

<b>Report of:</b>	Andy Preston - Elected Mayor of Middlesbrough Ian Wright - Director of Finance
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<b>Submitted to:</b>	Council, 24 November 2021
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<b>Subject:</b>	Medium Term Financial Plan Update
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## Summary

### Proposed decision(s)

- That the Council notes the updated Medium Term Financial Plan position for 2021-25.
- That the Council notes the proposed budget for 2022/23, and the proposed total Council Tax increase of 2.99% for 2022/23 (comprising of a 1.99% increase in general Council Tax and a 1% Adult Social Care Precept).
- That the Council notes that the proposed budget and the proposed Council Tax increase for 2022/23 are subject to public consultation commencing on 25 November 2021 and ending on 23 January 2022.

Report for:	Key decision:	Confidential:	Is the report urgent?
Decision	Yes – over the financial threshold (£150,000) and affects more than two wards	No	No

### Contribution to delivery of the 2021-24 Strategic Plan

People	Place	Business
The revision of the Council's Medium Term Financial Plan for 2021-25 plays a fundamental role in ensuring that the Strategic Plan is delivered effectively.		

### Ward(s) affected

The proposed budget and Council Tax increase will potentially affect all wards.

## **What is the purpose of this report?**

1. This report provides an update to Council of the Council's Medium Term Financial Plan (MTFP) for the period to 2024/25, reflecting and supporting delivery of the Strategic Plan.
2. The report sets out to Council the proposed budget and Council Tax increase for 2022/23, and notes that these will be subject to public consultation.

## **Why does this report require a Member decision?**

3. The Council has a legal obligation in relation to setting a balanced budget and to meet the challenging financial targets faced in the MTFP. The setting of the budget is part of the policy framework and therefore requires Full Council approval.

## **Report Background**

### **Medium Term Financial Plan to 2025**

4. The "Refreshing the Strategic Plan for the 2021-24 period" report to Council on 24 February 2021 revised the Council's strategic priorities, with the revised priorities being as follows:
  - children and young people;
  - vulnerability;
  - crime and anti-social behaviour;
  - climate change;
  - Covid-19 recovery;
  - physical environment;
  - town centre;
  - culture; and
  - quality of service.
5. The Council maintains a Medium Term Financial Plan (MTFP) that sets out the financial envelope that is necessary to achieve those aims and the savings necessary for living within those financial plans (budget savings). The MTFP :
  - accurately analyses the current financial climate and the medium-term horizon, including the range of spending pressures facing the Council;
  - addresses the budget savings requirements for the MTFP period;
  - focuses investment on growing the town's economic base to improve local prosperity, and secure a robust and independent income stream to fund the Council's services.
6. The Medium Term Financial Plan to 2024 was included as part of the Revenue Budget, Council Tax, Medium Term Financial Plan and Capital Strategy 2021/22 report presented to Council on 24 February 2021. Since the report to Council in February 2021, there have been a number of changes which require the Council's MTFP to be updated. As reported previously in the 2021/22 Quarter One Projected Outturn report to Executive on 7 September 2021, and in the 2021/22 Quarter Two

Projected Outturn report to Executive on 9 November 2021, the Covid-19 pandemic is continuing to have and is likely to have in the future a significant impact on the Council's financial position.

7. A number of meetings have been held with political groups during August/September 2021 to provide all elected members with an overview of the MTFP and to brief them as to the areas requiring further work to refresh the MTFP.
8. This update report was presented to Executive on 9 November 2021, and is now brought forward for noting by this Council, as part of the usual annual budget setting process. The report details the anticipated changes to the Council's financial position in the period to 2024/25 since the budget report to Council in February 2021, along with the main assumptions and risks contained within the updated MTFP.
9. The table below summarises the updated position of the anticipated changes to the Council's financial position in the period to 2024/25 since the budget report to Council in February 2021, with further details being included in the paragraphs below.

	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>Total 2022-2025</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
<b>Budget gap - February 2021</b>	<b>0.000</b>	<b>3.103</b>	<b>0.000</b>	<b>3.103</b>
<i>Add:</i>				
Covid-19 Ongoing Pressures (car parking income, Town Hall income, SLM, "Covid scarring")	1.602	(0.934)	(0.046)	<b>0.622</b>
Spending Pressures (including increased NI contributions, energy inflation, Living Wage & Children's Social Care)	4.024	0.160	4.672	<b>8.856</b>
Additional Income (TAMP and Captain Cook Square)	(0.248)	0.000	0.000	<b>(0.248)</b>
Additional Investment (Community Safety & Environmental Enforcement staff, events, additional capital financing costs)	0.934	0.674	0.237	<b>1.845</b>
Technical Changes (removal of Fair Funding Review contingency)	(1.400)	0.000	0.000	<b>(1.400)</b>
Other Changes (Collection Fund, Council Tax Base Growth, 24/25 added)	(1.029)	(0.612)	(0.235)	<b>(1.876)</b>
	<b>3.883</b>	<b>2.391</b>	<b>4.627</b>	<b>10.901</b>
<i>Add:</i>				
Previous Years' Saving Removed (reduction in staff mileage rate)	0.180	0.000	0.000	<b>0.180</b>
Change to planned use of Reserves	0.593	(0.593)	0.000	<b>0.000</b>
<b>Budget (surplus) / gap</b>	<b>4.656</b>	<b>1.798</b>	<b>4.627</b>	<b>11.081</b>
Estimated additional local government funding (as announced in Autumn Budget & Spending Review October 2021)	(4.050)	0.000	0.000	<b>(4.050)</b>
<b>Council Tax - Adult Social Care Precept of 1.00% applied in 2022/23 (making total Council Tax increase of 2.99%)</b>	<b>(0.606)</b>	<b>(0.012)</b>	<b>(0.012)</b>	<b>(0.630)</b>
<b>REVISED POSITION (SURPLUS) / GAP</b>	<b>0.000</b>	<b>1.786</b>	<b>4.615</b>	<b>6.401</b>

