

Cabinet

26 August 2025

Medium Term Financial Outlook 2025-2030

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Summary

This report sets out initial projections of the Council's income and of the cost of services for 2026/27 and across the medium term.

1. Recommendations

- 1.1. The Cabinet notes the projected budget requirement, the Council's resource assumptions, and the resultant projected budget shortfall for 2026/27 of £29.942million and a cumulative £191.257million shortfall over the medium term.
- 1.2. The Cabinet instructs directorate management teams to continue to work with portfolio holders to identify savings and income generation proposals to balance the 2026/27 budget.
- 1.3. The Cabinet recommends to Council the declassification of £1.597million from the Collection Fund Adjustment Reserve to increase the General Reserve balance.

2. Suggested reasons for decisions

- 2.1. The Medium Term Financial Outlook (MTFO) provides the framework that underpins the budget setting process for 2026/27 and beyond.

3. Budget and policy framework

- 3.1. The Cabinet is responsible for developing a draft revenue budget ahead of presenting its budget proposals for approval by Full Council in February of each year. This MTFO identifies the key issues that will need to be addressed in order for the Council to balance its budget in the coming years.

4. Background

- 4.1. The MTFO 2024-2029 presented to the Cabinet in August 2024 indicated a potential budget gap for 2025/26 of £28.844million, or £45.147million excluding Exceptional Financial Support (EFS). This cumulative projected gap rose to £114.205million across the medium term. During the following months the projections were refined based on the latest activity data, challenging costs and reassessing the trends projected. That work had reduced the potential gap to £26.177million by the time the Draft Budget was presented to the Cabinet in November 2024. The provisional Local Government Finance Settlement resulted in an increase of £10.833million to the Council's resources compared to the Draft Budget projections. The Government agreed in principle to the Council's EFS request and the final budget for 2025/26 was balanced with £18.484million through a capitalisation direction.
- 4.2. Alongside the 2025/26 Budget, in February 2025 Council agreed an updated set of medium term projections for 2026/27 and beyond. These represented growth on the net budget requirement of £25.208million, while funding was projected to grow by £33.536million. There was therefore a projected budget gap of £10.070million, however an error in the calculation omitted £1.484million of expenditure from that gap, which should have been £11.554million.
- 4.3. The Capital and Revenue Outturn for 2024/25 was reported to the Cabinet on 3 June 2025, and represented a net overspend on the cost of services of £5.497million. The Government agreed in principle to the Council's expanded EFS request for 2024/25, taking the total support required to £20.239million. This is within the amount of support agreed in principle by the Secretary of State of £23.171million.
- 4.4. The result of the first round of the Council's revenue budget monitoring for 2025/26 was reported to the Cabinet on 29 July 2025 and projected an overspend of £10.948million, a figure in excess of the general reserve balance at 31 March 2025 of £10.061million.
- 4.5. The projections in this MTFO have been developed by Directorate Management Teams based on the data available to date, and work to refine the assumptions will continue alongside the development of proposals to address the potential budget gap identified in advance of the Full Council meeting in February 2026.

5. Summary of Medium Term Financial Projections

- 5.1. The initial projections in this MTFO represent an increase in the cost of services of £44.987million compared to the 2025/26 approved budget, an increase of £19.779million compared to the projections approved alongside the 2025/26 Budget in February 2025. Alongside unavoidable demand and price pressures, this MTFO includes a number of investment items and Corporate Management Team are working with Cabinet Portfolio Holders to decide which of these will feature in the 2026/27 budget.

- 5.2. Recognising the financial challenges facing local government, the Government has outlined plans to reform funding, introducing multi-year settlements, reducing the number of grants and conditions and making significant changes to the way funding is distributed between councils based on an updated assessment of needs. The Government published its Spending Review (SR) on 11 June 2025, setting out departmental budgets for revenue spending for the three years 2026/27 to 2028/29, and launched a consultation on funding reforms; the Fair Funding Review 2.0. The SR represents only modest additional resources and it is not possible to determine with any confidence the future funding streams the Council can expect. This MTFO therefore retains the income projections published alongside the 2025/26 budget in February 2025 as reflecting our best estimate at this stage, representing total income growth of £33.279million compared to the 2025/26 approved budget. Two other scenarios are however provided for information: a more optimistic scenario at Appendix 5 and a more pessimistic scenario at Appendix 6.
- 5.3. This MTFO therefore suggests that it will again be necessary for the Council to see support from the government through the Exceptional Financial Support (EFS) scheme. It is however expected that the Council will ultimately seek support at a much lower level than the gap projected in this MTFO, reflecting the impact of the Government's Spending Review and savings and income proposals the Council is working to identify.
- 5.4. Table 1 overleaf summarises the projections developed by Directorate Management Teams and their impact on the budget requirement over the medium term.

