



QUARTER 2 FORECAST REVENUE OUTTURN 2025/26 & 2025-2029 CAPITAL BUDGET AND PROGRAMME UPDATE

PURPOSE OF THE REPORT

To provide details of the 2025/26 revenue and capital forecast outturn position for Middlesbrough Development Corporation (MDC), highlighting any significant variances against the approved budget for the year, based on the position as at the end of September 2025 (Quarter 2).

The report will also set out any proposed budget virements (both revenue or capital) where permission is being sought to repurpose initial budget allocations.

The report also provides an update on the Corporation's overall financial position including reserves forecasts.

SUMMARY

During the financial year, the Board is presented with quarterly reports with details of how the Corporation is performing against the financial framework and specific budgets. This report presents the forecast position for both revenue and capital as at the end of Quarter 2.

At the end of Quarter 2, the Corporation is forecasting a high-level revenue overspend of £0.227m against the approved budget. At the end of Quarter 1, the forecast outturn was an underspend of £0.086m and therefore there has been a negative movement of £0.274m.

The primary driver for this movement has been employee costs, which have arisen because of the group recharge in respect of legal work undertaken and an increase of £0.236m in the costs of delivering the planning function.

There was an approved capital budget of £5.836m and the forecast is for an outturn of £7.743m, an overspend of £1.907m primarily as a result of accelerated costs on the Gresham project due to the repositioning of the Gresham scheme pending confirmation of future options for the scheme.

Within the approved revenue MTFP, there was £0.550m for revenue funding for 2026/27, £0.6m for 2027/28 and £14k remaining of the revenue allocation from the original £10m grant from TVCA. To mitigate the forecast £0.227m overspend, this report seeks permission to reprofile the original revenue funding across the MTFP. If approved, this will leave £0.937m for future financial years.

Similarly, with the capital programme, there was a budget of £2.558m in 2026/27 for the Gresham project which fully utilised the remaining capital allocation from the £10m grant.

This report also seeks permission to reprofile £1.907m from the 2026/27 to 2025/26 to offset the accelerated Gresham costs, leaving £0.051m of capital budget available for 2026/27.

Members should note that within the capital budget for 25/26 there is an allocation of £0.5m for asset transfer which is not currently contractually committed. However, the remainder of the capital budget is contractually committed.

As the Corporation only utilises, and draws down, grant funding to match expenditure, there are no usable earmarked reserves within the Corporation. The Corporation should be maintaining a General Fund balance to act as a contingency against unforeseen costs. This will be an important consideration going forward in setting the budget for 2026/27.

RECOMMENDATIONS

It is recommended that the Middlesbrough Development Corporation Board:

- i. Notes the Q2 forecast revenue outturn of an overspend of £0.227m for 2025/26.
- ii. Approves the reprofiling of £0.227m from future years' revenue allocation;
- iii. Notes that, if approved, there will be £0.937m of revenue allocation remaining from the TVCA £10m grant;
- iv. Notes the Q2 Capital Outturn Forecast of an overspend of £1.907m for 2025/26;
- v. Approves the reprofiling of funds on the capital programme of £1.907m from 2026/27 to 2025/26 to address the overspend noted above.
- vi. Notes that, if approved, the revised capital programme would indicate additional funding would no longer be required to accommodate the forecasted capital activity in 2026/27.

DETAIL

Background

1. This report sets out MDC's forecast revenue and capital outturn for 2025/26 (as at 30 September 2025 - Q2). The financial position presented below represents all forecast funding and expenditure for the plan period.
2. On 5 September 2025 the Board approved the virement of £0.093m from the Initial Project Development budget to House of Fraser capital budget to cover the overspend from 2024/25. The Board also approved the allocation of £0.87m from the Initial Capital Project Development budget to the Gresham capital project.

2025/26 Revenue Forecast Outturn

3. Tables 1 and 2 summarise MDC's projected revenue outturn for 2025/26 and show the movement between the Q1 and Q2 forecasts. The analysis indicates that revenue expenditure is expected to exceed the allocated budget; however, the position remains balanced due to the ability to reprofile future years' funding into 2025/26.
4. Table 1 provides a subjective (category of expenditure) breakdown of the current budget, expenditure to 30 September 2025, and the forecast outturn for 2025/26.

