

REPORT TO CABINET

11 DECEMBER 2025

**REPORT OF CORPORATE
MANAGEMENT TEAM**

KEY DECISION

Resources and Transport - Lead Cabinet Member – Councillor Paul Rowling

Financial Update and Medium Term Financial Plan (MTFP)

Summary

Like many councils across the country, the Council is seeing greater demand and cost pressures across council services which is leading to a predicted larger overspend against budget by the end of 2025/26 financial year. The areas that we are experiencing the greatest budgetary challenges are Adults Social Care, Children's Social Care and Home to School Transport. Mitigating actions have been identified since Quarter 1 to positively reduce the forecast overspend to £4.127m. Work is continuing to identify further actions to mitigate the overspend, however if the current forecast position materialises this will need to be met from earmarked reserves, which is not a sustainable approach.

Over the summer the Government launched the Fair Funding Review 2.0 consultation, which is a fundamental change to how local authorities are funded. The Fair Funding Review 2.0 aims to produce a fairer, evidence-based system that targets funding towards areas with high deprivation and need. The Government has now published their response to the consultation alongside a Local Government Policy Statement which gives an indication of how the changes will impact Stockton-on-Tees Borough Council. This report includes the latest estimate of the planned changes; however, we will not know the actual impact until the Provisional Local Government Finance Settlement expected week commencing 15 December.

The report also provides an indicative update to the MTFP. The emerging position reflects rising costs and demand pressures which exceed the expected increase in Government funding. As a result, the projected budget gap across the MTFP has widened; £11.5m in 2026/27, £18.4m in 2027/28 and £18.7m in 2028/29.

The scale of this gap means that a strengthened programme of service reviews, efficiencies and cost reductions will be required, alongside a measured and time-limited use of reserves with a clear replenishment strategy. Work is underway with Directors to identify a deliverable set of proposals for the February budget, with early emphasis on accelerating existing activity within Powering Our Future and expanding its scope where necessary.

Powering Our Future continues to provide the Council's overall framework for service transformation and improvement. It has already delivered several tangible benefits. However, given the heightened financial context, the programme now needs to operate at a greater pace and scale. Over the coming weeks, Directors will be required to identify specific, evidenced savings proposals that can be progressed through POF and our design principles for inclusion in the 2026/27 budget, supported by clear delivery milestones.

Further detail on potential service changes, efficiency options and reserves strategy will be brought forward in the February budget report. The Council will also shortly begin consultation on the 2026/27 budget to support transparent decision-making and ensure stakeholders can understand and comment on the choices ahead.

The report also contains rationale for the virement of monies between projects within the Thornaby Town Deal programme, to support works in the Regeneration of Thornaby Town Centre workstream.

Reasons for Recommendation(s)/Decision(s)

To update Members on financial performance in 2025/26 and to outline proposals for the 2026/27 Budget and MTFP based on latest available information.

Recommendations

1. That the updated financial position for 2025/26 be noted.
2. That the revised Capital Programme at Appendix A be noted.
3. Approve the virement of £500,000 from the Connecting Thornaby – Cycleways workstream allocation alongside £235,000 from the North Thornaby workstream into the Regenerating Thornaby Town Centre workstream.
4. That the emerging issues for the MTFP be noted.

Detail

FINANCIAL POSITION 2025/26

FINANCIAL POSITION AS AT 30 SEPTEMBER 2025

GENERAL FUND

1. Members will be aware that the report to Cabinet in September, which covered the first quarter of the financial year, reported a pressure of £1.684m. Growing demand for Council services and the increased cost of delivery is putting pressure on several budget headings.
2. The following table details the projected budget outturn position for each Directorate in 2025/26, based on information to 30 September 2025.

Directorate	Annual Budget £'000	Projected Outturn £'000	Projected Variance Q2 Over/ (Under) £'000	Projected Variance Q1 Over/ (Under) £'000	Movement from Q1 £'000	Mitigating Actions £'000	Adjusted Projected Movement Q1-Q2 £'000
Adults, Health & Wellbeing	107,081	108,783	1,702	(443)	2,145	(680)	1,465
Children's Services	63,680	66,642	2,962	645	2,317	(285)	2,032
Community Services, Environment & Culture	56,861	58,128	1,267	858	409	(441)	(32)
Finance, Transformation & Performance	15,844	15,471	(373)	(55)	(318)	0	(318)
Regeneration & Inclusive Growth	3,262	3,633	371	168	203	(335)	(132)
Corporate Services	12,203	11,944	(259)	(179)	(80)	(52)	(132)
Corporate Items	4,802	4,502	(300)	90	(390)	(750)	(1,140)
Total	263,733	269,103	5,370	1,084	4,286	(2,543)	1,743
Pay Offer	0	600	600	600	0	0	0
Transformation Savings Shortfall	0	700	700	0	700	0	700
Adjusted Total	263,733	270,403	6,670	1,684	4,986	(2,543)	2,443
Mitigating Actions			(2,543)				
Revised Q2 Variance	263,733	270,403	4,127				

3. The projected position indicates a significant financial pressure for the current financial year, largely because of growth in demand for council services. All Directorates are considering opportunities to reduce / defer spend to support the position and this will be kept under close review for the remainder of the year.