10. It should be noted that an additional year (2024/25) has been added to the MTFP as part of this further update. This is only provided as an indicative guide at this stage due to the high level of financial uncertainty surrounding future local government funding, and at this stage no additional budget savings are proposed to cover the budget gap in 2024/25 until further information is received and estimates are more robust. The estimates and the potential requirement for any further budget savings in 2023/24 and 2024/25 will be reviewed again in the budget report to Council in February 2022.

11. Executive Members have held a number of discussions regarding the MTFP and the changes that have occurred, and the need for any potential additional budget savings and/or changes to the assumptions relating to the Council Tax increase in 2022/23, in order to enable a balanced budget to be set in 2022/23. Executive on 9 November 2021 endorsed a proposed increase in the Council Tax from the 1.99% increase assumed in the previous MTFP to a 2.99% total increase for 2022/23 (which includes 1% Adult Social Care precept for 2022/23). This is in line with Government expectations as announced in the Spending Review on 27 October 2021 (see paragraph 32 below for further details). This will mean that there will be no requirement for additional budget efficiency savings in 2022/23, and therefore there will be no effect on front line service delivery levels. Further detail on the proposed increase in Council Tax is provided in paragraphs 25 to 33. These proposals are brought forward for noting by this Council, after which public consultation on the proposed budget and the proposed total Council Tax increase of 2.99% for 2022/23 will commence.
12. The above approach demonstrates that the Council has considered the issues strategically and has a deliverable plan to ensure the Council's financial sustainability. However, it should be noted that due to Covid-19 and uncertainty around future Government funding this is a constantly moving situation, and this means that the financial position and Council Tax increase and the potential need for additional budget savings are subject to change. The reports to Executive and Council in February 2022 will provide a further update of the MTFP incorporating any further information which has become available, including the impact of the Local Government Finance Settlement which is expected to be provisionally received in early December 2021 and then finalised in February 2022.

### ***Assumptions***

13. The budget report to Council in February 2021 detailed the key assumptions made in the MTFP, and this report shows the major changes since February 2021, with the following paragraphs providing details.

#### *Covid-19*

14. The current update of the MTFP assumes the level of estimated financial pressure from Covid-19 and the assumed Government grant funding for Covid-19 in 2021/22 will be the same as detailed in the 2021/22 Quarter Two Projected Outturn report to Executive on 9 November 2021. It currently does not assume any further financial effect of a potential major further wave of Covid-19 locally or nationally, or takes account of any required future increased lockdowns locally or nationally.
15. In the updated MTFP it has been recognised that there is a potential continuing effect of Covid-19 and recovery beyond 2021/22. There are a number of service areas across the Council that could potentially see budget pressures as a result of the continuing effect of Covid-19 and recovery both in 2021/22 and beyond. Paragraphs 53 to 60 provide further details of the areas affected and the additional funding proposed. This is based on currently available information and this is an evolving situation and will be further updated in the budget report to Council in February 2022.

16. It is highly likely that there will be no further Government funding provided for the effects of Covid-19, and in this MTFP update none has been assumed.
17. There is also a potential risk to the Council's finances that the future economic climate caused by Covid-19 adversely affects the Council's finances, in particular the Council Tax and Business Rates Bases and the corresponding income received by the Council over the MTFP period, and that this is not compensated for by additional Government grant funding. In the MTFP update provided to Council in February 2021 an amount of £1.3m was provided in 2022/23 for the potential financial effect of this. Following further review, it is now likely that this will no longer be required in the longer term, and it is therefore proposed to transfer this to a more general "Covid scarring" contingency budget, as detailed in paragraph 60, for 2022/23 only. The position relating to Council Tax and Business Rates income and the effects on the Collection Fund will be closely monitored and updates will be provided in future reports. It should also be noted that the Government announced in the Spending Review on 27 October 2021 a number of measures relating to Business Rates in order to support businesses, and these are outlined below in paragraph 20. Local authorities will be fully compensated for all these measures, and these measures may help the Council to improve its collection rate for Business Rates.

#### *Government funding*

18. The Autumn Budget and Spending Review 2021 (SR21), published by the Government on 27 October 2021, set out the Government's spending plans for the lifetime of the parliament.
19. Whilst SR21 provided a number of indications of the level of funding that will be available for local government over the period (as detailed in paragraph 20), it did not provide full details of the funding mechanism, or confirm that a multi-year funding settlement would be provided to local authorities. It also did not provide individual funding allocations for each local authority. The amount of funding for local government will be confirmed and the allocation to individual local authorities will be announced as part of the Local Government Finance Settlement which is expected to be provisionally published in early December 2021 (no date has yet been announced) and confirmed in February 2022. This level of uncertainty means that future funding still remains one of the most significant risks to the Council.
20. The following provides a summary of the major announcements that were made in the SR21 regarding future local government funding, and their potential estimated effect on the MTFP :
  - £3.6 billion will go directly to local government over the SR21 period to implement the cap on personal care costs and changes to the means test within adult social care. This funding will also help local authorities better sustain their local care markets by moving towards a fairer cost of care. No method of the allocation to individual local authorities was announced and this will be set out by the Government in due course. Currently it has been assumed in the updated MTFP that all income received from this additional funding will be fully utilised to cover the increased costs arising from this.