Table 1 – MDC forecast revenue outturn summarised by type of expenditure & Income – Q2 2025/26

	Annual Budget	YTD Actual	Forecast Outturn	Variance
	£'000	£'000	£'000	£'000
Employees	275	102	204	(71)
Premises	266	120	289	23
Supplies and Services	249	217	485	236
Expenditure	790	439	978	188
Planning Fee Income	(90)	(19)	(38)	52
Preplanning Advice Income	-	-	(13)	(13)
IZ Income	(175)	-	(175)	-
TVCA Revenue Funding	(525)	(420)	(752)	(227)
Income	(790)	(439)	(978)	(188)
Net (surplus)/deficit	-	-	-	-

Budget virements

5. Members should not there are no proposed budget virements for Quarter 2.
6. Table 2 provides a breakdown of the forecasted outturns for Q1 and Q2 by expenditure category.

Table 2: Analysis of movement between Q1 and Q2 forecasted outturns for 2025/26

	Forecast Outturn Q1	Forecast Outturn Q2	Movement
	£'000	£'000	£'000
Employees	189	204	15
Premises	266	289	23
Supplies and Services	249	485	236
Expenditure	704	978	274
Planning Fee Income	(90)	(38)	52
Preplanning Advice Income		(13)	(13)
TVCA Revenue Funding	(439)	(752)	(313)
IZ Income	(175)	(175)	-
Income	(704)	(978)	(274)
Net (surplus)/deficit	-	-	-

7. Table 2 presented above shows the movement in forecasted outturns for Q1 and Q2 across subjective expenditure and income categories. The Q2 forecasted outturn indicates a forecasted expenditure of £0.978m, representing an increase of £0.274m compared with the Q1 position. This increase can be funded by reprofiling future years revenue funding.
8. Employee costs have risen by £0.015m in Q2, due to an update in the time allocation of the Group Legal Manager. The forecasted outturn shows an underspend on staff costs due to vacant posts of £0.072m. The vacant posts will be managed to achieve the current underspend run rate.
9. Supplies and Services expenditure has increased by £0.236m, primarily due to Lichfields' costs associated with delivering the planning function on behalf of MDC. These planning costs are a key contributing factor to the overall overspend on revenue expenditure. To mitigate this pressure, discussions have been held with Lichfields and a fixed ceiling figure for planning fees has been agreed. Based on planning fee income to date and subject to the introduction of a new charging regime for pre-application advice the net costs from January 2026 for MDC will be broadly neutral.

10. Assets can carry liabilities such as contamination or structural defects. To help mitigate these risks, a comprehensive options appraisal of assets currently held by the MDC has been commissioned. The outcome will inform strategic decision-making regarding cost reduction, risk mitigation, and future asset management requirements.

2025-26 Capital Forecast Outturn

11. MDC currently has a 2025/26 Capital Budget of £5.836m. Table 3 below provides a subjective (category of expenditure) breakdown of the current Capital Budget, expenditure to 30 September 2025 and the forecast outturn for 2025/26.

Table 3 MDC Capital Outturn forecast summarised by type of expenditure – Q2 2025/26

	Annual Budget £000	YTD Actual £000	Forecast Outturn £000	Variance £000
Payment of capital grant	355	89	355	-
Professional Services	4,981	3,351	6,858	1,907
Legal Services	500	-	500	-
	5,836	3,440	7,743	1,907

12. Table 4 below analyses the current capital activity by areas of Investment.

Table 4 – Forecast MDC Capital Outturn summarised by areas of investment – Q2 2025/26

	Revised Annual Budget £'000	YTD Actual £'000	Forecast Outturn £'000	Variance £'000
The Auxiliary	355	89	355	-
Gresham	4,981	3,321	6,858	1,907
Asset Transfer	500	-	500	-
	5,836	3,440	7,743	1,907

13. Tables 3 and 4 above indicate a revised forecast outturn of £7.7m, representing an increase of £1.9m compared with the Quarter 1 position. Following the decision to reposition the current Crown Square proposals by MDC, officers have continued to work with Impec, the appointed developer, to finalise associated costs. Updated estimates, including the required neutrality credits which can be used for any scheme within the DC area, now show a forecast of £6.8m, compared with £4.9m reported at Quarter 1.