Mitigating Actions

4. Following the projected overspend at Quarter 1, senior officers undertook an urgent exercise to identify mitigating actions that could improve the projected overspend. This has identified (£2.543m) of savings that can be used to improve the in-year financial position, to a predicted £4.127m predicted overspend. This includes actions such as reviewing and maximising grants, rebasing budgets and holding vacancies.

Reasons for movements since Quarter 1 over £100,000

Adults, Health and Wellbeing

5. Demand for Adult Social Care Services has continued to increase in the quarter with pressures emerging across all budgets for residential services. The forecasted budget position on residential placements for Older People, including those with mental health conditions, has worsened by £667,000 since Quarter 1. Demand for residential placements for people with Learning Disabilities has increased further, with several

additional clients requiring services over the past quarter, generating an increased projected overspend of £138,000.

6. There has been an increase in the number of people requiring support from Care at Home services due to mental health conditions, with the projected position being £288,000 worse than at Quarter 1.
7. Increased demand across Adult Social Care Services is increasing the requirement for Deprivation of Liberty (DOLs) assessments, with additional assessors' costs to meet demand. There is expected to an increased overspend on this budget of £229,000.
8. There are anticipated savings within the Housing Service, mostly due to staffing vacancies of (£259,000).
9. A review of debtor invoices outstanding for the Directorate has been undertaken. This has highlighted an increase in outstanding debt. All debts are being reviewed to identify mitigating action, however, it is prudent to include the requirement for a contribution to the provision for bad debts which is likely at the year-end, this has been estimated at £820,000.
10. Deep dive analysis is being undertaken across all pressure areas to understand the contributing factors, and where possible, robust mitigations will be put in place to manage this position.

Children's Services

11. Pressures within Children's Services are continuing this financial year. The number of Children in Our Care has increased since the Quarter 1 financial position was reported. Children placed in connected care or special guardianship arrangements has increased this quarter, with a further pressure of £140,000 anticipated across these budgets.
12. Several children have been placed into external children's homes since Quarter 1. The remaining budget for growth that was assumed to be sufficient in Quarter 1 has now been utilised and this budget is now projecting an overspend of £1.9m.
13. Demand for services for children with disabilities, such as short breaks provision and respite care is expected to be higher than budget and a projected overspend against this budget is now anticipated at £315,000.
14. Recruitment of Education Psychologists continues to be challenge and is a recognised national issue for Local Authorities. Due to the need to use external professionals to deliver assessments, the budget is projected to be overspent £278,000.
15. Additional grant income has been received from Department of Education, including grants to fund the employer national insurance costs of non-teaching staff, which is offsetting the overall position (£400,000).

Community Services, Environment and Culture

16. The number of children requiring Home to School Transport has continued to grow in the quarter. As a result, the service has a further predicted overspend of £257,000.

17. A shortfall of car parking income and additional costs to deliver the service, have resulted in a forecast pressure of £250,000.
18. The HVE service is anticipated to make a (£261,000) saving. This is predominantly related to additional work and subsequently income to the service. Some of this is partially offset by additional costs associated with delivering the aforementioned work.
19. The facilities management service has received additional income and this is the driver of the (£138,000) improvement.
20. Vehicle services have experienced further pressures due to increased costs on parts and the renewal of hired vehicles at a higher rate. These result in a movement of £271,000.
21. The Highways Service has seen additional income due to recovering Section 74 and Fixed Penalty Notices (FPNs) from contractors. This has improved the position by (£122,000).

Finance, Transformation and Performance

22. The emerging pressure described at Quarter 1, due to an increase in payments of benefits where subsidy is not paid at the normal 100% rate, relating to supported accommodation and increased provision of temporary accommodation, has been reviewed alongside potential grant funding. Additional income has now been assumed to offset this pressure and the financial position has improved by (£219,000).
23. Further salary savings since Quarter 1 in the Administration Service are anticipated to generate projected savings of (£100,000).

Regeneration and Inclusive Growth

24. The Council will continue to work with prospective tenants on future lettings to mitigate against the shortfall on income at Wellington Square, however, there continue to be vacant units, leading to a further anticipated pressure. Car parking income will also be slightly lower than budgeted. The overall additional pressure will be £100,000.

Corporate Services

25. There have been no significant movements in the projected position for Corporate Services.

Corporate Areas

26. A review of Treasury Management costs (AMRA) costs has been undertaken as part of mitigating the financial position. The Council is currently benefiting from an improved investment position in the short term, due to interest rates remaining at a higher rate, resulting in savings against budget of (£630,000).

