

Cabinet

19 November 2024

Draft Capital and Revenue Budget 2025/26

Portfolio Holder: Councillor Vince Maple, Leader

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Summary

This report sets out the Draft Capital and Revenue Budgets for 2025/26. In accordance with the Constitution, Cabinet is required to develop 'initial budget proposals' approximately three months before finalising the budget and setting Council Tax levels at the end of February 2025. The Draft Budget is based on the principles set out in the Medium Term Financial Outlook 2024-2029 (MTFO) considered by the Cabinet on 27 August 2024.

1. Recommendations

- 1.1. The Cabinet is asked to instruct officers to continue to work with Portfolio Holders in formulating robust proposals to reduce the budget deficit for 2025/26 and to continue to liaise with the Ministry of Housing, Communities and Local Government to secure support through the Exceptional Financial Support scheme.
- 1.2. The Cabinet is asked to refer the Draft Capital and Revenue Budgets 2025/26 to overview and scrutiny committees, inviting them to offer comments on the proposals.

2. Suggested reasons for decision(s)

- 2.1. It is the responsibility of Cabinet to develop initial budget proposals for consideration by overview and scrutiny committees. These Draft Budget proposals are the first stage of the budget consultation process leading to further consideration by Cabinet on 11 February 2025 and formal Council Tax setting by Council on 27 February 2025.
- 2.2. The timetable for consideration by overview and scrutiny is as follows:

Business Support and Digital	28 November 2024
Children and Young People	3 December 2024
Health and Adult Social Care	5 December 2024
Regeneration, Culture and Environment	12 December 2024

3. Budget and policy framework

- 3.1. The budget and policy framework rules contained in the Constitution specify that Cabinet should produce the initial budget proposals. These should be produced and submitted to overview and scrutiny committees three months before the Council meeting that is scheduled to determine the budget and Council Tax. The overview and scrutiny committees have a period of six weeks to consider these initial proposals. Any proposals for change will be referred back to Cabinet for consideration.
- 3.2. According to the Constitution, Cabinet has complete discretion to either accept or reject the proposals emanating from the overview and scrutiny committees. Ultimately it is Cabinet's responsibility to present a budget to Council, with a Council meeting on 27 February 2025. The adoption of the budget and the setting of Council Tax are matters reserved for Council. The statutory deadline for agreeing the Council Tax for 2025/26 is 11 March 2025.

4. Budget monitoring 2024/25

- 4.1. At its meeting on 29 February 2024, the Council set a total budget requirement of £438.569million for 2024/25, which included funding of £14.742million through a capitalisation direction agreed in principle with the then government through the Exceptional Financial Support (EFS) scheme. Since then, additional grant funding has been announced, primarily the Household Support Fund, the Start 4 Life funding, allocations for Schools funding and the Public Health Grant have been confirmed. The net impact of these amendments takes the Round 2 budget requirement to a total of £436.239million.
- 4.2. The Round 2 Revenue Budget Monitoring Report, considered elsewhere on this agenda, forecasts a net overspend on services of £11.221million. More work will be needed to reduce the forecast overspend and consequent call on the Council's limited reserves, including a reduction on all expenditure that is not essential to the delivery of statutory services or to meet existing contractual obligations.

5. Our Medium Term Financial Outlook

- 5.1. Our initial projections for the cost of services in 2025/26 and beyond were set out in the Medium Term Financial Outlook (MTFO) reported to the Cabinet in August 2024 and amounted to an increase in the budget requirement of £38.205million. At that stage the government had not made any detailed announcements relating to local government funding, and as such the MTFO retained the income projections published alongside the

2024/25 budget in February 2024, which represented total income growth of £9.361million compared to the 2024/25 approved budget.

- 5.2. The MTFO assumed that it would again be necessary for the Council to seek support from the government through the EFS scheme. In the original request for support, Medway indicated that alongside seeking EFS support of £14.742million for 2024/25, it would be necessary for the Council to request sums in future years; with £16.303 estimated requirement for 2025/26 and a further £10.299million for 2026/27. The MTFO retained the assumed level of support required for 2025/26 from that original request, at £16.303million. Taking into the account that level of EFS, the MTFO therefore projected a potential budget gap for 2025/26 of £28.844million, or £45.147million excluding EFS.
- 5.3. Progress to date in identifying savings and income generation proposals is detailed in sections 8-13 of this report. The Chancellor of the Exchequer announced the Autumn Budget on 30 October 2024 and section 14 of this report sets out the key announcements and their potential impact on Medway Council's budget for 2025/26. Medway Council's actual funding allocations will not be confirmed until the publication of the Local Government Finance Settlement, with the Provisional Settlement expected before Christmas. As such this Draft Budget includes updated funding projections only where we have more confidence as to the likely impact, primarily around local taxation. The updated savings and income generation proposals and updated funding projections together reduce the projected gap to £26.177million, which this Draft Budget reflects as being funded through an increased capitalisation direction, through the EFS scheme.
- 5.4. Officers will continue to work with Portfolio Holders to formulate further savings and income proposals through the normal budget setting process, with the aim to reduce the level of EFS required to balance the budget for 2025/26. Together with the diversity impact assessments, the agreed savings, additional income proposals and final EFS requirement will be included within the budget recommendations to be considered by Cabinet on 11 February 2025.

6. Draft Budget summary 2025/26

- 6.1. The Council's Draft Budget 2025/26 is summarised in table 1 below and represents a total budget requirement of £466.912million, including an EFS request of £26.177million. This represents a net increase of £26.362million compared to the budget for 2024/25.

Table 1: Draft Budget Summary 2025/26

Directorate	2024/25 Adjusted base budget excluding recharges £000	2025/26 Projected pressures/ additional resources £000	2025/26 Budget Requirement £000
Children and Adult Services	324,292	16,244	340,536
Adult Social Care	97,086	5,388	102,475
Directorate Management Team	4,282	1	4,283
Children's Services	68,169	2,220	70,388
Education	78,605	2,045	80,650
Partnership Commissioning	2,514	121	2,634
Public Health	15,006	1,321	16,327
School Retained Funding and Grants	56,236	0	56,236
Additional Government Grants	2,394	0	2,394
Staff pay and pensions increases	0	5,149	5,149
Regeneration, Culture & Environment	65,801	7,268	73,069
Culture and Community	14,104	2,304	16,407
Directors Office	1,591	105	1,697
Front Line Services	42,887	754	43,641
Regeneration	7,652	1,528	9,180
Norse profit Share	(433)	0	(433)
Staff pay and pensions increases	0	2,577	2,577
Business Support Department	25,635	2,962	28,597
Communications	924	425	1,350
Directorate Management Team	675	1	676
Finance and Business Improvement	18,123	643	18,766
Legal and Governance	5,914	181	6,094
Staff pay and pensions increases	0	1,712	1,712
Interest and Financing	19,211	(281)	18,930
Corporate Management	3,349	2,431	5,780
Additional Government Support Expenditure	2,262	(2,262)	0
Budget Requirement	440,551	26,362	466,912
Council Tax	(158,462)	(12,766)	(171,228)
Retained Business Rates	(52,272)	(1,669)	(53,941)
Business Rates Related Grants	(22,227)	0	(22,227)
Government Grants - Non Ringfenced	(8,129)	(534)	(8,663)
New Homes Bonus	(1,573)	(68)	(1,641)

Directorate	2024/25 Adjusted base budget excluding recharges £000	2025/26 Projected pressures/ additional resources £000	2025/26 Budget Requirement £000
Education Related Grants	(127,103)	0	(127,103)
Children Social Care Related Grants	(197)	0	(197)
Adult Social Care Related Grants	(32,151)	(1,962)	(34,113)
Public Health Grant	(19,037)	(190)	(19,228)
Additional Government Support Grants	(4,656)	2,262	(2,394)
Exceptional Financial Support	(14,742)	(11,435)	(26,177)
Estimated Available Funding	(440,551)	(26,362)	(466,912)
Budget Gap - General Fund	0	0	0

7. Corporate projections

7.1. This Draft Budget includes a series of projections that impact across the Council at the same level as projected in the MTFO. Expenditure is allocated to services proportionately as detailed in sections 8-12 of this report:

7.1.1. Staff pay – the Draft Budget reflects that a 5% uplift will be the starting point for negotiation with the unions for 2025/26, with a projected cost of £5.880million. The continuation of the MedPay review is projected to require the addition of a further £1.912million to enable the completion of reviews in all services. Finally, following the last actuarial review, the Council's employer pension contribution rate has increased and it will be necessary to add £1.646million to the budget to fund this higher rate. Collectively these costs add a total of £9.438million to the budget requirement for 2025/26. The projected cost of staff pay will also increase significantly as a result of the changes to the employers National Insurance contributions rates announced in the government's Autumn Budget 2024, however local government will be compensated for the impact on direct staffing costs as set out in section 14.12 of this report.