- £1.6 billion of new grant funding for local authorities in each of the next three years (£4.8 billion over SR21 period), on top of the funding to implement social care reform mentioned above. Approximately £0.1 billion of this relates to additional grant funding to Supporting Families programmes, cyber security challenges, and to strengthen local delivery and transparency. The Department for Levelling Up, Housing and Communities (DLUHC) have advised that from the remaining £1.5 billion per year local authorities will have to meet their own increased employee costs as part of the 1.25% increase in National Insurance contributions, increased supplier National Insurance costs (including those in Social Care), and the cost of the National Living Wage. A very rough estimate of the amount that Middlesbrough will receive from this is £4.050m in 2022/23; this has been calculated using the Council's Core Spending Power as a percentage of the total national Core Spending Power. This has currently been assumed in the updated MTFP along with the additional costs which will have to be paid from this additional funding. It should be noted that at this stage this is a very rough estimate and will be updated following the notification of the actual amount to be received by Middlesbrough, which should be received as part of the provisional Local Government Finance Settlement in early December.
- Public Health grant to be maintained in real terms. It has been assumed that any additional income received from this will be fully utilised to cover increased costs which are likely to arise.
- A number of announcements were made relating to Business Rates, following the conclusion of the Government's review of the Business Rates system. These include the freezing of the multiplier for 2022/23, a new one year Retail, Hospitality and Leisure Business Rates relief (of 50% rates relief, up to maximum of £110,000), and support for investment in property improvements and green technology. SR21 announced that local authorities will be fully compensated for all the measures announced in the review, and therefore there is no effect on the MTFP. These measures may help the Council to improve its collection rate for Business Rates.

21. Currently the following other assumptions regarding government funding have been made in the updated MTFP:

- That there will be no increase or decrease to the current levels of Revenue Support Grant (RSG) and Business Rates Top Up Grant in 2022/23, 2023/24 and 2024/25.
- That currently there are no changes to any other grant assumptions outlined in the report to Council in February 2021.

22. The estimates of government funding will be revised when further information is available from the provisional Local Government Finance Settlement, which is expected in early December 2021, and will be updated in the 2022/23 budget report to Council in February 2022 upon receipt of the final confirmed Local Government Finance Settlement for 2022/23.

23. As mentioned in previous MTFP update reports the potential re-set of business rates retention of 75% (from the current 50%) and the introduction of a new “fair funding” formula for local government have been delayed. The Government have not yet formally announced when these will be implemented but it has indicated that that this will be further deferred to at least 2023/24, and potentially will be included as part of the Government’s “levelling-up” agenda when further details of this are provided. The key for Middlesbrough, as with other local authorities, will be the detail of the new systems and in how the new formulae are derived. The extent to which deprivation is recognised as a key cost driver for service need, in particular for adults and children’s social care and public health, will be vital. Current indications of the way forward by the Government suggest that there is low risk that Middlesbrough sees further reductions in funding both in real terms and in relation to other local authorities, and there is a potential for Middlesbrough to gain from such an approach. The MTFP presented to Council in February 2021 included a provision of £1.4m from 2022/23 for the potential impacts on Middlesbrough, however based on the current indications it has been determined that this will now not be likely to be required. This assumption will remain under review as further information emerges.
24. Notwithstanding the high levels of uncertainty regarding future Government funding, the Council’s budgetary assumptions are based on the most up to date reliable information.

#### *Local funding increases*

25. The Revenue Budget, Council Tax, Medium Term Financial Plan and Capital Strategy 2021/22 report to Council on 24 February 2021 assumed that the Council would apply a 1.99% increase per year in the core general element of Council Tax in both 2022/23 and 2023/24.
26. In SR21 the Government have indicated that the Adult Social Care Precept, which was allowed in previous years, will apply again in 2022/23, 2023/24 and 2024/25 (at a maximum increase of 1% per year). This in previous years has allowed Councils with Adult Social Care responsibility to increase their Council Tax by a set amount to help pay for the increased costs of Adult Social Care. This is in line with the plan contained in the Health and Social Care Act, alongside the increase in National Insurance contributions.
27. The 2021/22 Final Local Government Finance Settlement (LGFS) published on 4 February 2021 confirmed the continuation of the Adult Social Care Precept at 3%, and allowed it to be split over 2021/22 and 2022/23. Middlesbrough Council only increased Council Tax for the Adult Social Care Precept by 0.76% in 2021/22, and therefore there is still potentially 2.24% of the allowable Adult Social Care Precept of 3.00% announced in the 2021/22 LGFS, which could be applied to the 2022/23 Council Tax increase. However, at this stage, it is not proposed to utilise in 2022/23 the remaining 2.24% allowed from this.
28. Therefore following discussions regarding the Council Tax increase for 2022/23, Executive Members have indicated in the report to Executive on 9 November 2021 that their current recommendation is that the Council adopts a 1.99% increase in the core general Council Tax for 2022/23, and also an increase of 1% for the Adult Social Care Precept, meaning a total proposed Council Tax increase of 2.99% in 2022/23.

This is an increase from the previous assumption of a 1.99% increase, but is in line with Government expectations as announced in SR21.