14. To accommodate the increased cost, it is proposed that funding be drawn from the existing Gresham capital budget, with planned expenditure reprofiled from 2026/27 into 2025/26. This approach ensures that the additional requirements can be met within the approved capital programme.
15. MDC officers are working with TVCA officers to progress a business case to drawdown Brownfield Housing Funding to enable recovery of a proportion of the costs spent on the BTR element of the scheme. The business case will be submitted to TVCA for approval by March 2026, with a requirement that work starts on site by March 2029. The final figure of funding available to be drawn down will be presented to the Board at a future meeting.
16. If no further capital expenditure is required for the Gresham project, the revised figures would indicate additional funding would no longer be required to accommodate the forecasted capital activity in 2026/27.

Future Capital Investments

17. TVCA Cabinet has approved a borrowing facility available to fund future MDC capital investment up to a maximum of £75m. To access the borrowing facility robust business cases will need to be approved by the Development Corporation Steering Group, MDC Board and TVCA along with evidence that MDC can fully service the cost of borrowing (MRP and Interest payments).
18. Borrowed funds can only be spent on capital investments. The Board should be cognisant that developing capital projects may lead to abortive costs that are treated as revenue in nature if any scheme does not progress into capital investment. Such abortive fees would require funding from MDC-generated revenue income. Revenue funding is forecast to be fully utilised in 2028/29 and therefore careful consideration must be given to future borrowing approvals and the source and certainty of revenue funding to service the borrowing.
19. Capital investment activity funded by borrowing could have a material impact on the recurrent revenue costs of MDC. The value and length of the revenue impact will be governed by the value of the loans drawn down and the Minimum Revenue Provision (MRP) policy adopted.
20. An indicative Capital Financing cost that would require revenue funding is c£0.058m per annum per £1m of Capital investment based upon an assumed 4% interest rate and the relevant investment period of 30 years.

Reserves

21. Due to the funding nature of the Development Corporation, there are no usable reserves in Middlesbrough Development Corporation. At the end of March 2026, MDC is forecast to have funds remaining from the £10m TVCA grant allocation for revenue however it is expected to have fully utilised the capital element.

CONCLUSION

22. At the end of Quarter 2, the Corporation is forecasting a high-level revenue overspend of £0.227m against the approved budget. To mitigate the forecast £0.227m overspend, this report seeks permission to reprofile the original revenue funding across the MTFP. If approved, this will leave £0.937m for future financial years.

23. If no further capital expenditure is required for the Gresham project, the revised figures would indicate additional funding (previously forecasted in Q1) would no longer be required.

FINANCIAL IMPLICATIONS

24. This report is a finance report and the financial implications are contained within the main body of the report.

LEGAL IMPLICATIONS

25. There are no legal implications associated with the recommendations in this report.

RISK ASSESSMENT

26. This Report has been categorised as medium risk to reflect the updated work on the implementation of the TVCA group risk management strategy. The group corporate risk register has been updated to reflect funding uncertainty. The existing management systems and daily routine activities are sufficient to control and reduce risk.

27. The risk of increased costs through economic factors is closely monitored and is being managed through the revised borrowing strategy put in place. A robust business case development process reduces the risk of cost pressures of investments by ensuring sufficient contingencies are built in resulting in no additional asks of Corporations funds.

28. Borrowing Commitments: A £75m borrowing facility is available but will require robust business cases and demonstrable ability to service debt. Any drawdown would create ongoing revenue commitments for interest and MRP increasing pressure on limited revenue resources.
29. Asset Transfers: £0.5m has been allocated for transfer costs, but operational and maintenance costs could exceed this budget. There is uncertainty until independent asset management review work is complete.
30. Revenue Impact of Abortive Costs: If capital schemes do not progress, abortive costs become revenue in nature, adding to pressure on already limited and time-bound revenue funding.

CONSULTATION & COMMUNICATION

31. The subject of this report is a matter for MDC Board approval therefore no additional consultation and communication has been undertaken.

EQUALITY & DIVERSITY

32. There are no equality and diversity implications associated with the recommendations in this report. Specific proposals associated with business cases and Investment Plan funding draw down will consider these implications where applicable.

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