7.2. Impact of Business Rates increases on Council owned/occupied property – Medway Council is also liable to pay the Business Rates for any liable commercial premises occupied by Council services, including office accommodation, libraries and the Pentagon Centre. The Draft Budget includes £483,000 to fund the pressure on the corporate property estate.

7.3. Insurance Fund contribution – the Draft Budget reflects that the charges to services will increase by £313,000 from 2025/26 to ensure the fund balance is sufficient to deliver the required insurance cover.

7.4. Corporate Debt Provision contribution – the Draft Budget reflects that while the success of the Council's recovery teams has minimised the level of write offs and resultant charges against the provision in recent years, it is

projected that it will be necessary to contribute £1million to the Council's provision for bad debt through the 2025/26 budget.

8. Children and Adults Directorate

- 8.1. The Directorate Draft Budget requirement for 2025/26 of £340.536million represents a net increase of £16.244million compared to the 2024/25 budget, including £5.149million for staff pay and pensions increases as set out at section 7.1.1 of this report. The pressures, savings and additional income reflected in this Draft Budget for the Directorate are detailed in table 2 below with commentary provided from section 8.2.

Table 2: Children and Adults Directorate Draft Budget assumptions

Draft Budget Assumptions	2025/26 Budget Pressures £000	2025/26 Savings / Income £000	2025/26 Budget Allocation £000
Adjusted base budget			324,292
Adult Social Care:			
Medway Adult Social Care's increase in contribution to the Multi Agency Risk Assessment Conference (MARAC)	13		13
Mosaic social care software moving to hosted solution – additional annual costs and one-off implementation costs	215		215
Cost of current service pressure	5,357		5,357
Demographic growth projections of a further 2.5% compared to 2024/25	6,561		6,561
Price uplift projections to progress towards fair cost of care rates and reflecting inflationary increases	5,609		5,609
Savings agreed in 2024/25 Finance Improvement and Transformation Plan in progress but not yet achieved, to be delivered in 2025/26	(8,347)		(8,347)
Client contributions uplift at 5% due to increase in benefit rates	(1,020)		(1,020)
Increase in budget to meet statutory Deprivation of Liberty Safeguards requirements	234		234
Increased cost of Council Insurances	18		18
Increase in provision for bad debt required	780		780
Investment in Adult Social Care agreed in 2024/25 budget	1,000		1,000
Removal of Adult Social Care investment in 2024/25	(1,100)		(1,100)
Additional resource to support areas for improvement identified in the Adult Social Care Self-assessment	1,821		1,821
Savings to be delivered through prevention and demand management		(2,282)	(2,282)
Continuing Health Care – health and social care costs are funded correctly		(500)	(500)
Targeted Reviews – providing the right care, in the right place at best value		(1,200)	(1,200)
Brokerage - Commissioning care and support at best value		(500)	(500)
Direct Payments Audits (Reclaims) – savings		(200)	(200)
Direct Payments – savings		(150)	(150)
Supporting our residents to live independently through the use of Assistive Technology		(800)	(800)
Increased contract monitoring		(120)	(120)
Total Adult Social Care	11,140	(5,752)	5,388
Children's Services:			

Draft Budget Assumptions	2025/26 Budget Pressures £000	2025/26 Savings / Income £000	2025/26 Budget Allocation £000
Increased audit and continuous improvement work and management cover of Parklands, and realignment of Youth Service pay to MedPay	162		162
Additional investment in staffing required to get to Outstanding from Good	1,581		1,581
Increased legal costs	500		500
Cost of current service pressure	404		404
Demographic growth projections of a further 2% compared to 2024/25	892		892
Price uplifts reflecting inflationary increases	648		648
Improvements to the package of financial support for foster carers	326		326
Increased cost of Council Insurances	31		31
Increase in provision for bad debt required	126		126
Supporting Care Leavers into independent accommodation – savings		(150)	(150)
Management and review of placements – savings		(2,000)	(2,000)
Increase in house fostering placements – savings		(300)	(300)
Total Children's Services	4,670	(2,450)	2,220
Directorate Management Team:			
Increased cost of Council Insurances	1		1
Total Directorate Management Team	1		1
Education:			
Route planner software used for route rationalisation of direct provider routes – full year impact of saving in 2024/25		(274)	(274)
Saving projected arising from the introduction of Artificial Intelligence to support the compilation of Education, Health and Social Care Plans		(60)	(60)
Increased capacity for feasibility studies to ensure sufficient school places are delivered and costs related to vacant school sites	115		115
Cost of current service, provision for growth and inflationary uplifts on mainstream transport	61		61
Inflationary uplifts on SEND contracts	6		6
Additional investment in staffing required in SEN and Floating Support Teams	468		468
Cost of current service, provision for growth and inflationary uplifts on SEND transport, less impact of transport review	2,507	(784)	1,723
Increased cost of Council Insurances	6		6
Total Education	3,163	(1,118)	2,045
Partnership Commissioning:			
Investment in additional staffing to meet demand for service and enable better forward planning and innovation	120		120
Increased cost of Council Insurances	1		1
Total Partnership Commissioning	121	0	121
Public Health:			
Hypothecated expenditure in line with projected increase in Public Health Grant	190		190
Additional cost of delivery of all Public Health programmes in excess of projected level of Public Health Grant	1,131		1,131
Total Public Health	1,321	0	1,321

Draft Budget Assumptions	2025/26 Budget Pressures £000	2025/26 Savings / Income £000	2025/26 Budget Allocation £000
Children and Adults staff pay and pensions increases:			
Allowance for Cost of Living award at 5% and National Living Wage increases	3,231		3,231
Increased Local Government Pension Scheme employers' contribution rate	905		905
Allowance for MedPay Review implementation	1,014		1,014
Total Children and Adults staff pay and pensions increases	5,149	0	5,149
Total Children and Adults Directorate	25,564	(9,320)	16,244
Children and Adults Directorate 2025/26 Budget Requirement			340,536

8.2. Adult Social Care budget requirement

8.2.1. The Adult Social Care budget requirement has increased by a net £5.388million compared to the 2024/25 budget, excluding staff pay and pension increases. The primary drivers are demographic growth of a further 2.5% compared to the current budget, an allowance for price uplifts to progress towards the fair cost of care and reflecting inflation, and the full year effect of current placements (referred to as the cost of current service pressure) along with increased income from clients. The Draft Budget assumes that while the savings agreed in the budget and Finance Improvement and Transformation (FIT) Plan for 2024/25 have not yet been delivered in full this year, they will be achieved in 2025/26 so collectively these represent a net budget growth of £8.159million. The required increase to the bad debt provision for Adult Social Care adds £780,000 to the budget requirement, while increased insurances add a further £18,000.

8.2.2. The Draft Budget also reflects the continuation of the work began in the 2024/25 budget to right-size the Adult Social Care service, with a further £2.183million of investment in additional resources. This includes the creation of a Medway Intensive Support Team who will provide specialist and intensive support to those considered to be the hardest to reach, a Co-production and Engagement Team to embed a person-centred approach to meet our Care Act duty to ensure individuals influence the support and services they receive, and a dedicated team to support complex cases on the edge of care. There is also additional investment in dedicated resources to support adults with Learning Disabilities and Autism alongside increased numbers of senior social worker and business support officers to boost capacity and better support our social workers. Investment in Prevention and Reablement and occupational therapy, along with investment in the social care software system, Mosaic. These investments are projected to help the service to deliver savings already agreed, and to reduce the cost of delivering services while increasing income from our partners in health through the Continuing Health Care scheme totalling a net £5.752million.

