27 Savings Acheived / Budget Adjustment	2026/27 Savings (over) / Under achived
	£m	£m	£m
Adult Social Care & Health	(0.768)	(0.768)	-
Children's Social Care	(5.316)	(3.833)	(1.483)
Education & Partnerships	(0.267)	(0.267)	-
Regeneration & Housing	(0.500)	(0.300)	(0.200)
Environment, Communities & Culture	(0.028)	0.315	(0.343)
Legal & Corporate Services	-	-	-
Finance	0.015	0.015	-
Central Budgets	(0.819)	-	(0.819)
Corporate Vacancy Factor	(1.357)	(1.357)	-
	(9.040)	**(6.195)**	**(2.845)**

Directorate Main Variances

2.22 The explanations for Directorate major variance at Quarter One 2026/27 and the key underlying drivers are summarised below. The forecast positions presented reflect the current assessment of risks and pressures at this stage of the financial year and, unless otherwise stated, represent the position before the full impact of planned mitigating actions and management interventions are realised.

2.23 Through the Council's Integrated Performance and Financial Management Framework, Directors have already identified and commenced a range of actions to strengthen financial management, improve budgetary control and reduce forecast pressures where possible. These actions have been reviewed through Officer and Member Integrated Performance and Budget Clinics and include both in-year mitigating actions and longer-term measures designed to support the delivery of sustainable services within the approved budgets and the Medium-Term Financial Plan.

2.24 These arrangements focus on the integrated consideration of financial performance, service delivery and risk, ensuring that emerging issues are identified, challenged and addressed through a structured governance process. This includes regular budget monitoring, Directorate oversight and Member Integrated Performance and Budget Clinics, and ongoing engagement with

Finance Business Partners to monitor progress against agreed actions and assess emerging financial risks.

2.25 Proposed revenue budget virements above £250,000 require Executive approval, and those proposed at Quarter One are set out in Appendix F1 for consideration and approval.

Adult Social Care & Health: Forecast overspend £0.199m

Adult Social Care	Current Budget Full Year £m	Forecast Outturn £m	Outturn Variance £m Adv / (Fav)	% Variance
Total Directorate	68.299	68.498	0.199	0.29%

2.26 The Quarter One Officer and Member Integrated Performance and Budget Clinics considered the forecast position and agreed a number of actions to strengthen financial management and improve understanding of emerging pressures. These include a review of temporary accommodation costs and associated budget responsibilities, further modelling of inflationary pressures within commissioned care, continued enhanced monitoring of high-cost care packages and health contributions and continued review of purchasing budgets and demand trends. Whilst the current forecast position remains manageable, these actions will support both in-year financial management and development of the future Medium-Term Financial Plan assumptions.

- Temporary Accommodation: £0.444m

The cost and use of temporary accommodation continue to exceed budget assumptions and reflect a national trend of increasing demand. In previous years, responsibility for these costs sat within the Resident and Business Support Service, however associated budget treatment is currently under review.

- Purchasing – Inflation: £0.264m

The budget is based on inflationary uplifts linked to National Living Wage assumptions. However, average rates paid across all client groups are significantly higher than the standard Older Persons rates which has previously been used in the budget assumptions to calculate the cost of future uplifts, resulting in the current budget pressure. This will be reviewed as part of the next refresh of the Medium-Term Financial Plan and will also consider the potential impact of changes arising from the Employment Rights Act.

- Purchasing – Other: £0.315m

The forecast includes an increase in the bad debt provision where service user contributions are considered unrecoverable, including cases where recovery from deceased estates is not possible.

- Net pay savings: (£0.648m)

Delays in recruitment across Prevention, Provider and Support Services and Specialist & Lifelong Services and Access & Safeguarding Services are offsetting some of the pressures outlined above. Where posts are grant funded, the associated income has been adjusted accordingly.

- Other savings across the Directorate: (£0.176m)

A number of smaller savings are being achieved across the Directorate, including (£0.065m) arising from the capitalisation of Tees Community Equipment Services (TCES) purchases.

Public Health: Forecast breakeven

Public Health	Current Budget Full Year £m	Forecast Outturn £m	Outturn Variance £m Adv / (Fav)	% Variance
Total Directorate	0.536	0.536	0.000	0.00%

2.27 Public Health is currently forecasting an underspend of £0.330m in 2026/27. In accordance with the conditions of the ring-fenced Public Health Grant, any underspend at year end will be transferred to the Public Health Reserve and therefore will not contribute to the Council's overall General Fund position. The Public Health Reserve currently stands at £2.293m, and plans have been developed to utilise these resources on eligible Public Health initiatives and priorities in future years in line with grant conditions.

Children's Social Care: Forecast overspend £8.472m

Children's Care	Current Budget Full Year £m	Forecast Outturn £m	Outturn Variance £m Adv / (Fav)	% Variance
Total Directorate	59.067	67.539	8.472	14.34%

2.28 Children's Social Care is forecasting a significant budget pressure at Quarter One, primarily driven by continued reliance on agency staffing, high-cost external residential placements and Independent Fostering Agency placements, together with increasing numbers of children looked after. These pressures reflect ongoing structural and demand-led challenges previously identified within both the Medium-Term Financial Plan and the 2025/26 Outturn Report.

2.29 The Directorate is in the process of implementing a range of measures to improve financial sustainability and reduce demand-led pressures. These include delivery of the Workforce Strategy to reduce agency reliance, strengthened recruitment controls, enhanced placement scrutiny and governance arrangements, targeted work to improve placement sufficiency, development of the Children's Improvement Plan and increased focus on reunification and family-based care approaches. The Directorate is also undertaking a review of staffing structures, placements and commissioning arrangements to ensure resources remain aligned to demand and statutory responsibilities whilst enabling delivery of the Children's Improvement Plan.

2.30 The Directorate has recognised the severity of the forecast position and the need for immediate intervention. Whilst a number of potential areas for improvement have been identified through the Quarter One Officer and Member Integrated Performance and Budget Clinics, many of these actions remain at an early stage of development and the financial impact has not yet been fully quantified. Consequently, the current forecast position does not assume any significant reduction from future recovery actions.

2.31 The scale of the forecast overspend requires a renewed focus on financial recovery, expenditure control, and demand management. The Director is required to maintain a detailed Financial Recovery Plan, supported by Finance Business Partners, identifying both immediate in-year actions and measurable financial benefits wherever possible. Particular focus will be placed on agency staffing, emergency resource workers, placement costs, Section 17 expenditure and wider demand-led pressures. Progress against these actions will be subject to ongoing review through Directorate Management Teams, Officer and Member Integrated Performance and Budget Clinics and the Council's Integrated Performance and Financial Management Framework.