29. Executive Members have made this decision in order to ensure that no additional budget savings are required to be made in setting the budget for 2022/23. Also it reflects the fact that the Government are likely to assume that the Council will increase its Council Tax by this amount in their calculation of the Council's Core Spending Power, which is a measure of how much the Government believes the Council can raise from Council Tax and that it has available to spend.
30. The proposed total increase in Council Tax to 2.99% in 2022/23 will mean that a balanced budget can be set in 2022/23 without the need to make any additional budget savings. It should be noted that each 1% increase in Council Tax produces estimated additional income to the Council of approximately £600,000.
31. The effect of the proposed total Council Tax increase to 2.99% in 2022/23 on the Middlesbrough Council only element of the Council Tax (excluding Fire, Police and Parish precepts) for Band A and Band D properties is shown in the table below:

Band	2.99% increase	
	Annual (£)	Weekly (£)
A	35.03	0.67
D	52.54	1.01

32. In SR21 the Government announced that the referendum threshold for increases in Council Tax is expected to remain at 2% per year for 2022/23, 2023/24 and 2024/25. In addition, local authorities with social care responsibilities are expected to be able to increase the Adult Social Care precept by up to 1% per year over this period. The Department for Levelling Up, Housing and Communities (DLUHC) will set out full details of the Council Tax referendum principles and proposed approach to allocating grant funding through the Local Government Finance Settlement for 2022/23. The proposed 2.99% total increase in Council Tax in 2022/23 is assumed to be within any referendum limits that may be set by the Government. Any change to this will mean that the level of proposed Council Tax increase for 2022/23 will have to be reviewed.
33. Whilst the indications are that there may be the ability for councils to apply an Adult Social Care Precept in 2023/24 and 2024/25, at this stage, no assumption has been made of the use of this in 2023/24 and 2024/25. The previous assumptions of a 1.99% increase in both 2023/24 and 2024/25 therefore currently remain unchanged. These will be reviewed at a later date.
34. There is estimated to be an increase in Council Tax income in 2022/23 and 2023/24 of approximately £1,300,000 per annum and £700,000 in 2024/25 due to a predicted increase in the Council's Tax Base resulting from projected Housing Growth over the period. These estimates have been reviewed from those contained in the previous MTFP, following information received as part of the Council Tax Base return submitted to Government in October 2021. These estimates will continue to be



reviewed on a regular basis in light of the potential effect of Covid-19 on delays to house building, and will be updated as part of the budget report to Council in February 2022 when further information is available.

35. At this stage for prudence purposes no inflationary increase or growth in the Local Share of Business Rates in 2022/23, 2023/24 and 2024/25 has been assumed.
36. During 2020/21, there were a number of issues, which resulted in significant pressures on Council Tax and Business Rates income. Within the Revenue Budget, Council Tax, Medium Term Financial Plan and Capital Strategy 2021/22 report to Council on 24 February 2021 it was noted that the overall financial impact of Covid-19 on Council Tax and Business Rates income to the Council in 2020/21 was estimated to be £3.696m. It is normal practice that any arising deficit would need to be fully funded in 2021/22. However, the Government announced that this could be spread over the next three years meaning that it was estimated that there would be an effect of £1.232m per annum in 2021/22, 2022/23, and 2023/24. The final outturn positions for Council Tax and Business Rates were much improved from the statutory amounts incorporated into the budget setting in February 2021 by £365,000 per annum over the 3-year spread period to 2023/24. The final amounts have been incorporated into this refresh of the Council's MTFP, therefore improving the financial position.

#### *Pay awards and inflation*

37. No agreement has yet been reached between the National Employers and the NJC Trade Unions as to the pay award for 2021/22 for Local Government Services employees effective from 1 April 2021. The National Employers have made a full and final offer of 1.75% for 2021/22. The current assumptions in the MTFP are for a 2% pay award each year, and based on current information these assumptions are still valid and have therefore not been changed. As well as the uncertainty caused by the delay in finalising the 2021/22 pay award, there is also a high level of uncertainty around local government pay awards in future years, and therefore the assumptions made in the MTFP for future years will be constantly reviewed. It should be noted that each 1% increase in pay equates to approximately £900,000 additional cost per annum.
38. As mentioned in paragraph 20 the Council will have to pay from 2022/23 increased National Insurance contributions for its own staff, and also any potential costs relating to this from its suppliers. It has been estimated that the cost of the increased National Insurance contributions for Council employed staff will be approximately £1m per annum. An amount of £1m per annum has also been provided in the MTFP for both the potential increased costs charged by suppliers for the effect of the increase in National Insurance contributions and other potential inflationary increases from suppliers, and it is proposed that this is held in a separate contingency budget until further information is received of the potential increased costs from suppliers.
39. Contractual inflation has been provided in the MTFP period. The level of contractual inflation will be reviewed again in the budget report to Council in February 2022. No provision has been made for inflation for general supplies and services; it is expected that any inflationary pressures in this area will be met from efficiency savings.

40. Income from fees and charges has been assumed to increase on average by approximately 1% per annum over the MTFP period. There is no increase currently assumed for car parking charges and statutory charges over the MTFP period. The level of income inflation will be reviewed again in the budget report to Council in February 2022. Due to Covid-19, a number of budget areas have suffered income losses and funding has been provided in this update of the MTFP in order to ensure that realistic achievable budgets are now set for these areas. Further details are provided in paragraphs 54 to 56. All income will be closely monitored for performance against income targets and reviewed as necessary.

#### *Energy inflation*

41. As extensively reported nationally there are currently hyper-inflationary increases in the cost of energy and this is likely to exist in the medium term. The extent to these increases is not yet fully known, but in light of this and using estimates based on latest available information, provision of £371,000 per annum has been made in the updated MTFP from 2022/23 for the potential effects of this.