8.3. Children's Services budget requirement

- 8.3.1. The Draft Budget reflects a net increase to the Children's Services budget requirement of £2.220million compared to the 2024/25 budget, excluding staff pay and pension increases. As with Adult Social Care and as in previous years, this pressure is primarily driven by demographic growth of a further 2.5% compared to the current budget, an allowance for price uplifts reflecting inflation and the cost of current service pressure which collectively add £1.944million to the budget requirement. The required increase to the bad debt provision for Children's Services adds £126,000 to the budget requirement, while increased insurances add a further £31,000.
- 8.3.2. The Draft Budget also reflects a range of additional investments, including £1.581million additional staffing resources to get the OFSTED rating of our service from Good to Outstanding. Improvements to the package of financial support for foster carers will add £326,000 to the budget requirement, while increased audit and continuous improvement work and management cover of Parklands, and realignment of Youth Service pay to MedPay add £162,000. Legal costs are projected to increase by £500,000 based on the continued volume and complexity of casework required.
- 8.3.3. The level of additional investment set out is projected to enable the service to proactively manage and review placements to ensure the best possible support is provided while delivering value for money, delivering £2million reduction in projected expenditure. It is also projected to save £300,000 by increasing the proportion of in-house foster care placements and £150,000 by supporting care leavers into independent accommodation.

8.4. Education budget requirement

- 8.4.1. The Draft Budget for Education represents a net increase of £2.045million compared to the 2024/25 budget, excluding staff pay and pension increases. Growth in pupil numbers and price uplifts represents an increase of £2.513million on SEND which is primarily SEND transport, with a further £61,000 relating to mainstream transport. However, a transport review has identified opportunities to ensure the Council is more robust in delivering its statutory requirements only, and it is projected that this would reduce costs by 5%, saving £784,000. The Draft Budget also includes investment in permanent staffing in the SEN Team and to create a Floating Support Team totalling £468,000. The cost of increasing capacity for feasibility studies to ensure sufficient school places are delivered and costs related to school sites add a further £115,000 to the budget requirement. Finally, increased insurances add a further £6,000 to the budget. These pressures are partially mitigated by the impact of the investment reflected in the 2024/25 budget to implement route planning software and introducing Artificial Intelligence to support the compilation of Education, Health and Social Care Plans, which together are projected to save £334,000 in 2025/26.

8.5. Partnership Commissioning budget requirement

8.5.1. The Partnership Commissioning projections represent an increased budget requirement of £121,000, reflecting additional investment in permanent staff to meet increased demand for the service and enable better forward planning and innovation.

8.6. Public Health budget requirement

8.6.1. The Public Health Directorate projections add a total of £1.321million to the budget requirement for the Directorate, representing the extent to which Public Health activities are projected to exceed the ring-fenced Public Health grant available to the service.

9. Regeneration, Culture and Environment Directorate

9.1. The Directorate Draft Budget requirement for 2025/26 of £73.069million represents a net increase of £7.268million compared to the 2024/25 budget, including an allocation of £2.577million for staff pay and pensions increases. The pressures, savings and additional income reflected in this Draft Budget for the Directorate are detailed in table 3 below with commentary provided at section 9.2.

Table 3: Regeneration, Culture and Environment Directorate Draft Budget assumptions

Draft Budget Assumptions	2025/26 Budget Pressures £000	2025/26 Savings / Income £000	2025/26 Budget Allocation £000
Adjusted base budget			65,801
Culture and Community:			
Utilities cost projected increase	304		304
Increased Business Rates liabilities	160		160
Additional investment in Development Management to deliver planning reforms and the Local Plan	201		201
Saving on operation of Visitor Information Centre		(44)	(44)
Investment required for repairs and maintenance to heritage attractions	100		100
Projected additional income – Leisure		(278)	(278)
STG Building Control Partnership contribution increase required	146		146
Mitigated cost of current service pressure on temporary accommodation provision	3,209	(1,500)	1,709
Increased cost of Council Insurances	55		55
Projected additional income - Corn Exchange		(49)	(49)
Total Culture and Community	4,175	(1,871)	2,304
Director's Office:			
Utilities cost projected increase	10		10
Increased cost of Council Insurances	1		1
Increase in bad debt provision	94		94
Total Director's Office	105	0	105
Front Line Services:			

Draft Budget Assumptions	2025/26 Budget Pressures £000	2025/26 Savings / Income £000	2025/26 Budget Allocation £000
Inflationary uplifts on contracts including waste and highways	1,487		1,487
Utilities cost projected increase including streetlighting and operational buildings	448		448
Increased cost of Council Insurances	149		149
Increased Business Rates liabilities	4		4
Annual contract price increase for subsidised Yellow Bus routes	152		152
Projected additional income from increased Subsidised Yellow Bus fees		(50)	(50)
Cost of exercise to re-procure Highways Infrastructure Contract expiring in 2027	200		200
Council-wide parking review and projected improvement to the recovery rate of Penalty Charge Notices		(1,196)	(1,196)
Travel Safety and Traffic Management staffing costs	32		32
Integrated Transport – Transport for South East sub-national body membership subscription	30		30
Implementation of Lane Rental Scheme	21		21
Traffic Signal maintenance and contract costs	58		58
Traffic Signal temporary removal fees and charges income		(45)	(45)
Projected additional income in Traffic Management for street closures		(150)	(150)
Additional income from highways/footways closures and licencing		(165)	(165)
Safer Healthier Streets - additional streets, pilot school zones and improved recovery rate of PCNs		(200)	(200)
Income from charging residents opting for a second garden waste bin		(20)	(20)
Total Front Line Services	2,580	(1,826)	754
Regeneration:			
Inflationary uplifts on contracts	136		136
Utilities cost projected increase	346		346
Increased Business Rates liabilities	423		423
Increased cost of Council Insurances	25		25
Additional staffing resource in Facilities Management to ensure legal/safety compliance and effective contract management	63		63
Cost to fully fund River Project Manager post as Section 106/Developer Contributions insufficient to cover cost	32		32
Staffing costs no longer chargeable to capital schemes	125		125
Investment in additional staffing to deliver Public Rights of Way Management statutory functions	100		100
Additional investment in permanent staffing for Economic Development	78		78
Additional investment in permanent staffing for Town Centre management	100		100
Projected additional income resulting from rent review of commercial property portfolio		(121)	(121)
Requirement to meet service charge costs for Pentagon Centre to enable the development of the Healthy Living Centre and Innovation Hub	35		35
Removal of unachievable Town Centre Management income target	16		16
Removal of unachievable Markets income target	16		16
Medway Adult Education – removal of unachievable income target following end of Multiply funding in March 2025	180		180

Draft Budget Assumptions	2025/26 Budget Pressures £000	2025/26 Savings / Income £000	2025/26 Budget Allocation £000
Medway Adult Education – projected increases income based on continued growth of 10%		(15)	(15)
Reduced level of contribution to Building Repairs and Maintenance Fund during review of property asset portfolio		(375)	(375)
Removal of savings target associated with Medway 2.0 programme	150		150
Additional staffing resource to support Corporate Landlord Project Management Office	60		60
Additional staffing resource to support social regeneration	155		155
Total Regeneration	2,039	(511)	1,528
Regeneration, Culture and Environment staff pay and pensions increases:			
Allowance for Cost of Living award at 5% and National Living Wage increases	1,515		1,515
Increased Local Government Pension Scheme employers' contribution rate	424		424
Allowance for MedPay Review implementation	638		638
Total Regeneration, Culture and Environment Directorate staff pay and pensions increases	2,577		2,577
Total Regeneration, Culture and Environment Directorate	11,476	(4,208)	7,268
Regeneration, Culture and Environment Directorate 2025/26 Budget Requirement			73,069

9.2. Culture and Community budget requirement

9.2.1. The budget requirement for Culture and Community represents a net increase of £2.304million compared to the 2024/25 budget, excluding staff pay and pension increases. The cost of providing temporary accommodation in the Homelessness service is the primary pressure, however the activity underway in the service to deliver savings through in-house provision of temporary accommodation is projected to reduce the pressure to £1.709million. As set out in section 14.6 of this report, the government's Autumn Budget includes "£233million of additional spending in 2025/26 to prevent homelessness" and this will be added to the budget proposed to Cabinet and Council when allocations are confirmed, meanwhile the Draft Budget assumes that the existing ring-fenced grants relating to the service will be renewed for 2025/26.