Dedicated Schools Grant

27. The Dedicated Schools Grant (DSG) is a ringfenced grant the Council receives to deliver defined education services including Schools, Early Years and Special Educational Needs (High Needs). The grant is awarded by the Department for Education on an annual basis and the amount is determined by a national formula.

Members will be aware that we are experiencing growing demand in services for pupils with Special Educational Needs. This is also true of many Councils across the Country.

28. The Dedicated Schools Grant is accounted for in a separate ring-fenced account and guidance states that any deficit should not be funded from the Council's General Fund. This deficit is therefore not included within the Council's overall budget gap. The deficit was at £6.72m at 31 March 2025 and it is forecast to increase to £11.37m by 31 March 2026. The main reasons for the estimated growth in budget deficit is increased demand in the number of children with SEND and increased complexity of need generating higher top-up payments per child.

29. Details of estimated variances against budget exceeding £200,000 are:

- a) £231,000 resulting from an increase in cost / number of SEND pupils placed in other LA maintained schools.
- b) £1.2m relating to the anticipated additional costs arising from the introduction of new Additional Resource Provision / Special Education Needs units and continuing support to the remaining Enhanced Mainstream School provisions.
- c) £580,000 relating to exceptional high needs payments for pupils within both mainstream and special academies.
- d) £612,000 in top up payments for greater costs and additional pupils educated in academy schools located outside of Stockton-on-Tees.
- e) £1.71m in excess of budget to non-maintained and independent providers. This is mainly due to a significant growth in the number of children educated in independent special schools. Since March 2023 the number of placements has increased by 56% and the cost forecast to increase by 89% across the same time period.
- f) £200,000 overspend estimated related to alternative provision costs and costs associated with excluded pupils.

Powering our Futures – Progress Towards Closing the Budget Gap

30. The Powering Our Futures programme, and in particular the transformation mission has identified savings of £5.8m by 2026/27 included within the budget report in February 2025. In addition, the Fostering Review has also identified further savings across the MTFP. The remaining savings target for 2025/26 is £1.350m and £2.256m in 2026/27.

31. The 2025/26 position can be updated as follows:

- The transformation review on Supporting People to Live Independently continues to have a positive impact on services for people with a physical disability in the community and has achieved £500,000 savings per year towards the transformation target.
- Staffing within the administration service has been reviewed under the transformation review of Administration and Business Services and several vacant posts can now be removed from the structure, contributing £170,000 per year towards the savings target.

32. The updated position for 2025/2026 means there remains a savings target of £700,000 in this year. Work is ongoing with the existing reviews with further savings anticipated to be achieved. The delivery of these savings will be considered as part of the MTFP report in February.

General Fund Balances and Reserves

33. The Council aims to retain General Fund Balances at a prudent level, currently £8,000,000. This figure has remained unchanged since 2022/23 and a review is being undertaken to assess the appropriate level of general fund balances and earmarked reserves considering the Council's MTFP.
34. As described in paragraphs above, should the projected position for the current financial year materialise at year end, then the sum of £4,127,000 would need to be funded from reserves.
35. Like many councils across the Country over recent years the Council has experienced unprecedented demand and cost pressures upon services and budgets. This has resulted in a number of overspends, which has been funded by reserves. As a result, the level of earmarked reserves has reduced considerably and, as expressed in previous reports, this position is unsustainable. The budget and MTFP must ensure the Council's financial resilience and sustainability, and having an appropriate level of reserves to smooth the impact of financial uncertainty is critical.
36. The table below summarises the current estimated planned usage of reserves. The figures exclude school balances and reflects planned contributions to reserves in 2025/26, reflected in the adjusted opening balance figure. The forecast opening balance for 2026/27, allows for funding of the 2025/26 projected overspend:

Earmarked Reserves	Adjusted Opening Balance £'000	Forecast Usage 25/26 £'000	Forecast Opening Bal 26/27 £'000
Capital Scheme Reserves	(6,724)	3,450	(3,274)
Insurance Fund	(5,193)	500	(4,693)
Service Development & Improvement	(3,457)	2,286	(1,171)
Partnership / Statutory Reserves	(2,474)	798	(1,676)
Transformation & Implementation	(2,207)	1,294	(913)
MTFP Support Reserve	(2,182)	2,182	0
Pooled Funds and Interest Rate Risk	(1,962)	962	(1,000)
PFI Scheme Liability	(1,547)	15	(1,532)
Public Health Reserve	(1,175)	888	(287)
Total	(26,921)	12,375	(14,546)

37. The budget report will include a detailed review of the Councils reserves levels and proposals on how to address the reserves to a more sustainable level across future years whilst managing the immediate financial challenges.