#### *Living Wage*

42. Increases in the National Living Wage, will impact upon organisations – principally adult social care providers – who are contracted to carry out functions on behalf of the Council. Currently increases in the National Living Wage do not have an impact on Council employed staff as the current pay rates paid to Council staff are above the current National Living Wage rates.
43. In SR21 the Government announced that it remains committed to raising the National Living Wage in order so that it reaches two-thirds of median earnings, and that the National Living Wage will increase from £8.91 to £9.50 an hour effective from 1 April 2022 (a 6.6% increase). Following this announcement the amounts that are allocated in the MTFP to cover the increases in cost expected as a result of this have been revised, and it is currently assumed that the National Living Wage will increase incrementally to £10.50 by 2024/25, and an amount of £4.4m has been allocated for this over the MTFP period.
44. As with future pay awards there is a high level of uncertainty around this and whether the Government will further change the levels of increase for future years, and therefore this will reviewed again in the budget report to Council in February 2022.

#### *Spending pressures –Children’s Social Care*

45. As reported previously Children’s Social Care, remains the biggest area of financial concern for the Council. The Council has an Ofsted Improvement Plan in place, and the financial situation is being closely monitored jointly by the Service and Finance, and a three year plan has been drawn up to ascertain the estimated outturn position for the current and future financial years and therefore the potential MTFP impact.
46. Given the improvements required by Ofsted and the timescales for implementing these, a prudent financial planning approach has been taken, and a number of contingencies and reserves have been identified which should enable the pressure to be covered in the current and future financial years, assuming it stays at around the

same level. However, in the longer term, Children's Services will need to work towards balancing their budget from the end of 2023/24 onwards or there will be an MTFP impact.

47. Children's Services have requested additional funding which will be required from 2024/25 in order to achieve a steady state for the Service, and ensure that the improvements currently being made in Children's Social Care are not compromised, and also in order so that the Service is on a firm financial footing with an appropriate budget which can be managed within. The additional funding requested comprises of £910,000 for increased demand, £1.454m for increased staffing, and £1m to provide an appropriate agency budget to enable the Service to manage any temporary gaps in staffing. This additional funding is included in this MTFP update.
48. This will mean that the Ofsted Improvement Plan will be properly funded in the medium term. This will be closely monitored in real time and any amendments required to the level of funding provided will be made as appropriate.
49. It should be noted that this will mean that Children's Social Care will have reduced expenditure from over £9m projected spend in excess of their current budget in 2021/22 to just over £3m in 2024/25, approximately a £6m reduction in expenditure per annum by 2024/25.
50. As reported previously, in line with national trends Children's Social Care continues to be an area of financial pressure to the Council. The costs of these pressures in respect of increased level of need in relation to children in care and the increase in the cost of providing care is constantly being monitored.
51. Whilst the Local Government Finance Settlement in 2021/22 provided additional funding for Social Care there is still a significant risk of additional increased level of need in relation to children in care and the increased in the cost of providing care and that in the event of this, sufficient additional Government funding is not provided to mitigate this. Along with funding uncertainty, the continued pressure of demands on Children's Social Care is the most significant financial risk to the Council.
52. Further Children's Social Care demand increases and any delays to the implementation of the Council's Ofsted Improvement Plan continue to be a major potential risk to the Council and this is being constantly monitored, and further updates will be provided in future quarterly budget monitoring reports to Executive and in the budget report to Council in February 2022.

#### *Covid-19 ongoing pressures*

53. As outlined in paragraph 15, there are a number of service areas across the Council that could potentially see budget pressures as a result of the continuing effect of Covid-19 and recovery both in 2021/22 and beyond.
54. A major area where there is likely to be continuing effect is in income generating areas for the Council, such as parking, cultural and leisure facilities (as noted in paragraph 40). Provision has therefore made in the MTFP for the potential effects of this, with the following paragraphs detailing the additional funding provided to enable

these budget areas to cope with the financial ongoing effects of Covid-19, and ensure that realistic achievable budgets are now set for these areas.

55. As mentioned in the quarterly budget monitoring reports to Executive car parking income has reduced due to the effects of Covid-19 lockdown and the recovery period following the removal of lockdown restrictions. It is expected that this will continue in the medium term, due to effects of increased home working following lockdown and the reductions in people using the retail provision in the town centre. The pressure can be covered in 2022/23 from grant income received from the Tees Valley Combined Authority (TVCA) for the provision of 3 hour free parking across the Tees Valley. However, from 2023/24 there is an estimated pressure arising from this of £677,000 and a further £87,000 pressure in 2024/25, and these have been accounted for in this update of the MTFP.
56. Another budget area where income has suffered due to Covid-19 is cultural events and activities provided at the Town Hall. This has also been compounded by the potential effect on income due to the Globe Theatre opening nearby in Stockton. Provision of £230,000 per annum has been provided in the MTFP from 2022/23 for the effects of both these factors.
57. As detailed in 2020/21 and in the Quarter One and Two 2021/22 budget monitoring reports, significant payments have been made to SLM, the Council's provider of leisure facilities. Following the reopening of leisure facilities SLM have not been able to operate normally, with the effects of a restricted operation following the end of lockdown restrictions and the post Covid-19 recovery period impacting on their current levels of income. It is currently proposed that the Council do not provide any further subsidy support beyond 2021/22 relating to the Covid-19 ongoing impacts on SLM's income.
58. As part of the contract with SLM, the Council were due to receive funding from SLM in the form of a "profit share" in future years. However, in light of the recovery from Covid-19 and the proposed ending of the subsidy support payments outlined above, it is currently assumed that it will be difficult for SLM to achieve a profit in the medium term. Therefore, it has been assumed in this revised MTFP that it will not be possible for SLM to fully pay the "profit share" due under the contract in the medium term, and that an incremental approach is made to SLM achieving their contracted "profit share" by 2025/26. This has not had a negative effect on the MTFP, as the MTFP presented to Council in February 2021 had taken a prudent approach due to the potential ongoing effects of Covid-19, and did not include any assumptions of "profit share" payments from SLM for 2023/24 and 2024/25.
59. Detailed discussions are currently taking place with SLM in order to reduce as far as possible the financial pressure to the Council in both 2021/22 and in future years, and updates will be provided in future reports regarding this.
60. There is potential ongoing future "Covid scarring", in particular within the Care Sector. In this update of the MTFP, additional provision of £1,034,000 has been made for this in 2022/23, reducing to £856,000 from 2023/24. As mentioned in paragraph 17 this will be combined with the £1.3m previously set aside for the potential future impact of Covid-19 on Business Rates and Council Tax income for 2022/23 only, to create a