9.2.2. The Draft Budget also reflects additional investment of £201,000 in Planning Services to deliver the government's planning reforms and the Local Plan, and that the contribution Medway will be required to make to the STG Building Control Partnership from 2025/26 will increase by £146,000. The budget requirement is also increased to reflect that it will be necessary to invest a further £100,000 in repairs and maintenance of the Council's Heritage attractions. The projected cost of utilities in Council buildings operated in the Division is a pressure of £304,000, while Business Rates

liabilities are increased by £160,000 and increased insurance costs add a further £55,000.

- 9.2.3. These pressures are partially mitigated by projected additional income through our Leisure facilities of £278,000, from the Corn Exchange of £49,000 and savings relating to the operation of the Visitor Information Centre of £44,000.

9.3. **Directors Office budget requirement**

- 9.3.1. The Directors Office budget requirement has increased by £105,000, representing increases in the cost of utilities in Council buildings, alongside an increased provision for bad debt and insurance costs as set out in sections 7.2 and 7.3 of this report.

9.4. **Front Line Services budget requirement**

- 9.4.1. The budget requirement for Front Line Services is increased by £754,000, excluding staff pay and pension increases. As the Division accounts for a significant proportion of the Council's external contract spend on waste and highways, the primary pressure relates to a provision for inflationary uplifts across these contracts totalling £1.487million. The cost of utilities including streetlighting is projected to add £448,000 while increased insurance costs add a further £149,000 and increased Business Rate liabilities a further £4,000. Contractual price increases for the subsidised yellow bus routes add a further £152,000 however projected additional income for the service of £50,000 partially mitigates this. The Draft Budget also includes investment of £200,000 required to re-procure the Highways Infrastructure Contract ahead of the end of the current contract in 2027.
- 9.4.2. The impact of increased car parking and permit fees, a Council-wide parking review and projected improvement to the recovery rate of Penalty Charge Notices issued are collectively expected to generate £1.196million additional income in 2025/26. A series of increased costs in Traffic Management including staffing, signal maintenance and the implementation of a lane rental scheme totalling £141,000 are more than mitigated by additional income from lane rentals, the introduction of a localised footway parking ban, charging for Electric Vehicle charging bays and licensing for articles on the highway totalling £360,000. The addition of further streets and a pilot of school zones in our Safer Healthier Streets programme is projected to add £200,000 income while charging residents for a second garden waste bin is projected to add £20,000.

9.5. **Regeneration budget requirement**

- 9.5.1. The Regeneration budget requirement is an increase of £1.528million compared to the 2024/25 budget, excluding staff pay and pension increases. The Draft Budget reflects £713,000 additional investment to right-size staffing resources in this area, with investment to fund posts previously charged to capital or developer contributions, a corporate landlord project management office, staffing required to deliver statutory responsibilities and

ensure safety requirements are met in facilities management and Public Rights of Way and increasing the levels of staffing in Social Regeneration, Economic Development and Town Centre Management. The projections also reflect the removal of a range of income targets that are not achievable, across Town Centre Management, Markets and Medway Adult Education totalling £212,000. The cost of utilities for the Council's corporate properties is projected to add £346,000 and inflationary uplifts on contracts including facilities maintenance adds a further £136,000. Increased business rates liabilities and increased insurance costs add a further £423,000 and £25,000 respectively to the budget requirement. It will be necessary for the Council to meet the cost of service charges at the Pentagon in respect of the Healthy Living Centre, estimated at £35,000. The removal of a savings target of £150,000 associated with the Medway 2.0 programme (set out in section 11.2 of this report) represents a £150,000 increase in the budget requirement here.

- 9.5.2. These pressures are partially mitigated by a reduction in the annual revenue contribution to the Building Repairs and Maintenance Fund of £375,000, while the Council reviews its plans for investment in its asset portfolio. Finally, the Draft Budget reflects projected increases in income of £121,000 following a rent review of the commercial property portfolio, and of £15,000 additional income in Medway Adult Education.
- 9.5.3. There are a number of proposals in the autumn statement that need further consideration and are subject to further detail to be released from government, including the UKSPF and references to the continuation of the Multiply programme. Medway will also need to consider policies such as the emerging Industrial Strategy and other growth related ambitions. The final budget may also include opportunities for local economic growth, development and regeneration that may be supported through funding to be received from the closure of South East Local Enterprise Partnership and transfer of responsibilities to the Council. In line with government's ambitions, Medway may need additional resource to support growth, which would need to be reflected in the final budget once further detail is received.

10. Business Support Department

10.1. The Business Support Department Draft Budget requirement for 2025/26 of £28.597million represents a net increase of £2.962million, including an allocation of £1.712million for staff pay and pensions increases. The pressures, savings and additional income reflected in this Draft Budget are detailed in table 4 below with commentary provided at section 10.2.

Table 4: Business Support Draft Budget assumptions

Draft Budget Assumptions	2025/26 Budget Pressures £000	2025/26 Savings / Income £000	2025/26 Budget Allocation £000
Adjusted base budget			25,635
Communications:			
Additional permanent resource to meet growing service demand for marketing support to help services meet objectives and income targets	424		424
Increased cost of Council Insurances	1		1
Total Communications	425	0	425
Directorate Management Team:			
Increased cost of Council Insurances	1		1
Total Directorate Management Team	1	0	1
Finance and Business Improvement:			
Contractual inflationary uplifts on Centralised and FBI software packages	115		115
Increased contribution to End User devices renewals fund	100		100
Projected reduction in income from HR/payroll services traded with schools offset by reduction in resourcing	32	(31)	1
Projected increase required to corporate learning and development budget to fund the delivery of all statutory corporate training required	408		408
Increased cost of Council Insurances	19		19
Total Finance and Business Improvement	674	(31)	643
Legal and Governance:			
Land charges income pressure from His Majesty's Land Registry transfer	70		70
Impact of reduced hourly rate charged by Legal Services to capital schemes following external audit	50		50
Contractual inflationary uplifts	5		5
Members Allowances increase in line with staff pay award at 5%	50		50
Increased cost of Council Insurances	6		6
Total Legal and Governance	181	0	181
Business Support Department staff pay and pensions increases:			
Allowance for Cost of Living award at 5% and National Living Wage increases	1,134		1,134
Increased Local Government Pension Scheme employers' contribution rate	318		318
Allowance for MedPay Review implementation	260		260
Total Business Support Department staff pay and pensions increases	1,712	0	1,712
Total Business Support Department	2,993	(31)	2,962
Business Support Department 2025/26 Budget Requirement			28,597

10.2. **Communications budget requirement**

10.2.1. Expenditure projections relating to Communications represent an increase to the budget requirement of £425,000 in 2025/26, excluding staff pay and pension increases. The growth reflects additional investment in permanent staffing to meet growing demand from services to help meet income targets and the increased cost of Council insurances.

10.3. **Directorate Management Team** – the budget requirement is increased by £1,000 reflecting the increased cost of Council insurances.

10.4. **Finance and Business Improvement budget requirement**

10.4.1. The Finance and Business Improvement projections represent growth in the budget requirement of £643,000 for 2025/26, excluding staff pay and pension increases. In response to the latest staff survey results and recognising that the MedPay review will increase demand for corporate training, the existing budget for staff learning and development is being doubled, representing growth to the budget requirement of £408,000.

10.4.2. The division holds the centralised budget for the majority of the Council's ICT software systems and for ensuring all ICT devices are replaced before the end of their usable life; the budget requirement is increased by a total of £215,000 to cover increasing costs in this area. Finally, the division's share of increased insurance costs adds a further £19,000.