MEDIUM TERM FINANCIAL PLAN 2025 – 2028

38. The projected position across the medium term has been reviewed.

Current Approved MTFP

39. The current approved position in February 2025 was as follows:

	2026/27	2027/28	2028/29
	£'000	£'000	£'000
Budget Gap	2,937	3,892	4,411

40. The table above includes rolling forward the MTFP for an additional year into 2028/29, this is based on the same assumptions as the report to Council in February 2025.

Financial Outlook

Fair Funding Review 2.0

41. The Fair Funding Review 2.0 represents a significant reform of how Central Government funding is distributed to local authorities in England, having not been substantially updated since 2013/14. During Summer 2025 the Government launched a consultation on plans to refresh this methodology.
42. From 2026/27, there will be a new system for allocating funding to councils, which will reflect an updated assessment of needs and abilities to raise revenues via council tax. The Government does not propose to move immediately to the updated allocations but instead to phase them in over three years.
43. The proposals will see several reforms to Local Government finance, including a shift to multi-year financial settlements from 2026/27 and steps to consolidate the number of grants received by local authorities.
44. As part of the Fair Funding Review 2.0, the Government is also proposing a major reset of the Business Rates Retention System. The reset aims to redistribute retained rates income in line with relative need, growth and resources. This will have a significant impact upon the retained business rates of individual local councils.
45. Indicative numbers are included later in this report of the estimated impact of these changes upon the Council. At this stage these numbers are only estimates and are likely to change. The provisional local government finance settlement, expected week commencing 15th December, will include allocations at a local authority level, this will then be confirmed in the final local government finance settlement expected in February 2026.

Local Government Finance Policy Statement and the Autumn Budget

46. The Government announced the Local Government Finance Policy Statement on 20 November. This statement included the Government response to the Fair Funding Review 2.0 consultation, and other measures which will be delivered through the 2026/27 Local Government Finance Settlement. Alongside this they have also

published a policy statement on resetting the business rates retention system from 2026 to 2027.

47. The main headlines from these announcements include:

- a) The recovery grant, which was introduced for the first time in 2025/26, will continue for the next three years and local authorities in receipt of this grant will be guaranteed a minimum increase.
- b) The Government have confirmed the settlement will cover a three year period.
- c) The principles of Fair Funding will be implemented, namely to produce a fairer, evidence-based system that targets funding towards areas with high deprivation and need.
- d) The model applies damping to cushion the impact of funding changes to individual local authorities as a result of the new formula. This is funded within the overall national total of funding available to fund local authorities and is applied across the three year settlement period.
- e) The business rates retention system will be reset in 2026/27.

48. The Autumn Budget was announced 26 November 2025. Due to the closeness of this announcement to this report's publication date, any potential impact of announcements within the Autumn Budget upon the Council's MTFP are not reflected within this report and will be included in the budget report to Council in February.

Provisional Local Government Finance Settlement

49. The full impact of the Fair Funding Reforms will be included within our February report. Until then, our outcome of the Fair Funding Review 2.0 relies on indicative assumptions provided by external advisors and are subject to change.

50. The Provisional Local Government Finance Settlement is now expected to be announced week commencing 15 December. This will include provisional allocations at a local authority level of the changes mentioned above. This will subsequently be confirmed in the final Local Government Finance Settlement expected in February 2026.

Changes to Current Expenditure Plans

51. Since the report to Cabinet in February 2025, there are several changes which will require the MTFP to be updated. Work is ongoing to forecast the implications of national announcements described above, as well as the impact of cost and demand growth across the MTFP. The information below sets out the indicative assumptions of updates required to the MTFP.

52. Adult's Social Care - The existing MTFP includes an annual uplift of £2.5m per year in respect of the impact of National Living Wage and inflation increases on Adult Care Fees. The recent announcement setting the National Living Wage level for 2026/27 at £12.71, has now been reflected in the assumptions for the budget requirement for fee uplifts. In the current year we continue to see growth in the number of placements incurring care costs. The projections use a detailed combination of the information available across a variety of factors, which attempts to reflect these pressures across

the full three years of the MTFP. The current working assumption is a further increase of £4.5m in 26/27, £6m in 27/28 and £7.5m in 28/29.