Table 1: Summary of Medium-Term Financial Projections

General Fund Activities	2025/26 Budget	2026/27	2027/28	2028/29	2029/30
	£000s	£000s	£000s	£000s	£000s
Adult Social Care	106,829	125,784	137,445	149,086	161,646
Directorate Management Team	2,641	2,641	2,641	2,641	2,641
Children's Services	76,872	79,635	82,953	85,426	87,987
Education	112,994	117,102	118,509	120,019	121,652
Partnership Commissioning	4,181	4,181	4,181	4,181	4,181
Public Health	17,446	19,202	20,019	20,899	20,899
School Retained Funding and Grants	43,626	47,967	52,436	57,040	61,780
Pay award	0	2,155	4,375	6,662	9,017
Total for Children and Adults	364,589	398,668	422,560	445,955	469,803
Culture & Community	27,973	30,919	31,515	31,555	31,928
Director's Office	710	810	910	1,010	1,110
Front Line Services	40,083	44,080	46,185	50,280	51,776
Regeneration	9,379	10,886	10,706	10,786	10,866
Medway Norse Profit Share	(269)	(269)	(269)	(269)	(269)
Pay award	0	1,059	2,151	3,274	4,432
Total for Regeneration, Culture and Environment	77,876	87,485	91,197	96,636	99,843
Communications	1,807	2,022	2,022	2,022	2,022
Directorate Management Team	800	800	800	800	800
Finance & Business Improvement	21,554	22,543	22,780	23,034	23,288
Legal & Governance	6,557	6,899	7,006	7,044	7,084
Pay award	0	838	1,700	2,589	3,504
Total for Business Support	30,717	33,101	34,309	35,489	36,698
Corporate Management	5,381	5,539	5,701	5,869	6,043
Interest & Financing	18,107	16,865	16,865	16,865	16,865
Total Corporate Management	23,489	22,404	22,567	22,734	22,908
Total for Business Support and Corporate Management	54,206	55,505	56,875	58,223	59,606
Additional Government Support Expenditure	3,988	3,988	3,988	3,988	3,988
Contribution to General Reserves	0	0	5,000	5,000	5000
Total Projected Budget Requirement	500,659	545,646	579,621	609,802	638,239

Funding	2025/26 Budget	2026/27	2027/28	2028/29	2029/30
	£000s	£000s	£000s	£000s	£000s
Council Tax	(170,516)	(178,934)	(189,809)	(201,341)	(213,570)
Retained Business Rates	(55,086)	(56,187)	(57,311)	(58,457)	(59,627)
Business Rates Related Grants	(21,721)	(15,453)	(15,727)	(16,071)	(16,414)
Non ringfenced Government Grants	(13,192)	(31,721)	(30,965)	(30,144)	(29,328)
New Homes Bonus	(1,311)	0	0	0	0
Education Related Grants	(144,874)	(149,215)	(153,684)	(158,288)	(163,028)
Children Social Care Related Grants	(3,828)	(3,861)	(3,895)	(3,930)	(3,965)
Adult Social Care Related Grants	(35,251)	(43,944)	(47,730)	(51,516)	(55,302)
Public Health Grant	(20,347)	(20,347)	(20,347)	(20,347)	(20,347)
Housing Related Grants	(4,862)	(4,862)	(4,862)	(4,862)	(4,862)
Extended Producer Responsibility	(4,873)	(4,616)	(3,642)	(3,642)	(3,642)
Additional Government Support	(6,563)	(6,563)	(6,563)	(6,563)	(6,563)
Budgeted Use of Earmarked Reserves	0	0	0	0	0
Budgeted Use of Reserves	(50)	0	0	0	0
Exceptional Finance Support Scheme	(18,184)	0	0	0	0
Estimated Available Funding	(500,659)	(515,704)	(534,536)	(555,162)	(576,649)
Total Projected Budget Gap	0	29,942	45,085	54,640	61,591