total contingency budget for the potential effects of "Covid scarring" of £2,334,000 in 2022/23 and £856,000 from 2023/24.

#### *Other Spending pressures*

61. As detailed in the Quarter Two 2021/22 budget monitoring report there are a number of ongoing spending pressures within Environment and Community Services, which are likely to continue in the future.
62. Firstly, there is a shortfall in income due to a decrease in the number of cremations following the opening of a crematorium in Stockton. This is expected to result in an ongoing financial pressure of £200,000 per annum to the Bereavement Services budget. The Service have however, proposed mitigation of £50,000 from efficiency savings resulting from the reduced volume of cremations, and therefore a total of £150,000 per annum has been built into the updated MTFP.
63. There is also an anticipated pressure currently estimated to be £500,000 per annum, as a result of the need to secure an alternative contractor to process kerbside recycling material following the previous contractor entering into administration, and this has been assumed in this updated MTFP. This may change following the tender process for a new contractor, which ended at the end of October 2021, with the results of the tender exercise currently being evaluated, and any revisions to the level of additional funding required will be included in the budget report to Council in February 2022.
64. In addition, there is also an ongoing pressure anticipated against the Integrated Transport Unit budget. This is due to anticipated increased numbers of children qualifying for home to school transport. In addition, there is a predicted increase in external contract prices caused by a shortage of drivers which is increasing wages, and also due to the increase in fuel prices. In some cases, external providers have pulled journeys, resulting in a requirement to seek more expensive alternative providers. £120,000 per annum from 2022/23 has therefore been provided in the updated MTFP for this. This budget will be closely monitored and updates provided in future reports.
65. Additional provision of £484,000 has been made within the Education and Partnerships budget for the funding of Inclusion/Specialist Support Services to young people. This has previously been funded from the Dedicated Schools Grant (DSG) which the Council receives, but following a review it has now been determined that this should be funded from Council revenue budgets in the future. In addition, following a review, it has also been determined that the level of Education contributions from DSG towards the cost of external residential agency placements is lower than it should be. Therefore, the additional costs arising from the above can be fully mitigated by £750,000 of predicted additional income from DSG for Education contributions. This was outlined in paragraph 27 of the Quarter Two budget monitoring report to Executive on 9 November 2021, and is due to the fact that the complexity of the Council's young people has increased along with the average placement costs, and therefore the Education (and Health) contributions should also increase appropriately.

66. Provision has been made in the updated MTFP from 2022/23 for the following service demand pressures which have been identified :
- £160,000 for ongoing increased costs in the Coroners Service due to a rise in the number of cases, and also an increase in pathology and post-mortem costs
  - £41,000 for an additional post within Education and Partnerships to develop and expand the Fifty Futures Programme
  - £76,000 for additional posts within the Freedom of Information (FOI) team to deal with an increase in the number and complexity of FOI requests received by the Council
  - £50,000 per annum for 3 years for Community Environmental Initiatives as approved by Executive on 5 October 2021
  - £100,000 additional per annum in both 2022/23 and 2023/24 for the potential additional costs arising from the Insurance Review

#### *Additional income*

67. Additional rental income above the current budget is estimated to be received from developments that the Council has made in the town. Additional annual income of £48,000 above that already assumed for 2022/23 (making a total of £330,000 additional income in 2022/23) is predicted due to the continued success of Tees Advanced Manufacturing Park (TeesAMP). In addition, additional unbudgeted income of £200,000 per annum from Captain Cook Square is assumed from 2022/23. Both these developments, along with the Centre Square Buildings 1 and 2 development, have provided additional income to the Council, after deducting capital financing costs, which has negated the need for the Council to make budget reductions to front line services.

#### *Additional Investment*

68. Additional revenue funding of £600,000 per annum has been provided from 2023/24 for additional Community Safety and Environmental Enforcement staff. This helps to continue the provision of these services following the end of a grant from the Tees Valley Combined Authority (TVCA), which has helped to provide these services.
69. Revenue funding of £200,000 has been provided for 2022/23 only to provide additional support for the provision of events in the town. This will help with the recovery of Middlesbrough following the Covid-19 pandemic.
70. The Mayor and Executive have expressed a desire to provide additional investment for front line services, principally within Environment and Community Services, but at this current time it is not possible to do so because of the financial constraints. This will be a high priority for the Mayor and Executive should further additional funding become available to the Council.
71. The following additional revenue provision has been made in respect of the estimated additional capital financing costs associated with potential projects, outlined in paragraph 89, which subject to approval by Executive will be added to the Council's agreed Investment Strategy in future years :