2.32 The main components of the Quarter One forecast position are summarised below.

- External Residential and Independent Fostering Placements: £2.575m

Children Looked After external placement costs are forecast to exceed budget by £2.575m, comprising pressures of £2.174m in residential placements and £0.401m in Independent Fostering Agency placements. The overspend reflects both the increasing number of children requiring care and the cost and complexity of placements required to meet individual needs. As at 30 June 2026, the number of Children Looked After has continued to increase compared to the same period in the previous year, resulting in increased reliance on high-cost external provision. The position is further influenced by market pressures where demand for specialist placements continues to exceed available supply. The Directorate has strengthened placement governance through enhanced panel arrangements and scrutiny processes to ensure all placement decisions are appropriately challenged, and that family-based and in-house options are fully considered wherever safe and appropriate. The Council continues to maximise contributions from health partners where eligible.

- Agency and Emergency Resource Workers: £3.788m

The Directorate continues to experience significant workforce pressures, resulting in reliance on agency staff and emergency resource workers to maintain safe statutory services. This creates a forecast pressure of £3.788m. The Directorate has implemented a Workforce Strategy and strengthened recruitment controls, whilst undertaking a comprehensive review of staffing structures and establishment requirements. These actions seek to stabilise the workforce, reduce agency reliance and ensure resources are aligned to current levels of demand and the requirements of the Children’s Improvement Plan. The

Directorate is also working with Procurement colleagues to strengthen arrangements for the engagement of emergency resource workers and ensure best value for money is achieved.

- Children with Disabilities: £0.409m

Children with Disabilities services are forecasting a pressure of £0.409m. While demand levels remain broadly stable, average package costs continue to exceed budget assumptions. The pressure primarily relates to increased expenditure on respite provision, direct payments and Section 17 support, which is being used to stabilise family circumstances and prevent escalation into higher-cost statutory interventions and looked after placement.

2.33 Children's Social Care has implemented a range of mitigating actions in recent years to manage financial pressures and deliver savings. However, many of the Directorates financial challenges remain structural and demand-led in nature, particularly in relation to placement sufficiency, workforces' stability and the increasing complexity of need. Following the recent Ofsted ILACS inspection, the Directorate's priority is to deliver the Children's Improvement Plan and embed sustainable service improvements. Whilst these actions are expected to improve outcomes and reduce financial pressures over time, it is recognised that many of the anticipated benefits will be realised over the medium term rather than generate immediate in-year savings. Finance colleagues continue to work closely with the Directorate through the Integrated Performance and Financial Management Framework and Medium-Term Financial Plan process to identify both short-term mitigating actions and longer-term opportunities to improve financial sustainability.

2.34 Considering the adverse forecast variance, a range of actions have been agreed through the Quarter One Officer and Member Integrated Performance and Budget Clinics to strengthen financial management and support delivery of Children's Improvement Plan, including:

- Review of staffing structures and establishment requirements to ensure resources are aligned to demand and statutory responsibilities.
- Strengthened recruitment controls and governance arrangements to reduce reliance on agency staffing over time.
- Review of financial controls relating to agency and emergency resource workers.
- Enhanced scrutiny and review of all high-cost external residential and fostering placements, supported through strengthened panel arrangements and placement governance.
- Continued development of placement sufficiency plans, including increasing family-based care options and reviewing opportunities to reduce reliance on external provision.
- Review of Section 17 expenditure and associated financial controls, including opportunities to utilise Resident and Business Support services to maximise access to wider support and benefits advice.

- Ongoing monitoring of delivery through Directorate Management Teams, Officer and Member Integrated Performance and Budget Clinics, and the Council's Integrated Performance and Financial Management Framework.

Education & Partnerships: Forecast breakeven

Education & Partnerships	Current Budget Full Year £m	Forecast Outturn £m	Outturn Variance £m Adv / (Fav)	% Variance
Total Directorate	7.625	7.625	0.000	0.00%

2.35 The Directorate is currently forecasting a break-even position by the end of 2026/27. Previous years have highlighted the challenging nature of the Integrated Transport Unit with costs driven by demand for services often outpacing available resources. Demand associated with the new academic year will be reassessed during the summer period and will continue to be closely monitored. The Quarter One Officer and Member Integrated Performance and Budget Clinics also considered a number of emerging financial risks, including demand associated with Special Educational Needs and Disabilities (SEND) provision and the High Needs Block. Whilst these do not currently present a material risk to the General Fund revenue position, the Directorate will continue to monitor development and work with Finance colleagues to assess any potential implications for future years.

Regeneration & Housing: Forecast overspend £0.488m

Regeneration	Current Budget Full Year £m	Forecast Outturn £m	Outturn Variance £m Adv / (Fav)	% Variance
Total Directorate	5.479	5.967	0.488	8.90%

2.36 The Regeneration & Housing Directorate is forecasting an overspend of £0.488m at Quarter One. The forecast position is primarily driven by income pressures across investment properties and planning-related services. The Quarter One Officer and Member Integrated Performance and Budget Clinic considered the forecast position and reviewed a range of actions to strengthen financial management, support income recovery and monitor emerging risks. Whilst some of the identified pressures reflect market conditions and factors outside of the Council's direct control, the Directorate continues to work with Finance colleagues to monitor performance, review budget assumptions and identify opportunities to improve financial sustainability.

- Investment Properties: £0.204m

Occupancy levels at Boho Buildings are lower than expected, creating a pressure of £0.212m, whilst income at Centre Square 2 reduced following the surrender of a lease, creating a further pressure of £0.259m. These pressures have been partially offset by support from the Corporate Contingency, as shown in Table 4 later in the report. Additional recurring funding of £1.000m was provided through the 2026/27 Medium-Term Financial Plan to address investment property income pressures, however, assumptions continue to be reviewed in light of market conditions and occupancy levels. Work continues to increase occupancy across the Council's commercial property portfolio, although the financial benefits of these actions are expected to be realised over the medium term rather than during 2026/27.

- Planning Services: £0.229m

There is an expected income pressure within Development Control due to delays in the anticipated submission dates of major planning applications. The timing of submission remains dependent upon developer activity and the availability of sites for development. Building Control income is also below budget: however, following recent recruitment activity the service is now substantially resourced and is working to recover market share and increase activity levels. The Directorate continues to work with developers and internal services to support the progression of applications and maximise future income opportunities.

- Other overspends across the Directorate: £0.055m

A number of smaller financial pressures are being reported across the Directorate resulting in a net overspend of £0.055m. These continue to be monitored though routine budget monitoring arrangements and the Integrated Performance and Financial Management Framework.