10.5. **Legal and Governance budget requirement**

10.5.1. The Legal and Governance budget requirement has increased by £181,000, excluding staff pay and pension increases. The transfer of services to His Majesty's Land Registry (HMLR) will reduce the Council's income by £70,000, while the impact of the reduced hourly rate required to be charged to capital schemes to comply with accounting codes results in a £50,000 pressure. The projected increase to Members allowances, in line with the projection for staff pay uplifts at 5% represents a further £50,000 increased expenditure. Finally contractual inflationary uplifts and increased insurance costs add a further £11,000.

11. **Corporate Management**

11.1. The Corporate Management Draft Budget requirement for 2025/26 of £5.780million represents a net increase of £2.431million. The pressures, savings and additional income reflected in this Draft Budget for the Directorate are detailed in table 5 overleaf with commentary provided at from section 11.2.

Table 5: Corporate Management Draft Budget assumptions

Draft Budget Assumptions	2025/26 Budget Pressures £000	2025/26 Savings / Income £000	2025/26 Budget Allocation £000
Adjusted base budget			3,349
Corporate Management:			
Projected inflationary uplifts to Levies	104		104
Treasury expenses - historic pressure on bank charges	152		152
Core Audit fee increase projected based on approved Public Sector Audit Appointments uplifts	13		13
Local Government Association membership subscription inflationary increase	4		4
Co-Operative Councils Innovation Network membership subscription	8		8
Removal of Medway 2.0 transformation roadmap – removal of distinct savings target	2,150		2,150
Total Corporate Management	2,431		2,431
Corporate Management 2025/26 Budget Requirement			5,780

- 11.2. In setting the 2024/25 budget the Council agreed to invest £1.014million to deliver an Improvement Programme to transform services and make significant savings. As the proposals were not developed sufficiently to be allocated to individual service areas at that stage, instead both the investment and the savings target associated with the Medway 2.0 programme were reflected in the Corporate Management budget. This Draft Budget reflects that this investment will remain in the Corporate Management budget at £1.014million, but will support all Council services to deliver the £13.559million savings and income generation proposals identified throughout this report, rather than being expressed as a distinct savings target.
- 11.3. Medway Council is required to contribute to other public bodies for the delivery of statutory functions, including to Kent County Council for the Kent and Medway Coroners Service, to the relevant Internal Drainage Boards and to the Environment Agency in respect of flood and coastal protection. Though no specific increases have been communicated by the levying authorities to date, levy amounts increased by an average of 5% from 2021/22 to 2022/23 then by an average of 8% from 2022/23 to 2023/24 and by a further 5.5% from 2023/24 to 2024/25. The Draft Budget includes a projection that the cost to Medway of these levies will increase by a further 5.5% for 2025/26, adding a total of £104,066 to the Council's budget requirement.
- 11.4. Corporate Management also includes the budgets in respect of bank charges, external audit fees and organisational membership/subscription fees including the Local Government Association and Co-Operative Councils Innovation Network and collectively these add £177,000 to the budget requirement.

12. Interest and Financing

- 12.1. Around £234million of the Council's £325million capital programme is funded through borrowing in some way. While much of this represents relatively short-term borrowing, in lieu of future income from grant, capital receipts or rents, high interest rates have impacted the financing of the capital programme in recent years. The Council's Interest and Financing budget funds the cost of interest payments to service this borrowing, with the 2024/25 budget set at £19.211million.
- 12.2. The MTFO projected that it would be necessary to add £4.440million to this budget for 2025/26 to finance projected expenditure in the capital programme, and to fund the borrowing required to be taken from the Public Works Loans Board at 1% above the prevailing interest rates to support the capitalisation direction agreed through the EFS scheme. In a letter to local authorities in October 2024, the Minister of State for Local Government and English Devolution stated that "The previous government made a sustained recovery even harder by charging a premium on borrowing for councils needing exceptional financial support. This is not in the spirit of the new partnership we are setting out. So, I can confirm that we would not look to replicate conditions that make borrowing more expensive where councils have no other choice." As such our projections no longer include a punitive interest rate on borrowing to finance the capitalisation direction agreed through the EFS scheme.
- 12.3. The Bank of England's Monetary Policy Committee (MPC) meets eight times a year to set bank rate, and had held the rate at 5.25% for seven meetings, since the onset of the Covid-19 pandemic in 2020. The MPC reduced the rate by 0.25% to 5% at its meeting ending on 31 July 2024 and that rate was then held at the meeting in mid-September, however the Governor of the Bank of England at that point said that interest rates were "now gradually on the path down". At their meeting on 7 November, the MPC reduced bank rate by 0.25% to 4.75%.
- 12.4. The Draft Budget reflects the latest projections on expenditure in the capital programme, interest rates and the cost of the capitalisation direction that would be required to balance the 2025/26 budget at this stage, result in a budget requirement of £18.930million, a reduction of £281,000 compared to the 2024/25 budget.

13. Additional Government Support Expenditure

- 13.1. The Council's participation in the Afghan Citizens Resettlement Scheme and Homes for Ukraine Scheme are both wholly funded through government grant. The Draft Budget assumes these schemes will continue in 2025/26 but are not funded from Council resources so do not represent a budget pressure.

14. The government's Autumn Budget 2024

- 14.1. The Chancellor of the Exchequer laid the government's Autumn Budget 2024 before parliament on 30 October 2024, setting the Resource Departmental Expenditure Limits for each government department for 2025/26. The announcement confirmed that a local government finance policy statement will be issued in November, however allocations of funding for individual authorities will not be indicated until the publication of the Provisional Local Government Finance Settlement (LGFS, expected before parliament rises for Christmas on 19 December) and will not be confirmed until the Final Settlement is published in February 2025. The Provisional Settlement will be reported to the Cabinet in January 2025 and incorporated into the proposed budget to Cabinet in February.
- 14.2. The government intends to implement funding reforms in 2026/27, seeking to direct funding towards authorities with higher needs and taking account of the varying ability of local authorities to raise local taxes: "Reforming the approach to funding allocations within the Local Government Finance Settlement by redistributing funding to ensure that it reflects an up-to-date assessment of need and local revenues. This will include reform of the approach to allocating funding through the LGFS, starting with a targeted approach to allocating additional funding in 2025-26, ahead of a broader redistribution of funding through a multi-year settlement from 2026/27." The announcements are also clear that the government plans to simplify the system and give greater certainty through a multi-year settlement. A white paper on English Devolution is expected later this year and it is understood this will incorporate local government reorganisation: "to move to simpler structures that make sense for their local areas, with efficiency savings from council reorganisation helping to meet the needs of local people".
- 14.3. As the government intends to change the methodology through which national funding allocations are distributed, it is not possible to accurately project the extent to which the specific funding packages announced will impact Medway's budget. Instead, this report summarises the national funding announcements and indicates the potential impact, however in most cases these have not been reflected in revised funding projections incorporated into the Draft Budget. However, as Medway has one of the lowest CSPs per resident in the Country it would be reasonable to expect this change would be beneficial, resulting in Medway receiving a greater share of central resources in future years than we have been allocated through previous settlements. The basis of each of the funding projections incorporated in the Draft Budget is set out in from section 15.2 and these will be replaced with final allocations in the proposed budget to Cabinet and Council in February, following the publication of the Settlement.
- 14.4. **Core Spending Power¹ (CSP) increase:** The centrepiece of the Chancellor's announcements for local government was a 3.2% real-terms

¹ Core spending power measures the core revenue funding available for local authority services through the local government finance settlement. It consists of revenue grant funding made available through the settlement, locally retained business rates and council tax.

increase to CSP for 2025/26, with £1.3billion of new grant funding including at least £600million new grant funding for social care. This could equate to more than £5million of additional grant funding for Medway compared to the 2024/25 grant allocations, dependent on the distribution methodology.