53. Children's Social Care - Members will be aware from MTFP update reports over recent years the scale of the financial challenges Councils across the country are facing in relation to Children's Social Care costs. Since 2021/22 the average cost of an external residential placement has increased by almost 70%. Members will recall that significant investment has been made across Children's Social Care and in preventative services to try to keep pace with costs and demand, however we are still experiencing growth that outstrips this investment.
54. Children's Social Care is a major strand of the Council's transformation programme with significant time and resource invested into exploring ways to improve services, reduce demand and ultimately relieve budget pressures. The transformation programme includes areas such as fostering, residential care provision and preventative services.
55. These trends and demands within Children's Social Care are common across the country, with many local authorities facing the same issues. There are many external factors that are forcing prices up, creating a really devastating impact on council budgets. Work is ongoing within the transformation programme to try to mitigate the impact of some of these influences, however despite this it is estimated that further investment is required across the MTFP; £5m in 26/27, £9m in 27/28 and £13m in 28/29.
56. Pay award - The financial impact of the agreed pay award for 2025/26 will continue into following years. Based on more up to date information we have reviewed the pay award level required for future years. The agreed MTFP assumes 2% pay award across all years. The assumption for all years across the MTFP has been updated to 3% per year. This is in line with latest intelligence.
57. Community Transport – the level of demand for the home to school transport service continues to increase and is causing a budget pressure far greater than the additional resources allowed for within previous MTFPs. Since 2023-24 we have seen an increase in the cost of providing this service by 44%. We are therefore anticipating a further rise in costs across the Medium Term totalling £1.675m in 26/27, rising by £1m per year after ongoing. This is a pressure that is faced by many councils across the country and the financial challenges are well documented. There is a link between the growth in numbers of children with Special Educational Needs and the growth in numbers of children receiving transport to school.
58. Dedicated Schools Grant Deficit – as described in paragraphs 27-29 above, like most councils across the country, we are experiencing sharp rises in the number of children with Special Educational Needs, as a result the deficit on the Dedicated Schools Grant is projected to grow in 2025/26. The deficit is currently subject to an override and not a cost that hits the Council's general fund budget. However, servicing the financing of the deficit is a cost to the Council's general fund and cannot be passed to the Dedicated Schools Grant. The current cost of this is estimated at £500,000 pa. If the deficit were to increase or decrease, these financing costs would also change.

59. Building and Utilities - the Council has previously allocated additional funding to Tees Active Limited to meet particularly high rise in inflation and utilities costs. As noted in the Quarter 1 MTFP update report to Cabinet in September 2025, this is no longer required and will result in an ongoing saving of £500,000 per year.
60. The maintenance costs for Council owned buildings has been supported by reserves for several years, however this is no longer sustainable and the additional amount required each year, £500,000, is added into the MTFP.
61. The utilities costs for SBC buildings is anticipated to increase next year by £374,000 due to an expected increase in price of electricity as notified via NEPO.
62. The Strategy for Stockton-on-Tees Borough Council Outdoor Play Provision 2025 taken to Cabinet in July 2025 and October 2025 outlined that in order to enable 23 Council-owned play areas to be prioritised for retention, development or redevelopment, ensuring high maintenance standards and delivering good play value, a further £150,000 per annum of resources would be required.
63. Local Plan - The Council is currently working through the Local Plan cycle. There have been significant recent changes in the revised National Planning Policy Framework and in order to ensure a robust and compliant plan is formulated, additional resources are required over the duration of the MTFP, £50,000 in 2026-27, rising to £300,000 in 2028-29.
64. Local Election (May 2027) – The next local elections are due in May 2027 and the cost is estimated to be £440,000.
65. General Fund Balances – as described in paragraphs 34-38 above the Council is required to maintain an appropriate level of general fund balances. The current level is £8m which has been unchanged since 2022/23. An allowance is included within the MTFP to increase the general fund balances to an appropriate level across the MTFP.
66. MTFP Resilience/Demand – a review of the Council’s reserves has been undertaken, and greater detail will be included in the budget report to Council in February on the Council’s reserves position. Within last years budget report the MTFP Resilience reserve was created to reflect the difficult financial challenges we are facing. Considering the ongoing challenges, it is proposed to include within the MTFP an allowance to increase this reserve and also earmark funds to explore invest to save opportunities.
67. Mitigating Actions / Savings Plans from 2025/2026 carried forward – as described in paragraph 4 above, action has been undertaken to manage the financial position and identify ongoing budgetary savings. A number of the actions identified span across the MTFP and the savings are brought into the table below.
68. The projected expenditure increases are summarised in the table below:

	2026/27 £'000	2027/28 £'000	2028/29 £'000
Changes to expenditure plans			
Adults Social Care	4,500	6,000	7,500

Children's Social Care	5,000	9,000	13,000
Pay Award 3% (from 2%)	1,582	3,086	4,636
Community Transport	1,675	2,675	3,675
DSG Deficit - Borrowing Costs (SEND)	500	500	500
Building & Utilities	374	374	374
Outdoor Play Provision	150	150	150
Local Plan	50	200	300
Local Election May 2027	0	440	0
General Fund Balances	1,000	1,000	1,000
MTFP Resilience / Demand	3,000	3,000	3,000
Mitigating Actions	(1,102)	(1,238)	(1,238)
Total Service Changes	16,729	25,187	32,897