Environment, Communities & Culture: Forecast overspend £1.342m

Environment & Communities	Current Budget Full Year £m	Forecast Outturn £m	Outturn Variance £m Adv / (Fav)	% Variance
Total Directorate	26.972	28.314	1.342	4.98%

2.37 Environment, Communities and Culture is forecasting a budget pressure at Quarter One primarily driven by a combination of income shortfalls across several services, ongoing inflationary pressures and a number of historic budget assumptions that are proving challenging to achieve. The most significant pressures relate to Area Care, Car Parking income, Cultural Services, Catering Services and the delayed delivery of savings. Whilst a number of these pressures are unique to the Directorate, several reflect wider structural challenges facing local government, including changing service demand, town centre footfall, income generation and the affordability of service provision.

2.38 The Directorate continues to take steps to strengthen financial management and improve financial sustainability. These include reviewing income-generating services, strengthening management oversight of expenditure, implementing operational actions to reduce avoidable costs, and reviewing longer-term opportunities to align income targets and service budgets with current operating realities. Through the Integrated Performance and Financial Management Framework, the Directorate is also working with Finance colleagues to review legacy savings assumptions, fees and charges strategies, income-generating opportunities and cost recovery approaches to ensure future budgets are sustainable and achievable.

2.39 Whilst immediate action is being taken to mitigate in-year pressures, a number of the issues identified at Quarter One will require medium-term solutions through the Medium-Term Financial Plan. In particular, income pressures relating to Town Hall operations whilst essential roof maintenance is undertaken, Car Parking, Catering Services and other discretionary services require strategic consideration of future service models and income expectations. The Directorate and Finance team will continue to work together to identify sustainable solutions that support delivery of Council Plan priorities whilst maintaining financial resilience.

2.40 The main components of the Quarter One forecast position are summarised below;

- Environmental Services: £0.769m

Environmental Services are forecasting a financial pressure of £0.769m with the pressure spread across a number of services. Area Care is forecasting a financial pressure of £0.200m primarily due to the short-term hire of additional vehicles, which has now ceased, together with income shortfalls relating to allotments and rechargeable work. Income shortfalls are also being reported at a number of sites including the Transporter Bridge and Visitor Centre £0.120m, Newham Grange Leisure Farm £0.062m, Bereavement Services £0.054m and Middlesbrough Bus Station £0.054m. Catering Services are also forecasting a financial pressure of £0.119m, reflecting increased food costs combined with the Council's decision to freeze school meal prices to support families.

- Cultural Services: £0.244m

Cultural Services are forecasting a financial pressure of £0.244m. This primarily reflects the lower than anticipated venue hires income and Middlesbrough Town Hall, particularly for large scale comedy and music events. In addition, the planned closure of the Town Hall during the final quarter of the year to facilitate roof repairs has reduced the Directorate's ability to achieve its income target, which was set on assumptions made before the timing of the closure was fully known.

- Environment, Communities and Culture Management: £0.343m

The forecast financial pressure of £0.343m, largely relates to savings that have not yet been delivered. Increased service pressures, operational requirements and health and safety considerations have delayed the implementation of a planned staffing restructure. The position will continue to be reviewed as part of the Directorate's wider workforce planning arrangements.

- Emerging financial pressure - Corporate Vacancy Target

In addition to the forecast position reported above, the Directorate has identified a potential risk in relation to the achievement of the corporate vacancy target. Due to the operational nature of the Directorate and the requirement to maintain service delivery throughout the year, including seasonal staffing requirements, the Directorate may find it difficult to achieve its allocated vacancy factor in full. This position will continue to be monitored throughout the year.

- Highways & Transport: £0.181m

Highways and Transport are forecasting a financial pressure of £0.181m, principally due to lower than budgeted car parking income. This reflects both the sale of Zetland Car Park and continued reduction in town centre footfall, resulting in income levels below those assumed within the approved budget.

2.41 In light of the forecast adverse variance, a number of actions have been agreed with the Directorate through the Quarter One Officer and Member Integrated Performance and Budget Clinics, including:

- Development of a more strategic review of fees and charges across the Directorate, in line with the approved fees and charges policy including the consideration of cost recovery principles and future budget sustainability.
- Review of the catering provision, establishing the funding requirement for a financially sustainable operating model and to inform future Medium-Term Financial Plan assumptions.
- Review of car parking income targets, charging structures and benchmarking against comparable local authorities to assess the long-term sustainability of income assumptions.
- Further work to identify and evaluate legacy savings and income targets that may no longer be achievable in their original form and require consideration through the Medium-Term Financial Plan process.
- Continued monitoring of financial performance through Directorate Management Team meetings and future Integrated Performance and Budget Clinics, with a specific focus on understanding and addressing any movements in the forecast positions between Quarter One and Quarter Two.

Legal & Corporate Services: Forecast overspend £0.040m

Legal & Governance	Current Budget Full Year £m	Forecast Outturn £m	Outturn Variance £m Adv / (Fav)	% Variance
Total Directorate	11.114	11.154	0.040	0.36%

2.42 At Quarter One, Legal & Corporate Services is forecasting a marginal overspend of £0.040m. Savings of £0.220m within ICT Service, resulting from the phased implementation of the service restructure are largely offset by increased Coroners costs (£0.074m), higher legal disbursements associated with Children’s Services cases (£0.079m) and additional costs within Democratic Services (£0.070m) relating to electoral registration and Special Responsibility Allowances.

Finance: Forecast underspend (£0.074m)

Finance	Current Budget Full Year £m	Forecast Outturn £m	Outturn Variance £m Adv / (Fav)	% Variance
Total Directorate	4.909	4.835	(0.074)	-1.51%

2.43 The Directorate is currently forecasting an underspend of (£0.074m) for 2026/27. Whilst a number of cross-cutting savings targets are not expected to be achieved in full, these pressures are being offset by staff savings within Financial Planning and Business Partnering arising due to vacant posts pending recruitment. Recruitment activity is ongoing and the position will continue to be monitored throughout the year.

Chief Executive's Department: Forecast underspend (£0.050m)

Chief Executive Department	Current Budget Full Year £m	Forecast Outturn £m	Outturn Variance £m Adv / (Fav)	% Variance
Total Directorate	2.407	2.357	(0.050)	-2.08%

2.44 The Chief Executive's Department comprises the Chief Executive together with Corporate Strategy, Information and Governance services. A small staffing underspend is currently forecast as a result of vacant posts pending recruitment. Recruitment activity is ongoing and the position will continue to be monitored throughout the year.

Central Budgets: Forecast underspend (£1.836m)

Central Budgets	Current Budget Full Year £m	Forecast Outturn £m	Outturn Variance £m Adv / (Fav)	% Variance
Total Directorate	14.432	12.596	(1.836)	-12.72%

2.45 Central budgets are volatile by nature, incorporating corporate provisions and contingency allocations and as such the position can vary between reporting periods as assumptions are updated and final allocations are confirmed.

- General Fund: £0.385m

The General Fund is forecasting a pressure of £0.385m. This is primarily due to the national Business Rates Retention Levy Account surplus for 2025/26 not being likely to be received during 2026/27 following further information received following the Local Government Finance Settlement for 2026/27. This income shortfall has therefore been reflected within the current forecast position.