- 14.5. **Education:** The Core Schools Budget will increase by £2.3billion, increasing per pupil funding in real terms, of which £1billion will go towards supporting the special educational needs and disabilities (SEND) system. This could equate to £4million for Medway, however we are assuming this will be distributed via the Dedicated Schools Grant (DSG) and therefore this will not reduce the Council's general fund budget gap. In previous years, increased DSG grant allocations have been followed by a reduction in the level of grant funding previously agreed to support the Council's DSG Deficit Recovery Plan through the Safety Valve Intervention Programme (SVIP), so there is a risk that this may limit the extent to which the announcement benefits Medway in practice. In addition, the announcements relating to Education confirmed:
- £1.8billion to continue the expansion of government funded childcare and £30million for the rollout of free breakfast clubs in thousands of primary schools,
 - £6.7billion capital funding in 2025/26, a real terms increase of 19% from 2024/25 including £1.4billion for the school rebuilding programme, £2billion for school maintenance and £950million for skills capital.
 - Private schools will become liable for VAT from January 2025 onwards. Local authorities will be able to reclaim any VAT they pay on places in private schools for pupils with a statement of SEN.
- 14.6. **Homelessness:** The Chancellor announced "£233million of additional spending in 2025/26 to prevent homelessness" to take total spending to £1billion in 2025/26. This could represent around £900,000 additional income for Medway. Additional announcements related to Housing include:
- Additional £86million for Disabled Facilities Grant in 2025/26,
 - £500m increase to the Affordable Homes Programme in 2025/26,
 - Right to Buy: Councils will be permanently allowed to retain 100% of receipts locally and discount levels will revert to pre-2012 levels from 21st November,
 - There will be a five-year rent settlement for social housing landlords in which rents will rise by Consumer Price Index +1% each year during the period, and
 - Local Housing Allowance rates (the amount of housing benefit that renters are able to claim) will again be frozen.
- 14.7. **Public Health:** Though the Statement refers to an annual average real-terms growth rate of 3.8% from 2023/24 to 2025/26 for Budgets in the Department of Health & Social Care, there were no specific announcements to the Public Health Grant distributed to local authorities.
- 14.8. **UK Shared Prosperity Fund:** the scheme will be continued for a further year but at a 40% reduction, totalling £900million with the announcement

stating “this transitional arrangement will allow local authorities to invest in local growth, in advance of wider funding reforms.” It is not clear how this fund will be distributed.

- 14.9. **Potholes:** Funding for road maintenance has increased by almost 50% compared to 2024/25 at £1.6billion (an increase of £500million on 2024/25). We expect this will be capital grant funding as current allocations are, so no impact is projected on the revenue budget gap.
- 14.10. **Extended Producer Responsibility (EPR) Scheme:** Local authorities are expected to receive around £1.1billion of new funding in 2025/26 through the new EPR scheme, aiming to improve recycling outcomes from January 2025, outside of the CSP therefore this represents a further 1.6% real-terms increase in local government resources. There have been no announcements as to how this income stream will be distributed across the country of between tiers of government, and we understand the Department for Environment, Food and Rural Affairs will be writing to local authorities to set out how much they can expect to receive outside of the Settlement. It is also clear that there will be additional costs to implement the scheme so at this stage we have not made any projections as to the Council’s income or expenditure relating to this scheme in 2025/26.
- 14.11. **National Living Wage / National Minimum Wage (NLW):** From April 2025 the NLW will increase to £12.21 per hour for all eligible employees, and the National Minimum Wage (NMW) for 18-20 year olds will increase to £10.00 per hour for all eligible workers, progressing towards the government’s intention to create a single adult wage rate. The government is also increasing the minimum wages for Under 18s and Apprentices to £7.55 per hour. There is no specific additional funding in the announcements to meet this cost. We are working to project the impact of these announcements as part of the ongoing pay negotiations however, with the MedPay salary scales uplifted by 5% in line with the Cost of Living Award proposed in this Draft budget, we are not currently projecting an additional pressure arising from this announcement in respect of directly employed staff. The Council’s costs are likely to be impacted however where the Council’s suppliers and partners have staff paid at or near to the NLW, particularly in the care sector and through our Joint Venture Medway Norse.
- 14.12. **Employers National Insurance Contributions (NICs):** The government will increase the rate of Secondary Class 1 NICs (Employer NICs) from 13.8% to 15% from 6 April 2025. In addition, the Secondary Threshold (the point at which employers become liable to pay NICs on employees’ earnings) will reduce from £9,100 to £5,000 a year from 6 April 2025 until 6 April 2028, after which it will be increased by the Consumer Price Index (CPI). Both will significantly increase permanent staffing costs, however on 31 October the Director of Local Government Finance at MHCLG wrote to local authorities confirming that councils will be compensated for this additional cost, and that this funding will be in addition to the £1.3billion CSP increase announced. Treasury are expected to make an announcement shortly, and as such we do not currently expect that project this change will impact the Council’s Draft Budget in respect of our own employees costs. However, as with the

NLW/NMW increases in section 14.11 above, this change will increase the costs of our suppliers and partners and will therefore likely impact the Council's costs, particularly in the care sector and through Medway Norse.

- 14.13. **Household Support Fund:** The government will provide £1 billion to extend both the HSF and Discretionary Housing Payments in 2025/26. This sum is broadly in line with the national allocations in the current year so we expect the Council's allocation for 2025/26 will be the same as this year and that it will be fully spent delivering support to residents and will not therefore reduce the Council's budget gap. It is not yet clear whether the scheme will continue beyond 2025/26.
- 14.14. **Business Rates:** The government made a series of announcements relating to Business Rates, for which local authorities will be fully compensated:
- Retail, Hospitality and Leisure relief will be awarded to eligible businesses at 40% for 2025/26 with support up to a cash cap of £110,000 per business, this represents a reduction from the current level of support at 75% and may therefore impact collection rates.
 - The government intends to introduce permanently lower multipliers for RHP eligible properties from 2026/27, paid for by a higher Multiplier for properties with Rateable Values above £500,000.
 - For 2025/26 The small business multiplier in England will be frozen at 49.9p, while the standard multiplier will be updated by the September 2024 CPI rate to 55.5p.
 - Alongside becoming liable for VAT as set out in section 14.5, private schools will lose their eligibility for charitable relief on business rates from April 2025. Private schools that are "wholly or mainly" concerned with providing full time education to pupils with an EHCP will continue to be eligible for this relief. Nationally it is estimated that private schools will lose relief worth about £70 million in 2025/26, rising to £85 million from 2026/27, with the additional revenues shared between local authorities and central government in the current shares (Councils 49%, central government 50%, Police and Fire authorities 1%). We do not hold the data to make a projection however based on national values it is not anticipated this would have a significant impact on Medway.
- 14.15. **Planning:** £46 million of additional funding was announced to support recruitment and training of 300 graduates and apprentices into local planning authorities to deliver the government's wider reform agenda.
- 14.16. **Children's Social Care Reforms:** £250 million has been committed to continue testing children's social care reforms, including new funding to pilot a Kinship Allowance and to create thousands of new foster placements. The government will set out plans for fundamental reform of the children's social care market in Phase 2 of the government's budget plans through the Spring Budget 2025, including promoting early intervention to help children stay with their families where possible and fixing the broken care market.

- 14.17. **Supported Employment:** The government will invest £115million in 2025/26 to deliver Connect to Work, a new supported employment programme matching people with disabilities or health conditions into vacancies. Local authorities will be able to tailor their delivery of Connect to Work in ways that meet their local needs.
- 14.18. **EV Chargepoints:** £200million funding was announced for 2025/26 to accelerate the EV chargepoint rollout, including funding to support local authorities to install on-street chargepoints across England.
- 14.19. **Exceptional Financial Support (EFS):** The announcement confirms there will be a framework in place to support Councils in the most financial difficulty. This follows confirmation from the Minister of State for Local Government that authorities in the EFS scheme will not be required to pay the punitive interest rate on borrowing taken out for capitalisation directions as set out in section 12.2.
- 14.20. **Local Government Funding Reform and devolution:** The announcements are clear that the government intends to implement funding reforms in 2026/27, seeking to direct funding towards authorities with higher needs and taking account of the varying ability of local authorities to raise local taxes: “Reforming the approach to funding allocations within the Local Government Finance Settlement by redistributing funding to ensure that it reflects an up-to-date assessment of need and local revenues. This will include reform of the approach to allocating funding through the LGFS, starting with a targeted approach to allocating additional funding in 2025/26, ahead of a broader redistribution of funding through a multi-year settlement from 2026/27.” More detail is expected in the MHCLG policy statement in November. The announcements are also clear that the government plans to simplify the system and give greater certainty through a multi-year settlement. A white paper on English Devolution is expected later this year and it is understood this will incorporate local government reorganisation: “to move to simpler structures that make sense for their local areas, with efficiency savings from council reorganisation helping to meet the needs of local people”.
15. Income projections reflected in the Draft Budget 2025/26
- 15.1. Table 6 below summarises our current projections for the Council’s income for 2025/26, which suggests the Council could budget for a total income of £465.898million in 2025/26, including an assumption that the Council will seek EFS of £26.177million. Details of each of the funding projections are set out from section 15.2 of this report.