Income and Resources

69. As noted in paragraphs 41-45, the outcome of Fair Funding 2.0 will have a significant impact on grant funding allocated to Local Authorities from Central Government. Indicative assumptions informed by external advisors have been included below, however these remain highly uncertain and may change. We will have a firmer expectation of actual funding in the provisional Local Government Finance Settlement, which is expected week commencing 15 December and will include the provisional funding allocations for 2026/27, 2027/28 and 2028/29.
70. Whilst the Fair Funding Review 2.0 is recognising needs and deprivation, the growth in services and demand is still outstripping the growth in funding available.
71. Due to the scale of changes to Local Government funding this year, significant work is ongoing to understand the impact of these changes on Stockton-on-Tees. Collaboration across councils is taking place as well as engagement with Local Government finance experts. The modelling has moved several times since the launch of the consultation and it is likely that it may change again until the Local Government Finance Settlement is announced. The numbers included may therefore be subject to change.
72. Confirmation that the Extended Producer Responsibility Grant will continue in 2026/27 was received early November and this has been included within the updated plan. The estimated allocation for 2026/27 is just over £3m. It is anticipated that producers will be incentivised by the tariff to reduce the amount of packaging they produce, therefore reducing the national total collected by the tariff, in turn reducing allocations to local authorities. We are therefore estimating a reduction in the tariff across the MTFP.
73. Council Tax and Business Rates – projections of council tax and business rates income are being updated and the figures underpinning this report will be kept under review prior to the final budget report in February. At this point the updated MTFP includes projections of growth in the Council Tax Base.
74. These changes to resources and income are summarised in the table below:

	2026/27	2027/28	2028/29
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	£'000	£'000	£'000
Potential Additional Resources			
Fair Funding inc NNDR	(3,737)	(6,739)	(15,206)
Extended Producer Responsibility	(3,414)	(2,914)	(2,414)
Tax base growth	(1,000)	(1,000)	(1,000)
Total Funding changes	(8,151)	(10,653)	(18,620)

Summary Position

75. A summary of the projected budget position over the MTFP is outlined below:

	2026/27 £'000	2027/28 £'000	2028/29 £'000
Opening Budget Pressure	2,937	3,892	4,411
Expenditure Pressures	16,729	25,187	32,897
Additional Income and Resources	(8,151)	(10,653)	(18,620)
Budget Gap	11,515	18,426	18,688

76. The above table demonstrates that there is a significant projected budget gap over each year of the medium-term plan. The budget gap has resulted from growth in service demand and costs outstripping the increase in funding anticipated through the fair funding reforms. As noted above the report makes informed assumptions on income levels and spend levels which may be subject to change, this will be updated in the budget report to Council in February. This assumes the original savings from Powering our Futures are achieved.

77. The current plan assumes a council tax increase of 2.9% in each year. Government have confirmed that the referendum limit in 2026/27 will stay the same as previous years at 5% increase, with indications that this may continue through to 2029. This referendum limit is made up of 2% increase for Adult Social Care Precept and 3% for core council tax. The potential additional resources available from a further 2% increase would equate to £2.5m for each year. Due to the size and immediacy of the budget gap, as part of the budget report, officers will recommend to members that the maximum council tax increase permissible within the referendum limits is applied.

78. The budget report in February will provide further detailed information on how the budget gap will be addressed. This will also factor in the outcome from residents and other stakeholders as part of the budget consultation. We have already identified savings across many council services through the Powering our Futures programme and it will be key to resolving the budget gap in future years.

79. The councils earmarked reserves have depleted over recent years due to ongoing growth in service delivery costs exceeding budgets, this means the Councils ability to use reserves to smooth the budget position is very limited. The Council's liquidity and borrowing position remains strong and more comprehensive detail will be included within the budget report to Council in February.

80. It is therefore essential that savings and efficiencies are identified over the coming weeks as part of preparing the Council's budget for 2026/27. At this stage, work is

underway to scope a realistic and deliverable programme, with early areas of focus likely to include:

- Maximisation of external income – reviewing partnership arrangements and grant funding
- Capital programme expenditure and financing review including maximisation of assets
- Targeted reviews covering a range of council services
- Review of discretionary services and fees and charges
- Exploration of income generation opportunities
- Review of contractual arrangements
- Flexible use of capital receipts to support transformation of services
- Review of the Council's approach to traded services
- Modernisation and efficiency of services

Further work is now underway through the Powering our Futures programme with Directors to assess the deliverability, impact and financial benefits of these areas and a more detailed set of proposals founded upon our design principles will be presented in the February 2026 budget report.

81. The final decision on council tax will be taken as part of the report to Council in February, along with the approach for further savings to ensure a balanced budget is set.
82. The Council will shortly be launching a consultation on our budget for 2026/27. We want to hear from everyone; residents, local businesses, and other stakeholders, so that together we can shape a financial plan that works for Stockton-on-Tees. Feedback gathered from the consultation process will be included within the February report.