- Capital Financing: (£0.500m)

A forecast underspend of (£0.500m) is reported against Capital Financing. This is primarily due to slippage within the Capital Programme reducing the Council's borrowing requirements and associated financing costs during 2026/27.

- Centrally Held Grants & Funds: (£2.440m)

Centrally Held Grants are forecasting a favourable variance of (£2.440m). This primarily relates to the Children's Social Care Prevention and Reform element of the Children, Families and Youth Grant (£2.228m) and the Holiday Activities Food (HAF) Capacity Building Fund (£0.053m). A virement is included within Appendix F1 to transfer the funding to Children's Services, where it will be applied to eligible expenditure in support of service improvement, prevention activity and transformation initiatives. Finance Business Partners will continue to work closely with the Directorate to ensure the grant is utilised effectively, monitored appropriately and remains fully compliant with the relevant grant terms and conditions. The transfer will reduce the Children's Care Directorate's forecast budget pressure whilst having no impact on the Council's overall forecast outturn position.

- Cross Cutting Savings: £0.819m

Despite best endeavours some remaining corporate savings are expected to be unachieved in the manner originally intended, comprising of £0.619m relating to Procurement and Contract Reviews, and £0.200m relating to digitisation of procurement activity. This is largely due to the majority of savings that have been identified to date being unable to be realised as actual revenue budget savings as they have largely been related to capital expenditure. Work will continue to seek savings where possible and mitigate the effect as much as possible , and these savings will be reviewed as part of the budget setting process for 2027/28.

- External Audit: (£0.100m)

Forecast savings are expected in audit fees arising from the disclaimed audit opinion.

<u>Contingency Budget and Change Fund</u>

2.46 Table 4 summarises the 2026/27 budget and commitments against the Corporate Contingency and the Change Fund Reserve which are controlled under the delegated powers of the S151 Officer.

Table 4 – Use of Corporate Contingency and Change Fund in year

	Corporate Contingency	Change Fund Reserve
	£m	£m
Starting Budget 2026/27	0.873	2.766
Permanent virements requested at Q1 to cover Director salary uplifts following Senior Management Review	(0.041)	-
Permanent virement to LCS - additional post to cover monitoring of Agency Workers *(provisional - final figure still TBD)*	(0.047)	
Contributions 2026/27 *(No planned contribution to Change Fund in 2026/27 due to use of Flexible Capital Receipts Funding for transformational expenditure)*	-	-
Available for use	**0.785**	**2.766**
Approved use to date		
Turner Prize contribution	(0.300)	-
ICT Security Expert	(0.090)	-
School Theatre Visits	(0.050)	-
Element of shortfall in commercial income funded from Contingency - one off for 2026/27 only	(0.244)	
Approved use to date	**(0.684)**	**-**
CURRENT REMAINING UNCOMMITTED BALANCE ON CORPORATE CONTINGENCY	**0.101**	
FORECAST CLOSING BALANCE ON CHANGE FUND RESERVE AT 31/03/27		**2.766**

2.47 At Quarter One, it is forecast that £0.101m of unused Corporate Contingency Funding will be available for use against the overall Council outturn position. To date there has been no call on the Change Fund Reserve and no calls are expected for the remainder of the financial year.

Council Reserves and Provisions

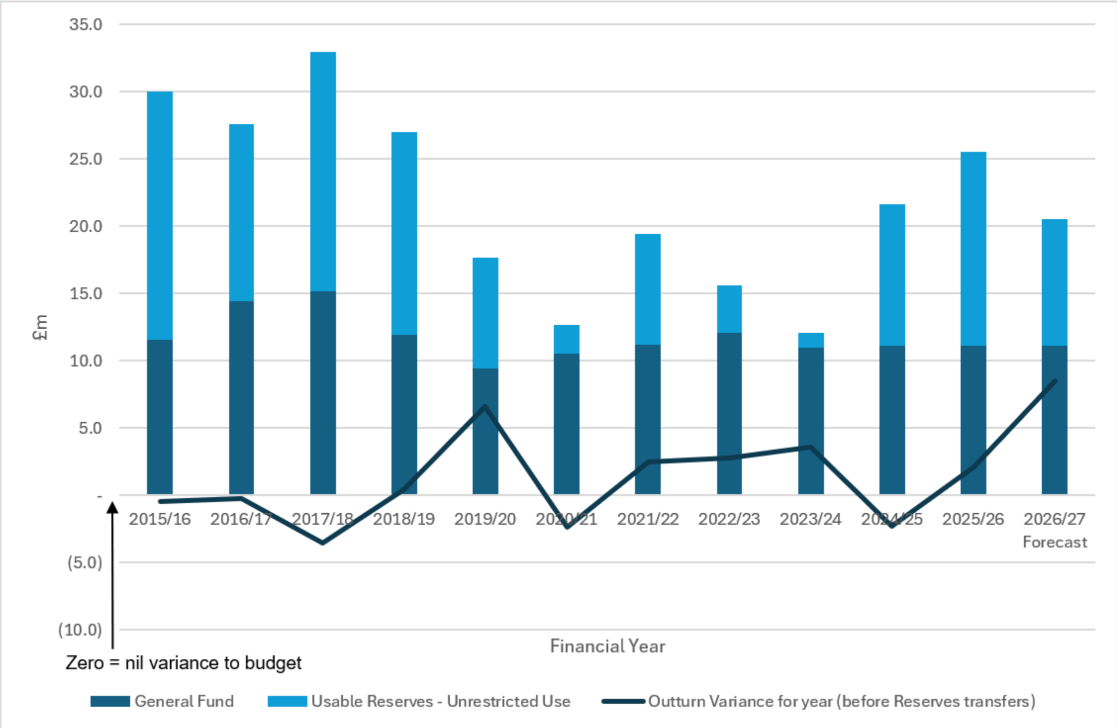
2.48 Table 5 summarises the Council's General Fund reserve and provisions showing the movement between 31 March 2026 and that currently forecast at 31 March 2027, with full details included in Appendix F3. It shows that the Council has forecast usable unrestricted revenue reserves on 31 March 2027 of £20.520m made up of £11.101m General Fund reserve and £9.419m Unrestricted Usable Earmarked reserves (highlighted yellow):