6. Revenue budget requirement projections

- 6.1. In addition to the projections identified by each Directorate, the following projections have been calculated centrally, as detailed below.
- 6.2. **Staff pay:** The last two years have seen significant additional investment in staff pay, with 5% cost of living increases for all staff in 2024/25 and 2025/26 along with funding to deliver the MedPay review across all services. This MTFO continues to reflect the assumption that a 3% uplift will be the starting point for negotiations with the unions for 2026/27 and each year to 2029/30, broadly in line with pay uplifts across the public sector. This represents a pressure of £4.052million in 2026/27. This MTFO reflects the assumption that the MedPay review will be concluded for the remaining teams, along with the review of senior leader pay, within the remainder of the allocations added for 2025/26 and does not include any further investment in the MedPay review impacts. The MTFO also reflects the potential impact of an exercise to realign Adult Social Care staffing budgets to reflect workforce requirements, adding £2.079million to the projections at section 7.2 and Appendix 1.

- 6.3. **Impact of Business Rates Increases on Council owned/occupied property:** The Council administers and collects Business Rates in respect of commercial premises in the area, with the share of this income retained locally along with related grants representing a projected income of more than £76million for 2025/26. 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 with rates being uplifted each year by the Government. This MTFO therefore projects that it will be necessary to increase the budget for 2026/27 by £300,000 to fund the Business Rate liabilities for the corporate property estate. This projection is shown in the Regeneration, Culture and Environment summaries at Section 8 of this report.

7. Directorate Expenditure projections – Children and Adults

- 7.1. The expenditure projections relating to Children and Adults represent a total growth in the cost of services for 2026/27 of £34.079million, including £2.155million for pay uplifts as set out in Section 6.2. Details of each projection are provided at Appendix 1.
- 7.2. Adult Social Care costs are projected to increase by a net £18.954 million in 2026/27. The primary drivers are the cost of placements in excess of the current year budget (referred to as the cost of current service pressure) of £7.596million and uplifts of £6.504million (broadly 5% a year across the medium term) to progress towards the fair cost of care and to reflect inflation and support the increased national minimum wage pay to carers by providers. The Council is legally obliged to provide care for all eligible individuals regardless of payment status. Demographic growth projected at 3% adds £3.137million to 2026/27 with further growth of 3% a year across the medium term. The service remains committed to reduce bad debt and work with clients and their families to reduce outstanding debts, however a £500,000 contribution to the provision for bad debt is included in 2026/27 and 2027/28 to reflect care charges unlikely to be recovered. An exercise to realign expenditure to maximise delivery through the Public Health Grant reduces the expenditure budget here by £568,000. An additional allocation of £1.906million has been designated to support key service transformation priorities. This funding will address areas for improvement highlighted by the Care Quality Commission (CQC), manage the impact of agency staffing costs, and cover increased annual support and maintenance requirements across all Children and Adults IT systems. It also includes investment in the implementation of the Magic Notes AI tool, aimed at enhancing operational efficiency and service delivery. A £2.200 million investment has already driven substantial transformation, delivering measurable improvements across key service areas, and this MTFO reflects the removal of this funding for 2026/27. The positive outcomes achieved in 2024/25, including significant savings and cost avoidance are being sustained into the current year and beyond. The projected increase reflects the continued deployment of dedicated resources to lead and embed ongoing CQC Improvement and Transformation initiatives. Current savings targets remain on track, underpinned by steady progress against the Finance and Improvement Plan. National pressures like rising

demand, workforce challenges, and financial strain are mirrored locally, making budget sustainability more complex. Despite these ongoing challenges, the service remains focused on innovation, cost management, and delivering high-quality support for residents.