CAPITAL PROGRAMME

83. The updated Capital Programme is set out at Appendix A and summarised in the table below:

CAPITAL PROGRAMME Up to 2027	Current Approved Programme £'000	Programme Revisions £'000	New Approvals £'000	Revised Programme £'000
School Investment Programme & Children's Services	16,088	(1,760)	5,740	20,068
Inclusive Growth	11,143	(1,349)	0	9,794
Regeneration	147,293	697	0	147,990
Transportation	24,837	740	137	25,714
Community & Environment, Culture & Leisure	19,712	650	242	20,604
Adults, Health & Wellbeing	5,261	9	1,529	6,799
Xentrall ICT	900	0	0	900
Council Wide	20,000	(650)	0	19,350
Total Approved Capital MTFP	245,234	(1,663)	7,648	251,219

84. The Capital Programme will be updated in the report to Cabinet and Council in February.

Virement Between Projects

85. Criminal damage to the Golden Eagle in the period between asbestos surveys and work commencing, including theft of materials from the building, anti-social behaviour and arson attacks and flooding, has spread hazardous materials throughout all levels of the building. Water borne asbestos permeating through parts of the building has led to asbestos being distributed to previously well contained, uncontaminated areas. The asbestos removal and 'soft strip' (fixtures, fittings, carpets, furniture etc) need to be completed under more onerous, licensed conditions, altering i) the scope of works, ii) the programme and iii) the resources required to achieve a cleared site.

86. In order to meet the Council's duty of care under the Occupiers Liability Act 1984, measures to secure the building were implemented prior to the criminal damage, including hoarding the undercroft area of the front canopy, installing metal sheeting to all the window and door openings of the ground, first second and third floors; installing warning signs internally and externally regarding the presence of asbestos and weakened roof structure. Despite this, the building was illegally entered by individuals who have placed themselves at significant risk.

87. As a responsible client and in line with the Occupiers Liability Act 1957, it was necessary for the Council to instruct demolition contractor, MGL to commence the increased scope of asbestos removal works to prevent the risk of exposure and any further criminal trespass. This work is now underway within the budget approved in July 2025.

88. The changes to the scope of works has elongated the overall programme from the originally envisaged 36 weeks to 62 weeks taking into account the more onerous requirements and operating procedures brought about by the widened contamination,

additional labour, materials, equipment and an additional 26 weeks of preliminaries costs resulting in budget pressure of £600,000. It is therefore proposed that the budget pressure is met from unspent budgets from other projects within the Thornaby Town Deal programme, namely:

- i. Connecting Thornaby - Cycleways Project - The cycleway works have been tendered, resulting in an underspend of £500,000 against the Town Deal funding within the previously allocated budget for this project, whilst still allowing for contingency in the project
- ii. North Thornaby Housing Workstream – project has now performed better than anticipated with all bar one target output exceeded, bringing ten problem properties under control, delivering over 9000 individual security measures incorporating the expansion of eligible areas and properties alongside over 450 energy efficiency investments in properties in the North Thornaby area, with no further property owners or tenant enquiries currently eligible for works. This leaves an underspend against budget of £235,000 across the North Thornaby programme.

89. To enable the full demolition of the Golden Eagle and achieve a cleared site, additional resources need to be allocated, and Cabinet are therefore asked to approve the virement of £500,000 from the Connecting Thornaby - Cycleways workstream allocation alongside £235,000 from the North Thornaby workstream into the Regenerating Thornaby Town Centre workstream. Any unspent funds will then be added to the contingency budget for the other scheme within the Regenerating Thornaby Town Centre workstream, Thornaby Pavilion swimming pool and gym project.

90. Thornaby Town Deal Board have given their endorsement to this approach at the meeting held on 1 December 2025.

Reasons for Movements Over £100,000

New Schemes

91. £3,980,000 has been added into the capital programme in respect of investment in schools. This comprises £3,880,000 from Developer Agreements and £100,000 from grant. Alongside this, previously unallocated grant of £1,760,000 has been attributed to specific schemes. This is in line with the School's Investment update reports taken to Cabinet in July 2025
92. £200,000 for the replacement of vehicle ramps at Cowpen Depot have been added. These are funded from RCCO.
93. Projects supporting the Accelerating Affordable Housing Delivery programme have been added. The £1,529,000 are funded by S106 Developer Agreements. This is line with the June 2025 report to Cabinet.

Revisions

94. £650,000 has been moved from the Council Wide £20,000,000 borrowing approval to support the expansion at Billingham Forum Gym; this is in line with the July 2025 report to Cabinet.
95. Costs relating to feasibility work for Tees Central are to be removed from the Capital Programme, £550,000. This is following the July 2025 Cabinet report.
96. £1,340,000 of Indigenous Growth Fund is reallocated to the Golden Eagle, in line with the July 25 Powering Our Futures - Regeneration Mission Report.
97. The Cowpen Bewley WP to Wolviston - cycle scheme, adding in funding of £245,000, funded from grant.
98. For the Yarm/Stockton Cycleway LUF2, adding in funding of £180,000, funded from grant.
99. Ingleby Way to Thornaby - left turn filter bus scheme, adding in funding of £131,500, funded from grant.