Table 6: Income Projections

Draft Budget Assumptions	2025/26 Adjusted base budget	2025/26 Projected pressures/ additional resources	2025/26 Budget Requirement
Council Tax	(158,462)	(12,766)	(171,228)
Retained Business Rates	(52,272)	(1,669)	(53,941)

Draft Budget Assumptions	2025/26 Adjusted base budget	2025/26 Projected pressures/ additional resources	2025/26 Budget Requirement
Business Rates Related Grants	(22,227)	0	(22,227)
Government Grants - Non Ringfenced	(8,129)	(534)	(8,663)
New Homes Bonus	(1,573)	(68)	(1,641)
Education Related Grants	(127,103)	0	(127,103)
Children Social Care Related Grants	(197)	0	(197)
Adult Social Care Related Grants	(32,151)	(1,962)	(34,113)
Public Health Grant	(19,037)	(190)	(19,228)
Additional Government Support	(4,656)	2,262	(2,394)
Exceptional Financial Support	(14,742)	(11,435)	(26,177)
Estimated Available Funding	(440,551)	(26,362)	(466,912)

15.2. Income from local taxation – the collection fund

15.2.1. Income from Council Tax and Business Rates is held in a ringfenced collection fund account, from which authorities draw the level of income projected and budgeted for in each year irrespective of the actual income collected. Any shortfall on income collected compared to that budgeted level results in a collection fund deficit, which is recovered by reducing the amount of income the council can budget for in the following year. Where the level of income collected is higher than was originally projected and budgeted, the resultant surplus can be used to increase the amount of income the council can budget for in the following year.

15.3. Council Tax

15.3.1. Referendum limits: The Chancellor's Autumn Budget made no announcements in respect of Council Tax, so the Draft Budget reflects the assumption that the current limits will be retained, with 3% core and 2% Adult Social Care precept, meaning a 4.994% uplift taking the Band D for Medway's purposes from £1,754.69 to £1,842.32.

15.3.2. Taxbase growth: our latest projections suggest that the taxbase will grow by 1.19% to 91,994.49 for 2025/26.

15.3.3. Projected collection rate: the Council's budgets have been set assuming an overall collection rate of 97.6% however in-year recovery is tracking around 0.63% down compared to the same period last year. Given the continued difficult financial climate, the Draft Budget reflects the reduction of the collection rate by 0.25%, effectively reducing the taxbase by 229.99 Band D equivalents to 91,764.50.

15.3.4. Surplus/deficit position: The monthly collection fund monitoring projects that at 31 March 2025 there will be a surplus on Council Tax in the collection fund of £3.169million which the Council can incorporate into the budget in 2025/26.

15.3.5. Provision for bad debt: the Corporate Debt team are currently working to recover a total of £28.5million Council Tax Debt with Liability Orders in place, and as in every year, it will be necessary for a proportion of this to be written off when the recovery options have been exhausted. The Council's provision for bad debt for Council Tax stood at £8.391million at 31 March 2024, and the Draft Budget reflects that this will be increased by £1million in 2025/26.

15.3.6. Therefore, our latest projections suggest total income through the Council Tax of £171.228million, an increase of £12.766million compared to the 2024/25 budget.

15.4. **Business Rates and related grants**

15.4.1. The amount of income the Council can expect to receive in respect of the coming financial year through Business Rates is calculated at the end of January through the NDR1 statutory return to the government. This calculation reflects any deficit or surplus in actual income received to the fund compared to the previous year's budget, the total income expected through Section 31 grants compensating for rate reliefs awarded by the government, the top-up grant to ensure authorities reach the baseline funding level set by the government, and the total Rateable Value (RV, as set for each non-domestic property by the Valuation Office Agency) of the area. Business rates related grants are confirmed each year in the Local Government Finance Settlement, expected to be published in draft in December and as set out in section 14.14 of this report, we expect to be fully compensated for the changes announced in the government's Autumn Statement.

15.4.2. Surplus/deficit position: As with Council Tax, income from Business Rates is held in the ringfenced collection fund account, and our monthly monitoring projects that at 31 March 2025 there will be a surplus on Business Rates in the collection fund of £1.151million which the Council can incorporate into the budget in 2025/26.

15.4.3. Provision for bad debt: the Corporate Debt team are currently working to recover a total of £4.1million Business Rates with Liability Orders in place, and as with Council Tax it will be necessary for a proportion of this to be written off when the recovery options have been exhausted. The Council's provision for bad debt for Business Rates stood at £2.105million at 31 March 2024, and the Draft Budget reflects the addition of a further £500,000 in 2025/26.

15.4.4. Provision for Appeals: based on projections from the Council's specialist advisors and local knowledge, it is projected that it will be necessary to add a further £500,000 into this provision for 2025/26.

15.4.5. Therefore, our latest projections suggest total income through Business Rates and related grants of £76.168million, an increase of £1.669million compared to the 2024/25 budget.

15.5. Non-ringfenced Government Grant

- 15.5.1. As set out in section 14.4 of this report, the government's Autumn Budget includes an increase to CSP of £1.3billion, of which at least £600million will be new social care grant and the remaining £700million expected to be non-ringfenced. The government announcements are clear that they will seek to redistribute funding allocations in the Local Government Finance Settlement "to ensure that it reflects an up-to-date assessment of need and local revenues". As such our funding advisors are projecting that we will see an increased level of Revenue Support Grant, but that we will also see a separate targeted funding stream. At this stage, as we do not know the basis for distribution of the new funding we have not projected any additional grant through that new targeted funding. We have however projected an increased level of non-ringfenced grant in line with the core spending power increase announced, at £8.258million, an increase of £130,000 compared to the 2024/25 allocations. We will incorporate any additional non-ringfenced grant into the Proposed Budget for Cabinet and Council in February once the distribution methodology and allocations are published.
- 15.5.2. Outside the Settlement, in 2022/23 and 2023/24 the government distributed £100million of the surplus on the national Business Rates levy account resulting in payments to Medway of £404,000 each year. The national account again has this surplus which must be distributed to authorities by law, so the Draft Budget now projects that a payment of £404,000 will be received in 2024/25 and that there will be a final payment in 2025/26 ahead of the new multi-year settlement anticipated from 2026/27.
- 15.5.3. Our latest projections therefore suggest a total of £8.663million though non-ringfenced grants, an increase of £534,000 compared to the 2024/25 budget.
- 15.5.4. **New homes bonus:** It had been widely anticipated that the New Homes Bonus scheme would end this year, however while there were no announcements on this in the Autumn Budget, as the funding was in the national quantum for the sector for 2024/25 and the government announcements confirm CSP will increase for 2025/26, the Draft Budget now reflects that we expect the scheme will continue into 2025/26, with Medway's allocation expected to be £1.641million.
- 15.6. **Adult Social Care related grants:** The Draft Budget reflects the government announcements as set out at section 14.4 that there will be at least £600million new grant funding for social care in 2025/26, representing additional grant for Medway of £1.962million compared to the 2024/25 budget.
- 15.7. **Education Related Grants:** The Draft Budget reflects the assumption that there would be additional expenditure in ring fenced services equal to any increase in ring-fenced education-related grants. At this stage it is not clear how the additional allocations confirmed in section 14.5 will be distributed and as this will not impact the Council's projected budget gap, both income and expenditure budgets will be updated in the Proposed Budget reported to Cabinet and Council in February to reflect the allocations once confirmed.