- 7.3. Expenditure projections relating to Children's Social Care represent a budget requirement increase of £2.764million in 2026/27. As with Adult Social Care and as in previous years, this pressure is primarily driven by demographic growth estimated at a further 50 placements each year over the medium term compared to the current budget, adding £1.199million in 2026/27. An allowance for price uplifts at reflecting inflation and pay uplifts by providers at broadly 3.6% adds £1.798million in 2026/27 with a further 2% year increase projected across the medium term. The projections include £568,000 running costs for the new specialist 5-bed care home being developed at Aut Even and a further £693,000 in 2027/28, and investment of £234,000 in 2026/27 and a further £241,000 in 2027/28 to recruit more Internal Foster Carers. It will be necessary to increase the contribution to the bad debt provision by a further £100,000 each year over the medium term. Finally, an exercise to realign expenditure to maximise delivery through the Public Health Grant reduces the expenditure budget here by £1.136million.
- 7.4. The impact on the Council's general fund of delivering Education services is projected to increase by a total of £4.109million in 2026/27, primarily driven by growth in pupil numbers and demand for EHCPs. For transport, lower provision costs were achieved as part of the FIT plan work in the last financial year, and the proportion of pupils with EHCPs receiving SEND transport is targeted to reduce by 5%, with both these mitigations the increase in transport costs has been reduced to £1.528million for SEND transport and £345,000 for mainstream transport for 2026/27. The MTFO includes projected growth across the medium term for SEND transport adding c£1.2million a year, with a further c£350,000 each year for mainstream transport. Due to the doubling of requests for needs assessments, it is necessary to invest in additional staffing in order to meet statutory SEND assessment timeframes, projected to cost £1.600million. The new statutory duties arising from the Children's Wellbeing and Schools bill are expected to increase costs by £165,000. A projected cut in the level of Early Years Block Dedicated Schools Grant that the Council would retain results in a pressure of £450,000. The projections also include investment of £150,000 in the Information, Advice and Guidance and Post-16 services, to fund staffing and engagement work in response to the doubling of the numbers of young people not in education, employment or training (NEETs). Finally, the service is exploring further use of AI to support the compilation of Education Health and Care Plans (EHCPs) and are projecting this will save £140,000 in 2026/27.
- 7.5. Schools related expenditure is projected to increase by £4.341million, reflecting the extent to which we anticipate ring-fenced funding for these services will increase in 2026/27, as set out in section 12.10.
- 7.6. Partnership Commissioning is projected to deliver within the 2025/26 budget envelope, excluding staff pay uplifts.

- 7.7. Public Health is projected to deliver within the 2025/26 grant allocation and reflects the impact of an exercise to realign expenditure to maximise delivery through the Public Health Grant, which will see direct expenditure in Public Health services increase as budgets in Adult Social Care and Children's Services reduce, as set out above.

8. Expenditure projections – Regeneration, Culture and Environment

- 8.1. The expenditure projections relating to Regeneration, Culture and Environment represent a total growth in the cost of services for 2026/27 of £9.608million, including £1.059million for pay uplifts as set out in Section 6.2 of this report. Details of each projection are provided at Appendix 2.
- 8.2. Expenditure projections relating to Culture and Community services represent a budget requirement increase of £2.946million in 2026/27. The continued level of demand and high cost of providing temporary accommodation for homeless households is the primary driver at a pressure of £1.000million, with a further £500,000 cost projected in 2027/28. The projections for 2026/27 include a significant package of investment to enhance the Council's greenspaces, with £432,000 additional staffing required and £364,000 projected direct maintenance costs. The projections include the investment of £600,000 in permanent staffing to enable the Libraries service to continue ensure the safe continuous delivery of services. A pressure of £300,000 in 2026/27 and a further £50,000 each year over the medium term arises from the rising cost of ensuring the safety and meeting rising production costs relating to the Dickens and Sweeps festivals and the broader events programme, while investment of £100,000 in 2026/27 and 2027/28 would enable the Council to celebrate Rochester Castle reaching its 900th year in 2027. The impact of inflationary increases on contracts in this area, utilities costs and increased business rates payable (as set out in section 6.3) along with the increased contribution to the STG Building Control Partnership collectively add £556,000. Projections for inflation and utilities for future years included are based those of the Office of Budgetary Responsibility. The addition of £96,000 staffing is projected to deliver additional income from the Council's sports and leisure facilities of £492,000 in 2026/17 and further additional income yields of c£140,000 each year across the medium term. The addition of £70,000 is required to support the visitor economy, however the significant progress made towards the delivery of the Local plan enables the Planning service to reduce expenditure delivering a net saving of £80,000 in 2026/27, with further savings projected of £200,000 in 2027/28 and £120,000 in 2028/29.
- 8.3. The Directors Office budget requirement is projected to increase by £100,000 each year over the medium term, representing an increased provision for bad debt.
- 8.4. The cost of Front Line Services is projected to increase by £3.997million in 2026/27. 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 £1.713million in 2026/27. Projections for inflation and utilities for future years