- Highways Maintenance Programme - £200,000 per annum in each of the years 2022/23, 2023/24 and 2024/25 (total of £600,000 over the 3 years)
- Transporter Bridge structural improvements - £80,000 from 2022/23
- Built Assets Improvement Programme - £81,000 in 2022/23, £74,000 in 2023/24 and £37,000 in 2024/25 (total of £192,000 over 3 years)

72. It should be noted that the additional capital financing costs will be ongoing beyond the current MTFP period and these ongoing costs will be built in future MTFP updates.
73. Following approval by Council on 5 October 2021 of the Fountain Court Refurbishment and Fit-Out Budget report there is a requirement to provide additional revenue provision of £165,000 per annum to the Capital Financing budget for additional capital financing costs arising from the net additional increase of £4.138m in the budget for the project.
74. Following approval by Executive on 20 October 2021 of the Flexible Use of Capital Receipts Strategy report there is a requirement to add additional revenue provision of £208,000 per annum to the Capital Financing budget for potential additional capital financing costs arising from this.
75. The Capital Financing budget will be closely monitored and any required changes will be reflected in future refreshes of the MTFP.

### ***Adequacy and use of Financial Reserves***

76. The Director of Finance has reviewed the proposed level of balances held in the General Fund Reserve and advised that he considers it is appropriate to currently continue to maintain a minimum of £11m over the medium term. This advice is based on an assessment of financial risks against criteria set out by the Chartered Institute of Public Finance and Accountancy and the extent to which specific provisions are available to meet known and expected liabilities.
77. The current estimated level of the General Fund Reserve at the end of 31 March 2022 is £11m as reported in the Revenue and Capital Budget – Projected Outturn position as at Quarter Two 2021/22 report to Executive on 9 November 2021.
78. In the budget report to Council in February 2021, it was intended to use £593,000 of reserves to balance the budget in 2022/23. In order to keep the level of the General Fund Reserve to the minimum level this is no longer assumed in this update of the MTFP.
79. This updated MTFP, including the proposed Council Tax increase for 2022/23, should enable the level of the General Fund Reserve to remain above the minimum recommended level throughout the MTFP period.
80. The approval by Council on 20 October 2021 of the Flexible Use of Capital Receipts Strategy report will allow the Council to potentially increase the level of reserves that the Council holds by a maximum of £5.2m, at this time of high financial uncertainty with minimal impact on the Council Tax payer. This will help support the significant and continued transformation work taking place within the Council, which will deliver

improvement and efficiencies. Further details of the effect on the level of reserves will be provided in the Quarter Three 2021/22 budget monitoring report.

81. Further work will be carried out on the appropriate level of reserves for 2022/23 onwards following the receipt of the provisional Local Government Finance Settlement in early December and the latest financial performance in 2021/22, and will be updated in the budget report in February 2022.
82. The Council intends to allocate an additional £100,000 in 2022/23 only to its Change Fund in order to support transformational activity to deliver its Strategic Plan. It is estimated that only a negligible amount will be remaining within the Change Fund from 2023/24, in light of the need to invest in transformational activity in the meantime.

### ***Budget Savings requirement and proposals***

#### ***Budget Savings already assumed in the current MTFP***

83. As noted in paragraph 15 of the Quarter Two 2021/22 budget monitoring report to Executive on 9 November 2021 there is a £180,000 saving related to “reducing staff mileage rates across the Council” which will not be achieved in 2021/22 and has been replaced by alternative one-off savings for 2021/22 only. In light of the recovery from Covid-19 and the potential effect on staff, it is proposed that this saving is now removed from the MTFP from 2022/23.

#### ***Proposed Additional Budget Savings***

84. As noted in paragraph 11 this refreshed MTFP identifies that there is currently no requirement for additional budget savings in 2022/23, due to the proposal to increase Council Tax by 2.99% in 2022/23, in order to protect front line service delivery.
85. However, as shown in the table in paragraph 9 there is still a projected £1.8m budget gap in 2023/24 and a projected £4.6m budget gap in 2024/25. As mentioned in paragraph 33 at this stage no decision has been made regarding further Council Tax increases in 2023/24 and 2024/25, and therefore potentially the budget gap may need to be funded from additional budget savings in the future. The requirement for any future years’ savings proposals will be outlined in future MTFP update reports and will be subject to full consultation.
86. During 2022/23, it is intended that a full and proper efficiency review is undertaken across all Directorates and Services within the Council. This review will be led by Finance and undertaken in conjunction with the Directors, and a timetable will be drawn up for this. The aim of the review is to ensure that the Council is operating as efficiently as possible, and the review will seek to identify potential future additional budget savings for consideration at a future date if required.

### **Investment Strategy**

87. The Investment Strategy has been further revised as part of the Revenue and Capital Budget – Projected Outturn position as at Quarter Two 2021/22 report to Executive on 9 November 2021.