Table 5 – Summary of General Fund Balance, Reserves, and Provisions

	Opening Balance 01/04/26	Proposed Use in Year	FORECAST Additional Contributions	FORECAST Transfers from / (to) General Fund	FORECAST Transfers between Reserves	FORECAST Balance at year-end (BEFORE ANY ADJUSTMEN TS FOR OUTTURN	FORECAST outturn variance transferred to Reserves (from) / to General Fund	FORECAST Closing Balance at 31/03/27 (AFTER ADJUSTMENTS FOR CURRENTLY FORECAST
	£m	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*
GENERAL FUND RESERVE	**11.101**	**-**	**-**	**-**	**-**	**11.101**	**-**	**11.101**
USABLE EARMARKED RESERVES								
Restricted Use	3.547	-	0.500	(0.170)	-	**3.877**	-	**3.877**
Unrestricted Use	14.429	-	3.553	(0.084)	-	**17.898**	(8.479)	**9.419**
	17.976	-	4.053	(0.254)	-	**21.775**	(8.479)	**13.296**
UNUSABLE EARMARKED RESERV	(24.594)	-	-	(9.000)	-	**(33.594)**	-	**(33.594)**
SCHOOL BALANCES	4.037	-	-	-	-	**4.037**	-	**4.037**
PROVISIONS	4.031	-	-	-	-	**4.031**	-	**4.031**
	12.550	**-**	**4.053**	**(9.254)**	**-**	**7.349**	**(8.479)**	**(1.130)**

2.49 Figure 1 below shows the trajectory of Middlesbrough's unrestricted usable reserves from 2015/16 through to 2026/27 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 2026/27 and reported outturn variance per year

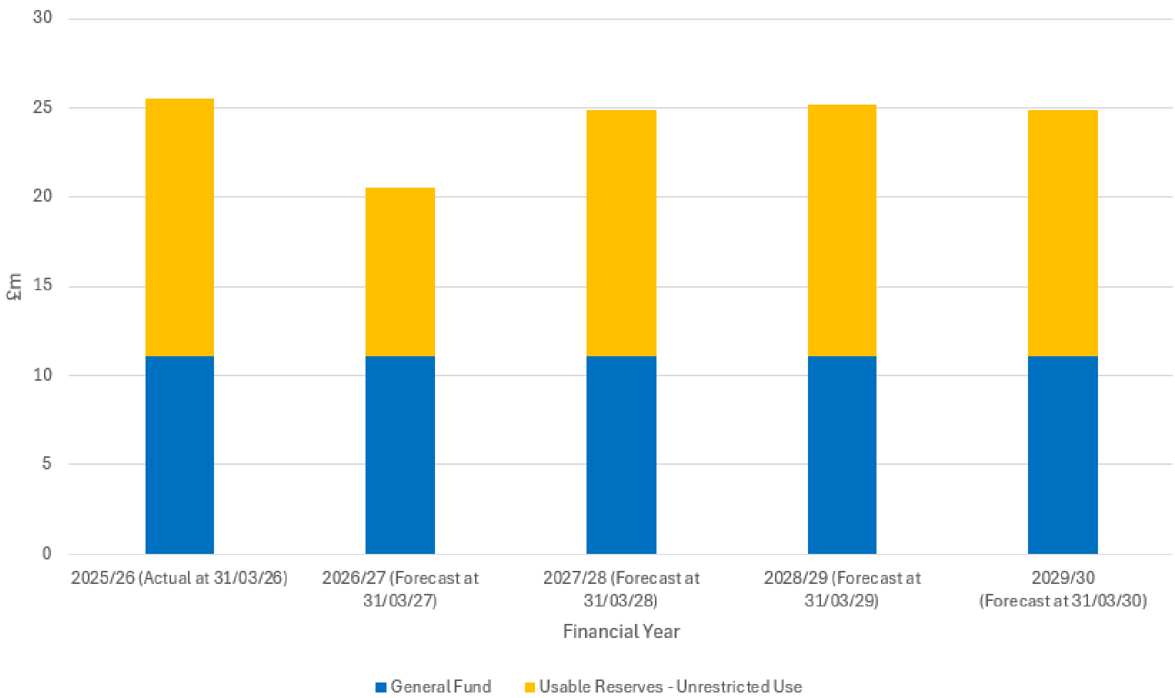


2.50 The level of reserves illustrated in Figure 1, shows a clear positive trajectory in strengthening unrestricted usable revenue balances in recent years, despite continued in-year service pressures. This reflects the Council's strategy of rebuilding resilience through disciplined financial management and the planned use of contingencies and planned resources rather than reactive use of reserves. However, it should be noted that the balance on unrestricted usable revenue reserves is currently expected to reduce by the end of 2026/27 given the significant budget pressure currently forecast, if no further action is taken.

2.51 The Council must continue to rebuild its unrestricted usable 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.

2.52 Figure 2 below shows the projected unrestricted usable revenue reserves through to the end of 2029/30 after planned contributions; however, this would be affected by any unplanned drawdowns of reserves in future years.

Figure 2 - Forecast Unrestricted Usable Reserves from closing balance 2025/26 through to closing balance 2029/30 (following planned contributions and drawdowns)



Dedicated Schools Grant (DSG)

2.53 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

2.54 Table 6 below summarises the latest position on the DSG budget. This shows an anticipated in-year overspend of £9.000m for 2026/27 which means that the cumulative forecast DSG deficit at 31 March 2027 is £38.316m.

Table 6 – Dedicated Schools Grant (DSG) after recoupment and deductions

	2026/27 Income	**2026/27 Expenditure**	**2026/27 Year-end Forecast**	**Balance as at 31/03/26**	**Cumulative DSG Deficit forecast as at 31/03/27**
	£m	**£m**	**£m**	**£m**	**£m**
Early years Block	27.846	27.846	0.000	(2.718)	(2.718)
Schools Block	12.998	12.998	0.000	(0.490)	(0.490)
High Needs Block	35.492	44.492	9.000	32.587	41.587
Central School Services Block	1.464	1.464	0.000	(0.063)	(0.063)
TOTAL	**77.800**	**86.800**	**9.000**	**29.316**	**38.316**

2.55 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 for Education. The remaining 10% has been provided for within the reserves in the Medium-Term Financial Plan approved by Council in February 2026.

2.56 Middlesbrough Council has submitted the Local SEND Reform Plan to the Department for Education, and this is currently going through the Secretary of State approval process. Successful councils will be informed of the grant during September 2026. The plan has been developed with partners to build 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.

2.57 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 F4.

2.58 The DSG risk is included in the Council’s Strategic Risk Register

Medium Term Financial Plan issues

2.59 The Quarter One forecast outturn position has highlighted a number of issues that will require ongoing consideration as part of the Medium-Term Financial Plan (MTFP) refresh. Whilst the overall Council position should remain manageable at this early stage of the financial year, forecast pressures are consistent with the key risks identified within the 2026/27 Budget Report and the Council's S151 Officer's Section 25 Statement and demonstrates that several demand-led structural financial challenges continue to require active management.