- 15.8. **Public Health grant:** The Draft Budget reflects the assumption that the Public Health Grant will be increased by 1%, with additional expenditure in ring-fenced services hypothecated. The total Public Health Grant for 2025/26 is projected to be £19.228million.
- 15.9. **Children’s Social Care Related Grants** – The Draft Budget reflects the assumption that the Supported Accommodation Reforms Grant will continue at £140,000 and the Leaving Care Allowance Uplift Grant will continue at £57,000, with hypothecated expenditure in Children’s Services totalling £197,000.
- 15.10. **Exceptional Financial Support (EFS):** The MTFO reflects the assumption that it will again be necessary for the Council to request EFS in order to fund the projected budget gap of £26.177million. It will be necessary for Members to agree the final sum the Council should request in advance of the publication of the Proposed Budget to Cabinet in February 2025.

16. The Capital Programme

- 16.1. The Capital Strategy 2025/26 is presented elsewhere on this agenda. It articulates our best estimate of the capital investment we will need to make over the next decade to deliver the priorities set out in the Council Plan approved by Full Council in May 2024.
- 16.2. Tables 7 and 8 below summarise the current capital programme as reported in the Round 2 capital monitoring report (presented elsewhere on this agenda) which reflects planned capital expenditure over the medium term and incorporates everything we currently know about capital grant allocations for the period.

Table 7: Round 2 Capital Monitoring Summary

Directorate	Total Approved Cost £000	Total Expenditure to 31/03/24 £000	Remaining Budget £000	Forecast Spend 2024/25 £000	Forecast Spend in Future Years £000	Forecast (Under)/overspend £000
Children and Adults	52,950	19,789	33,161	19,734	12,072	(1,355)
Regeneration, Culture and Environment	442,253	218,243	224,010	64,017	153,795	(6,198)
Housing Revenue Account	101,201	33,566	67,636	22,080	45,556	0
Business Support Department	2,750	2,320	430	386	44	0
Total	599,155	273,918	325,237	106,217	211,467	(7,553)

Table 8: Funding the Capital Budget

Funding Source	Total £000	C&A £000	RCE £000	HRA £000	BSD £000
Capital Grants	64,422	30,469	33,347	606	0
Developer Contributions	5,050	457	4,593	0	0
Capital Receipts	2,488	0	2,229	0	258
RTB Receipts	0	0	0	0	0
Revenue / Reserves	19,029	0	304	18,725	0
Prudential Borrowing	173,938	2,235	123,226	48,304	172
Borrowing in lieu of Capital Receipts	20,284	0	20,284	0	0
Borrowing in lieu of Future Business Rates	16,847	0	16,847	0	0
Borrowing in lieu of Future Rent	11,415	0	11,415	0	0
Borrowing in lieu of Future Section 106 Contributions	0	0	0	0	0
Borrowing in lieu of Future NHS Grant	11,764	0	11,764	0	0
Total	325,237	33,161	224,011	67,636	430

17. General reserves

17.1. As at March 2023 the Council had non-earmarked general fund reserves of £10.238million available to it; a modest increase on the £10.155million previously reported following the completion of the work to produce the 2022/23 and 2023/24 Statement of Accounts. In February 2024 alongside the budget, Council agreed to declassify £5.727million in earmarked reserves that were no longer needed for their original purpose, to increase general reserves to a projected £15.965million. A further review of earmarked reserves and provisions identified a series of relatively small balances (all below £250,000) which no longer need to be held for the purpose they were created, totalling £807,000. These were declassified and transferred to general reserves using the delegation of the Chief Executive. Following this exercise, the Council's general reserves balance stood at £16.772million. In order to fund the Outturn position for 2023/24 the Council use a total of £6.706million of the available reserves; bringing the current general reserves balance to £10.065million.

17.2. The Round 2 revenue budget monitoring report (presented elsewhere on this agenda) projects that the Council will overspend by £11.221million, in excess of the current reserves balance. Officers are again reviewing earmarked reserves balances for any further opportunities to boost the general reserve balance, alongside the work being carried out in services to bring expenditure back to within approved budgets.

18. Conclusions

18.1. This report sets out the outline proposals that will form the basis of the 2025/26 Capital and Revenue Budgets to be agreed by the Council in February 2025. There is a statutory requirement for local authorities to present a budget that balances to available resources.

18.2. As this report sets out, our current projections for income and expenditure for 2025/26 will require an EFS request totalling £26.177million in order to deliver a balanced budget. Officers and Members will continue to review opportunities to reduce costs and increase income in the period leading up to the Cabinet meeting on 11 February 2025. Overview and scrutiny committees have a vital part to play in this process, both to comment on the approaches outlined in this report and to propose new ones.

19. Risk management

Risk	Description	Action to avoid or mitigate risk	Risk rating
<p>Council fails to deliver a balanced budget and it becomes necessary for the Section 151 Officer to issue a S114 report.</p>	<p>S114 notices are widely reported, reflect poorly on the organisation's ability to govern and would therefore result in reputational damage.</p>	<p>It may be necessary to carry out some or all of the following:</p> <ul style="list-style-type: none"> • stopping all or severely reducing discretionary spend immediately, including cessation of some or all discretionary services; • limiting expenditure on non-discretionary services to the statutory minimum levels; • reduction or deferral of capital spend to reduce overall borrowing and the consequent call on revenue; • freezing recruitment to non essential posts; • seeking opportunities to maximise 	<p>All</p>

Risk	Description	Action to avoid or mitigate risk	Risk rating
		income; and ultimately, use of reserves.	
Funding assumptions underpinning the Draft Budget may be overstated	Our projections. Our projections for Council Tax / Business Rates could be overstated.	Funding assumptions in the Draft Budget are in line with the assumptions prepared by the Council's advisors. Officers and Members continue to work closely to identify savings.	All
Assumptions around the cost of service delivery underpinning the Draft Budget may be understated	The growth in the cost of delivering the Council's services may be higher than anticipated in the Draft Budget, or income may be lower than anticipated.	The pressures reflected in the Financial Outlook were developed in consultation with management across the organisation. Members and officers are working closely together to review the pressures reflected and identify opportunities to reduce them.	All
Inadequate funding	If the local government settlement does not provide sufficient funding, there is a risk to the future sustainability of the local authority sector.	Officers and Members continue to work closely to identify savings.	All

Likelihood	Impact:
A Very likely	I Catastrophic
B Likely	II Major
C Unlikely	III Moderate
D Rare	IV Minor

20. Consultation

20.1. Members are consulted on the development of the final budget as follows:

Initial budget proposals to Cabinet (this report)	19 November 2024
Reports to Overview and Scrutiny	November / December 2024
Budget proposals to Cabinet	11 February 2025
Budget proposals to Council	27 February 2025

20.2. Budget proposals may require formal consultation as required by relevant legislation or as part of the Council's duty to consult on its functions to reduce disadvantage, meet needs, and encouraging participation of individuals with protected characteristics under the Equalities Act 2010. Specific consultation requirements will be determined during the proposal development process, including through the creation of diversity impact assessments.

21. Climate change implications

21.1. There are no direct climate change implications to this report.

22. Financial implications

22.1. Our current projections for income and expenditure for 2025/26 will require an additional request to the government for EFS of £26.177million in order to deliver a balanced budget. The Round 2 Revenue Budget Monitoring Report 2024/25 (presented elsewhere on this agenda) represents a forecast overspend of £11.221million, a sum in excess of the current general reserves balance.

23. Legal implications

23.1. The Council has a statutory duty to set a balanced budget no later than 11 March in the financial year preceding the one in respect of which the budget is set. When developing the budget, the Council needs to be cognisant that is required in law to provide some services, mandatory services, and others where it is a matter of local choice, discretionary services. It is a matter for

the Council to determine what its local priorities are and those which are not. This can assist in determining resource allocation.

- 23.2. Section 17 of this report refers to the potential budget gap for the next financial year. When determining its budget, the Council must have regard to the advice provided by the Chief Operating Officer (its statutory S151 finance officer). The S151 officer is required to report on the robustness of the estimates made for the purposes of the calculations, and the adequacy of the proposed financial reserves.

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Appendices

None

Background papers

[Medium Term Financial Outlook 2024-2029 report to Cabinet 27 August 2024](#)

[Capital and Revenue Budget 2024/25 Report to Full Council 29 February 2024](#)

[Medium Term Financial Outlook 2024-2029 Report to Cabinet 27 August 2024](#)