88. The Council's Investment Strategy is updated each quarter via the quarterly budget monitoring reports, and also a full revision of the Investment Strategy for the MTFP period, including 2024/25, will be included in the budget report to Council in February 2022.
89. As mentioned in paragraph 71 the following proposed projects are potentially to be added to the Council's agreed Investment Strategy in future years :
- Highways Maintenance Programme - £5m p.a. for 3 years (total £15m)
  - Transporter Bridge structural improvements - £2m in 2022/23 only
  - Built Assets Improvement Programme - £2.2m in 2022/23, £2.0m in 2023/24 & £1.0m in 2024/25 (total of £5.2m over 3 years)
90. The above projects will only be added to the Council's Investment Strategy following the submission to and approval by Executive of separate reports for each project. Executive approved the Built Assets Improvement Programme on 9 November 2021.
91. If approved these additions to the Investment Strategy will enable the Council to invest in its own assets and provide for adequate maintenance of assets in order to ensure that they remain fit for purpose in the future

#### **What decision(s) are being asked for?**

92. That the Council notes the updated Medium Term Financial Plan position for 2021-25.
93. That the Council notes the proposed budget for 2022/23, and the proposed total Council Tax increase of 2.99% for 2022/23 (comprising of a 1.99% increase in general Council Tax and a 1% Adult Social Care Precept).
94. That the Council notes that the proposed budget and the proposed Council Tax increase for 2022/23 are subject to public consultation commencing on 25 November 2021 and ending on 23 January 2022.

#### **Why is this being recommended?**

95. To enable the Council to meet its statutory responsibility to set a balanced revenue budget and to ensure that a proper framework is in place for the medium term financial management of the Council, which will enable the Council to take a systematic, coherent and controlled approach to addressing ongoing financial challenges over the medium-term, while maximising its contribution to the Mayor's priorities for Middlesbrough.

#### **Other potential decisions and why these have not been recommended**

96. The Council has no option but to monitor its financial position, addressing any potential financial pressures and any budget savings required, to ensure the Council's financial position is balanced. The updated Medium Term Financial Plan for 2021-25 will provide the means to achieve this in a proactive and systematic manner, while

continuing to reshape the Council to lead the delivery of the priorities for Middlesbrough.

## **Impact(s) of recommended decision(s)**

### ***Legal***

97. 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.
98. Elected members (individually and collectively) have a fiduciary duty to local taxpayers and so duty to facilitate, rather than frustrate, the setting of a lawful budget, and not to do so would bring damaging legal, financial, operational and reputational consequences for the Council, and precepting authorities such as the police, fire service and local parish councils. It may also give rise to personal liability for individual members for misfeasance in public office, negligence or breach of statutory duty, should they be found to be purposely failing to set a lawful budget.

### ***Financial***

99. It is proposed that for 2022/23 Council Tax will increase by a total of 2.99% (comprising of a 1.99% increase in general Council Tax and a 1% Adult Social Care Precept), and then by 1.99% in each of the years 2023/24 and 2024/25 (see paragraphs 25 to 33 for details).
100. The final proposed 2022/23 budget will be presented to Executive on 14 February 2022, and then to Council for approval on 23 February 2022.
101. In the event that significant changes to the Council's financial position come to light in the interim then the proposed Council Tax increase in 2022/23 may need to be revised ahead of the budget report to Council on 23 February 2022. In addition, there may be a requirement to revise the current requirement for no proposed budget savings for 2022/23.

### ***Policy Framework***

102. The revenue and capital budgets form part of the Council's Policy Framework and as such must be agreed by Full Council.

### ***Equality and Diversity***

103. The Council must ensure that, in line with the Public Sector Equality Duty, that any budget saving proposals or Council Tax increases thought to impact on those with protected characteristics are assessed, mitigated where possible and/or justified. As stated in paragraph 11 there are no additional budget savings proposed for 2022/23, and therefore the budget consultation will be regarding the proposed Council Tax increase only.

104. As such impact assessments for the budget and Council Tax increase will be completed prior to consideration by the appropriate decision-making body, where required. This will be prior to the presentation of the 2022/23 budget report to Council in February 2022.

### **Risk**

105. The proposed approach will ensure that the Council has adequate governance processes in place (08-054) to ensure it complies with the statutory duties to set a balanced budget for the forthcoming year (08-055). The MTFP has been reviewed to ensure that the correct assumptions are made to ensure that there are no unforeseen/unmitigated funding gap (08-059) exists in future years.

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

106. Consultation in respect of the proposed budget and Council Tax increase for 2022/23 will, following Council on 24 November 2021, commence on 25 November 2021 and conclude on 23 January 2022, with appropriate impact assessments undertaken considering responses to the consultation.

107. The budget consultation will be undertaken this year as part of an “annual conversation” with local communities and the Council’s stakeholders. This will build on the success of last years’ “Let’s Talk” annual conversation.

108. It is planned that the consultation will include:

- a dedicated internet page on the Council’s website;
- a general public survey on the Council’s website;
- a general consultation email address;
- an increased level of digital promotion and increased public engagement through social media;
- consultation with the Council’s Overview and Scrutiny Board;
- consultation with the Council’s partners and the local business sector, including a specific consultation meeting with the town’s Chamber of Commerce; and
- involvement of elected members in the overall process.

109. The output of the consultation process will then be reported to Executive on 14 February 2022 and Council on 23 February 2022, which will:

- again refresh the MTFP following the Local Government Finance Settlement, set the 2022/23 budget and any required associated budget savings and targets, and set the Council Tax level for 2022/23;
- comply with the Public Sector Equality Duty and set out any impacts identified from the proposals for 2022/23 and future years.

### **Appendices**

- None

## Background papers

24/02/21	Council	Strategic Plan 2021-24
24/02/21	Council	Revenue Budget, Council Tax, Medium Term Financial Plan and Capital Strategy 2021/22
07/09/21	Executive	Revenue and Capital Budget – Projected Outturn position as at Quarter One 2021/22
20/10/21	Council	Flexible Use of Capital Receipts Strategy
09/11/21	Executive	Revenue and Capital Budget – Projected Outturn position as at Quarter Two 2021/22
09/11/21	Executive	Medium Term Financial Plan Update

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