2.60 The forecast position reported at Quarter One should not be viewed as the anticipated year-end position. Directors are expected to take immediate action to manage expenditure within approved budgets and implement mitigating actions to reduce forecast pressures. In addition, all Directors, regardless of their forecast outturn position, are required to develop and maintain Financial Recovery Plans, identifying in-year financial recovery actions capable of generating measurable financial benefits during 2026/27. This reflects the ongoing need to support corporate financial resilience, protect reserves and contribute to the delivery of a sustainable Medium-Term Financial Plan. Whilst Directors have already commenced actions to reduce forecast overspends, continued intervention throughout the remainder of the financial year will be required to minimise the impact on the Council's overall financial position and strengthen financial resilience.

2.61 The 2027/28 financial year falls within the Government's three-year Local Government Finance Settlement covering the period 2026/27 to 2028/29 and as such there has been no separate funding announcement for 2027/28 to date. Funding for 2027/28 will be detailed in the Local Government Finance Settlement for 2026/27 which will be provisionally announced in mid to late December 2026. Whilst the multi-year settlement has improved financial certainty relative to previous years, there remains uncertainty regarding future funding levels beyond 2028/29, future Council Tax assumptions, inflationary pressures, service demands and the impact of future legislative and policy change.

2.62 The Quarter One forecast has reinforced several existing risks already reflected within the MTFP and the Council's S151 Officer's Section 25 Statement. In particular, pressures continue to emerge in demand-led services and income sensitive budgets where expenditure or income levels are influenced by external factors beyond the Council's direct control. The most significant areas requiring continued monitoring include:

- Sustained demand and cost pressures within Children's Social Care, particularly in relation to external residential placements, agency staffing and workforce sufficiency.
- Continuing demographic, complexity and inflationary pressures within Adult Social Care, including the cost of commissioned care and future working reforms.

- Financial sustainability of the Integrated Transport Unit and the impact of increasing SEND related transport demand.
- Income volatility across commercial property, planning, building control and other fee-generating services.
- Ongoing affordability pressures associated with homelessness and temporary accommodation provision.
- Waste disposal and environmental cost pressures, including future impacts arising from the Emissions Trading Scheme and wider environmental legislation.
- The continuing risk associated with Dedicated Schools Grant (DSG) deficits, SEND demand and the successful implementation of the Local SEND Reform Plan.

2.63 Whilst provision has been made within the MTFP for known demand pressures and risks, Quarter One demonstrates that many of these pressures remain structural in nature and will require both continued financial discipline and longer-term service transformation to achieve sustainable outcomes. Directors are therefore expected to maintain a rigorous focus on budgetary control, challenge all non-essential expenditure, actively manage vacancies and agency usage where appropriate, and ensure that planned savings, mitigations and recovery actions are delivered in full.

2.64 The Council's unrestricted reserves position has improved significantly in recent years. However, the Council has not yet achieved its preferred level of financial resilience and reserves remain below the longer-term targets established by the Section 151 Officer. The Quarter One forecast indicates that, if no further mitigating actions are implemented, the current year forecast overspend would require use of reserves and reduce progress towards achieving these planned reserve levels. It therefore remains essential that overspends are addressed at source and that expenditure is contained within approved budgets wherever possible. Failure to do so would reduce financial resilience and Medium-Term Financial Plan assumptions.

2.65 The position relating to the Dedicated Schools Grant continues to evolve. The Government has confirmed its intention to support local authorities through the High Needs Stability Grant and Local SEND Reform Plan arrangements. However, access to this support remains dependent upon successful approval and delivery of the Council's Local SEND Reform Plan. Demand for Education, Health and Care Plans, specialist placements and alternative provision continues to place pressure on the High Needs Block, and the financial position remains dependent upon the pace of delivery of national reforms, local implementation and future Government support. Whilst these pressures remain outside of the General Fund while the statutory override is in place until March 2028, they continue to represent a significant strategic financial risk for the Council.

2.66 The next review of the MTFP will be presented to Executive in October 2026 as part of the 2027/28 Budget and MTFP update report. This will consider the Quarter One forecast position, emerging demand trends, inflationary pressures, delivery of savings and transformational activity, together with any changes in Government policy or funding assumptions.

2.67 The Council will continue to utilise its Continuous Improvement approach and strengthened governance arrangements to identify efficiencies, improve demand management, modernise service delivery and support long-term financial sustainability. This includes the continued operation of the Integrated Performance and Financial Management Framework, Financial Recovery Plans, Directorate Budget reviews and Officer and Member Integrated Performance and Budget Clinics.

2.68 Overall, whilst the Quarter One forecast position remains consistent with the risks identified during budget setting, Directors are expected to take immediate action to reduce forecast overspends and ensure expenditure remains aligned with approved budgets. Continued delivery of recovery actions, robust financial management and early intervention will be critical to protecting reserves, strengthening financial resilience and ensuring the Council remains on a sustainable financial footing throughout the remainder of 2026/27 and across the MTFP period.

2026/27 Capital Programme Forecast Outturn as at Quarter One

2.69 On 18 February 2026 Council approved a Capital Programme for 2026/27 of £79.483m. This was revised to £91.820m as approved by Executive within the 2025/26 Revenue and Capital Outturn report of 10 June 2026 to take account of 2025/26 programme slippage and some new externally funded schemes.

2.70 The budget has been further revised at Quarter One by the addition of a total of £3.105m of new externally funded schemes / additional external funding to existing schemes, and £0.015m brought forward from 2027/28 in relation to School Building Condition Funding. The total additional funding has increased the capital programme for 2026/27 to £94.940m. Details of all the additional funding and the schemes to which it is attributed to are provided at Appendix F5.

2.71 There are a number of virements over £0.250m between Directorates requested for approval by Executive between schemes in the Capital Programme approved by the Council on 18 February 2026 which are funded from within existing Council resources. All details of virements between schemes is included on Appendix F5.

Table 7 – summary of capital programme approved budget, revised budget, forecast outturn and variance

Directorate	2026/27 Capital Programme Budget (as approved by Council 18/2/26)	2026/27 Revised Capital Programme Budget (as per Executive report 10/6/26)	2026/27 Revised Capital Programme Budget (as at Quarter One)	2026/27 Year-end Forecast Outturn	2026/27 Year-end Forecast Outturn Variance	2026/27 Year-end Forecast Outturn Variance against Revised Budget at Quarter One	MEMO Explanation of Year-End Forecast Outturn Variance: Slippage	Underspend
	£m	£m	£m	£m	£m	%	£m	£m
Regeneration & Housing	36.431	39.860	39.860	**36.626**	(3.234)	-8.8%	(3.234)	-
Environment, Communities and Culture	21.901	26.344	26.614	**25.833**	(0.781)	-3.0%	(0.781)	-
Public Health	0.000	0.001	0.001	**0.001**	0.000	0.0%	-	-
Education and Partnerships	8.508	12.822	12.837	**11.886**	(0.951)	-8.0%	(0.951)	-
Childrens Social Care	0.000	0.269	0.269	**0.269**	0.000	0.0%	-	-
Adult Social Care & Health	1.733	2.434	5.269	**4.535**	(0.734)	-16.2%	(0.734)	-
Legal and Corporate Services	4.723	4.484	4.484	**4.105**	(0.379)	-9.2%	(0.379)	-
Finance	0.398	0.334	0.334	**0.334**	0.000	0.0%	-	-
Transformation	5.789	5.272	5.272	**5.272**	0.000	0.0%	-	-
Total	**79.483**	**91.820**	**94.940**	**88.861**	**(6.079)**	-6.8%	**(6.079)**	**0.000**

2.72 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 current amount of slippage from 2026/27 of £6.079m is reprofiled and carried forward to financial years 2027/28 to 2029/30 to reflect revisions to the expected delivery and expenditure timescales. Details of capital slippage for 2026/27 as at Quarter One are shown in Appendix F6.