Community Impact and Equality and Poverty Impact Assessment

100. As part of the process of making changes to policy or delivery of services, we consider the impact on our communities. No changes to policy or service delivery are proposed as part of this report.

Corporate Parenting Implications

101. No direct implications.

Financial Implications

102. The report summarises the financial position for 2025/26 based on information for the second quarter of the financial year and updates Members on the MTFP and Capital Programme.

Legal Implications

103. None.

Risk Assessment

104. This Council's MTFP is categorised as High risk. Growing demand for services, greater costs, funding uncertainty, lower levels of reserves and the requirement to generate large volumes of budgetary savings contribute towards a particularly challenging financial position. There are a number of assumptions in this report, which are subject to external factors and may change.
105. Robust financial management arrangements are in place, as well as strong governance surrounding the delivery of savings through the Powering our Futures programme. A more detailed risk assessment will be included within the budget report to Council in February.

Wards Affected and Consultation with Ward/ Councillors (refer to Concordat for Communication and Consultation with Members)

106. Not applicable.

Background Papers

- iii. Financial Update and MTFP (2025-26 Quarter 1) - Report to Cabinet – 18 September 2025
- iv. Medium Term Financial Update and Strategy – Report to Council – 19 February 2025
- v. Powering our Future: Regeneration Mission Update – Report to Cabinet – 17 July 2025

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Capital Programme September 2025 – Appendix A

CAPITAL PROGRAMME Up to 2027	Current Approved Programme	Programme Revisions	New approvals	Revised Programme
SCHOOL INVESTMENT PROGRAMME & CHILDRENS SERVICES				
School Investment Programme	15,442,436	(1,760,000)	5,740,000	19,422,436
Children Investment	646,261	0	0	646,261
SCHOOL INVESTMENT PROGRAMME & CHILDRENS SERVICES	16,088,697	(1,760,000)	5,740,000	20,068,697
INCLUSIVE GROWTH				
Inclusive Growth & Development	8,393,564	(1,349,000)	0	7,044,564
Office Accommodation	2,750,000	0	0	2,750,000
INCLUSIVE GROWTH	11,143,564	(1,349,000)	0	9,794,564
REGENERATION				
Stockton Town Centre Schemes	18,947,601	9,000	0	18,956,601
Reshaping Town Centres	8,805,275	(550,000)	0	8,255,275
Billingham Town Centre	30,000,000	0	0	30,000,000
Thornaby Town Centre	33,070,923	1,340,000	0	34,410,923
Re-Development of Castlegate Site	30,934,381	0	0	30,934,381
Yarm & Eaglescliffe LUF	23,909,840	0	0	23,909,840
Infrastructure Enhancements, Regeneration & Property Acquisitions	1,624,597	(101,746)	0	1,522,851
REGENERATION	147,292,617	697,254	0	147,989,871
TRANSPORTATION				
City Regional Sustainable Transport	12,753,782	0	80,912	12,834,694
Other Transport Schemes	10,551,776	655,469	0	11,207,245
Developer Agreements	1,530,973	84,588	56,086	1,671,647
TRANSPORTATION	24,836,531	740,057	136,998	25,713,586
COMMUNITY & ENVIRONMENT AND CULTURE & LEISURE				
Energy Efficiency Schemes	400,000	0	0	400,000
Environment and Green Infrastructure	9,449,023	649,963	41,723	10,140,709
Waste	8,125,939	0	0	8,125,939
Building Management	288,611	0	200,000	488,611
Vehicle Replacement	1,448,278	0	0	1,448,278
COMMUNITY & ENVIRONMENT AND CULTURE & LEISURE	19,711,851	649,963	241,723	20,603,537
ADULTS, HEALTH & WELLBEING				
Adults & Public Health Investment	202,000	0	0	202,000
Housing Regeneration	1,450,514	0	1,528,905	2,979,419
Private Sector Housing	3,608,191	9,126	0	3,617,317
ADULTS, HEALTH & WELLBEING	5,260,705	9,126	1,528,905	6,798,736
XENTRALL ICT				
Xentrall ICT Network	900,000	0	0	900,000
XENTRALL ICT	900,000	0	0	900,000
COUNCIL WIDE				
Unallocated council wide invest to save	20,000,000	(650,000)	0	19,350,000
COUNCIL WIDE	20,000,000	(650,000)	0	19,350,000
Total Approved Capital MTFP	245,233,965	(1,662,600)	7,647,626	251,218,991