<u>Transformation</u>

2.73 The Capital Programme 2026/27 to 2029/30 and Capital Strategy 2026/27 (Appendix 9) and the Flexible use of Capital Receipts (FUoCR) Strategy for 2026/27 (Appendix 10), included in the 2026/27 Revenue Budget, Medium Term Financial Plan, and Council Tax Setting report, approved by Council on 18 February 2026, included the provision for transformational and redundancy expenditure of up to £5.789m in 2026/27, funded through FUoCR. This forms part of the Council's approved £26.700m Transformational Programme covering the period 2024/25 to 2028/29.

2.74 Of the approved £26.700m programme, £9.850m has been transferred to the Capital Programme to support the Neighbourhood Hubs Investment Programme, ICT Transformation and Smart Living Demonstration Home projects, as detailed in Appendix F7. To 31 March 2026 £10.106m had been spend on transformational activity, with a further £5.272m planned during 2026/27 and £1.472m during 2027/28. The original Transformation Programme is now substantially committed and no additional FUoCR beyond the approved £26.700m Transformation Programme is currently planned. Going forward, the Council's focus will shift towards embedding the benefits already delivered through transformation and driving further efficiencies through continuous improvement.

2.75 Any further use of Flexible Use of Capital Receipts will be considered in accordance with the Council's approved FUoCR Strategy and relevant statutory guidance.

2.76 Table 8 summarises, and Appendix F7 details updated year-end outturn expenditure for 2026/27 and forecast expenditure for the period 2026/27 to 2029/30 split over the various schemes and the proposed funding.

Table 8 – Summary of Capital Programme 2026/27 to 2029/30

Directorate	2026/27	2027/28	2028/29	2029/30	TOTAL
Regeneration & Housing	36.626	46.206	18.408	8.370	109.609
Environment, Communities and Culture	25.833	8.635	8.306	7.761	50.536
Public Health	0.001	-	-	-	0.001
Education and Partnerships	11.886	0.867	0.279	-	13.032
Children's Social Care	0.269	-	-	-	0.269
Adult Social Care & Health	4.535	1.784	1.120	1.120	8.559
Legal and Corporate Services	4.105	4.600	1.649	2.185	12.539
Finance	0.334	0.187	-	-	0.521
Transformation	5.272	1.472	-	-	6.744
					-
Total Expenditure	**88.861**	**63.751**	**29.762**	**19.436**	**201.810**

Workbook last modified: Just now

	2026/27	2027/28	2028/29	2029/30	TOTAL
Funded By	**£m**	**£m**	**£m**	**£m**	**£m**
Borrowing	(30.860)	(22.038)	(12.572)	(11.436)	(76.906)
Leases	(0.150)	(0.087)	-	-	(0.237)
Capital Receipts	(8.797)	(24.239)	(11.939)	(7.000)	(51.975)
Flexible Use of Capital Receipts	(5.272)	(1.472)	-	-	(6.744)
Grants	(38.573)	(9.285)	(1.078)	(1.000)	(49.936)
Contributions	(5.209)	(6.630)	(4.173)	-	(16.012)
					-
Total FUNDING	**(88.861)**	**(63.751)**	**(29.762)**	**(19.436)**	**(201.810)**

Treasury Management – Borrowing & Prudential Indicators

2.77 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.

2.78 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.

2.79 Investment and borrowing decisions are taken to manage the short, medium and long-term cash needs of the Council and these are driven primarily by the following:

- the extent to which the Council finances its capital expenditure by borrowing which is measured by the Capital Financing Requirement (CFR)
- the timing differences between operational income and expenditure flows
- the level of cash backed reserves held, and
- current short to long term interest rate forecasts.

2.80 The budget and forecast position on these prudential indicators at Quarter One for 2026/27 are summarised in Table 9 below.

Table 9 – Prudential Indicators – Quarter One 2026/27

Prudential Indicators - 2026-27 Quarter One	Budget (as per June approval) (£M)	Forecast at Quarter One (£M)	Variance (£M)	Variance as % of Budget (£M)
Capital Expenditure	91.820	88.861	(2.959)	-3.22%
Financing				
External Sources	43.578	43.782	0.204	0.47%
Own resources	17.232	14.069	(3.163)	-18.36%
Debt	31.010	31.010	0.000	0.00%
	91.820	88.861	(2.959)	-3.22%
Capital Financing Requirement	333.755	333.533	(0.222)	-0.07%
External Debt	326.068	325.164	(0.904)	-0.28%
Investments	15.000	16.835	1.835	12.23%
Capital Financing	14.151	13.651	(0.500)	-3.53%
Cost as a % of Revenue Budget	7.05%	6.80%	-0.25%	

2.81 The Council’s forecast Capital Expenditure outturn at Quarter One is £88.861m compared to an approved budget of £91.820m for 2026/27, a forecast decrease of £2.959m (3.2%) against the approved budget for 2026/27. The increase in capital expenditure is due to new schemes funded by grants and contributions of £3.105m, less rephasing of existing schemes into later years of £6.064m.

2.82 During the first quarter of 2026/27, external borrowing increased from £280.589m on 1 April 2026, to £285.164m on 30 June 2026. This increase of £4.575m reflects new borrowing during the quarter of £20.000m offset by the repayment of £10.000m of maturing debt (long-term borrowing of £5.000m and £5.000m of short-term borrowing). The remainder relates to the repayment of principal on annuity loans of £5.425m.

2.83 Long-term interest rates from the Public Works Loan Board have continued to increase due to the global economic uncertainty because of the Iran War. These are now around 5.40% – 5.70% in the 10–15-year period which has been the preferred option for external long-term borrowing in recent years. This is well above the target borrowing rate of 4.75% for the financial year. As a result, only short-term borrowing has been taken in the first quarter at rates of interest between 4% - 4.25% to finance the capital and revenue cash needs of the Council and to keep the financing cost within budget.

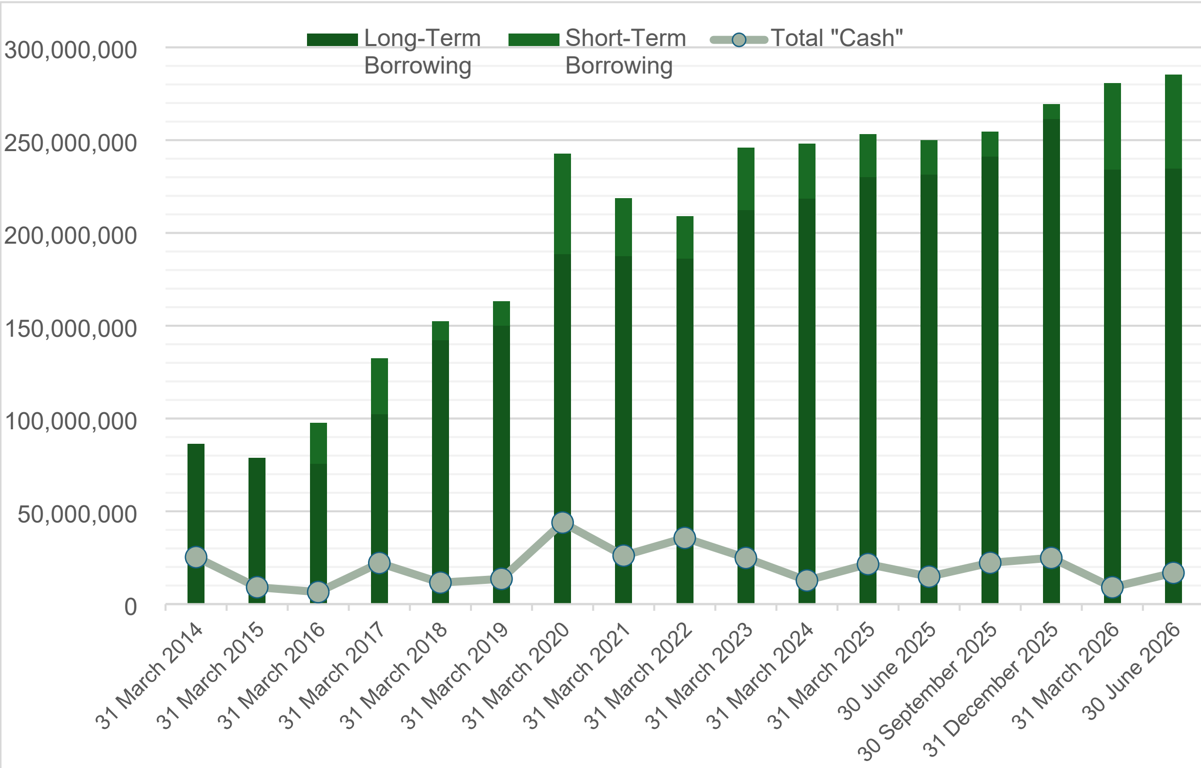
2.84 The ratio of long-term to short-term borrowing has increased slightly towards the short term – given that all new borrowing in this financial year has been in periods less than one year. The overall change is marginal in the context of the total debt portfolio. The Council’s total under borrowed position (external debt compared to the capital-financing requirement – or underlying need to borrow for the financial year) is £48.369m on 30 June 2026, or 14.5%. Total additional borrowing of around £50m may be required over the remainder of the financial year to finance the forecast spend on the capital programme and to keep liquidity balances at a sustainable level. The over-riding objective continues to be to demonstrate value for money and affordability from any borrowing decisions.

2.85 The amount of external debt at £285.164m and the total underlying need to borrow of £333.533m, are both below the Council’s authorised debt limit of £355.000m for the year which is the threshold above which any borrowing would be unlawful. The difference relates to the contingency buffer included within the authorised limit for any unexpected and unbudgeted borrowing required by the Council outside of the capital programme. The total annual cost of financing the capital investment plans is forecast at £13.651m, or 6.8% of the current net revenue budget. This is a £0.500m underspend against the approved budget, which relates to mainly to interest and principal savings from slippage on previous years capital schemes.

2.86 Cash balances have increased from £9.053m to £16.835m between the start of April 2026 and the end of June 2026. This increase during the first quarter reflects the fact that many income streams applicable to local authorities are front loaded with amounts of grant income being received early in the financial year and before the appropriate expenditure has been incurred. It should though be noted that cash balances at this stage relative to previous financial years are lower than normal. This mainly is due to the impact of the accumulated special educational needs deficit where cash has been spent on service costs without any Government funding currently being received, leading to low cash balances overall for the Council.

2.87 The debt and cash levels held by the Council and how these have changed over time is showing in the graph below.

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



<u>Collection Fund - Council Tax and Business Rates income</u>

2.88 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. Due to the prescribed mechanisms for operating the Collection Fund, the financial impact of any 2026/27 income collection variances from the budgeted amount used in setting the Council Tax for 2026/27 do not immediately affect the General Fund position. By illustration, the impact of any estimated surplus or deficit variance on the Collection Fund for 2026/27 is fed into the development of the 2027/28 budget and MTFP and any cost/benefit does not impact the 2026/27 financial year.

2.89 An update on the Collection Fund position will be provided in the Quarter Two budget monitoring report.

<u>Debt Recovery Performance</u>

2.90 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

2.91 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 previously detailed in Appendix 11 of the Quarter Three 2024/25 report. Progress has been included in quarterly monitoring reports ever since with the position at the end of Quarter One (30 June 2026) shown in Table 10 below.

Table 10 – Debt Collection Performance 2026/27

Category of Collectable Debt	Balance at 01/04/2026 (£m)	Movement in-year (£m)	Balance at 30/06/2026 (£m)
Council Tax	42.589	(3.642)	38.947
Business Rates	7.201	(0.375)	6.826
Sundry Debt	7.342	(0.002)	7.340
Housing Benefits Overpayments	4.912	(0.270)	4.642
Total	**62.044**	**(4.289)**	**57.755**

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%).

2.92 A separate report will be presented to Executive later in 2026/27 for approval to write off a range of the above debts, detailing the debtor involved, date raised, amount involved, recovery action taken to date, and the reason why this debt cannot be collected.

Appendices

F1	Proposed revenue budget virements above £250,000 at Quarter One 2026/27
F2	Details of savings classified as unachievable at Quarter One 2026/27
F3	Forecast Reserves & Provisions 2026/27 as at Quarter One
F4	Dedicated Schools Grant (DSG)
F5	New Additions and Virements to Capital Programme at Quarter One 2026/27
F6	Details of capital slippage as at Quarter One 2026/27
F7	Revised Capital Programme Forecasts 2026/27 to 2029/30