included are based those of the Office of Budgetary Responsibility. The projections include investment of £810,000 into the maintenance of highways and footways required to keep the network operating smoothly. Costs associated with the delivery and enforcement of the Safer, Healthier Streets programme, including technical support and increased administration costs result in a pressure of £1.795million, however the schemes, alongside Highways and Parking are projected to deliver £1.088million in additional income in 2026/27 and a further £260,000 in 2027/28. Contractual price increases for the subsidised yellow bus routes are projected to require a further £422,000, the costs of providing Concessionary travel including the Medway youth Pass adds £110,000 and meeting the Government's Simpler Recycling requirements will add £50,000. Finally, increasing utilities costs including streetlighting, and business rates payable (as set out in section 6.3) are projected to increase spend by £186,000. In future years, the impact of compliance with new environmental schemes including the Emissions Trading and Simpler Recycling schemes, and the anticipated ban on sending biodegradable waste to landfill are projected to add £1.477million in 2027/28, a further £3.184million in 2028/27 and £554,000 in 2028/29. However, the Government is funding local authorities through the Extended Producer Responsibilities for Packaging grant, as set out in section 12.16.

- 8.5. The Regeneration projections add a total of £1.507million to the budget requirement in 2026/27. As the assets declared surplus through the property rationalisation programme are sold, the loss of rental income manifests as a pressure here, projected at £1.242million. There is however an assumption in that expenditure on Interest & Financing will fall by the same amount as borrowing is reduced offsetting this. The delivery of the James Williams Healthy Living Centre in the Pentagon during the year is projected to result in a net saving of £48,000. The projections reflect the investment of £500,000 in a package of support for High Streets, including funding a Chatham and Gillingham Safe & Clean High Streets Initiative, seed-funding for regeneration enablement funds for Gillingham and Rainham, markets improvements and support for town centre forums. Reductions in the grant funding for Medway Adult Education and Multiply create a pressure of £245,000 in 2026/27, however the service anticipates this shortfall could be corrected and are projecting to reduce budget again from 2027/28. Finally, the impact of inflationary increases on contracts in this area, utilities costs and increased business rates payable (as set out in section 6.3) add £173,000 in 2026/27, and projections for inflation and utilities for future years included are based those of the Office of Budgetary Responsibility. It is anticipated that the review of Facilities Management arrangements, including re-procuring elements of this work would deliver a saving of £606,000.

9. Expenditure projections – Business Support

- 9.1. The expenditure projections relating to Business Support represent a total growth in the cost of services for 2026/27 of £2.384million, including £838,000 for pay uplifts as set out in Section 6.2. Details of each projection are provided at Appendix 3.

- 9.2. The 2025/26 budget included investment in additional staffing in Communications to enable the service to meet growing demands and support income generation across the Council. The projections for 2026/27 reflect the full year impact of that investment, adding £155,000 to the budget requirement for next year. The projections also include an additional £60,000 investment in the delivery of Child Friendly Medway programmes.
- 9.3. The Finance and Business Improvement projections represent growth in the budget requirement of £989,000 for 2026/27. By March 2026 the Government aims to have completed the migration of working age claimants of Housing Benefit, administered by local authorities, to Universal Credit which is administered by the Department for Work and Pensions. This leaves local authorities administering Housing Benefit for pensioners, specified accommodation and temporary accommodation cases only, claim types which are not fully subsidised by the Government. In 2025/26 the budgeted level of Council funded benefits paid was £911,419, which is projected to rise by £350,000 in 2026/27, by a further £100,000 each year over the medium term while the level of government administration grant is projected to fall by c£30,000 each year from 2027/28 onwards. Having delivered specialist financial welfare support for Medway residents with a cancer diagnosis in partnership with Macmillan for many years, in 2024 at Macmillan's request the Council expanded to serve North and West Kent residents. Macmillan are currently consulting on the future of directly funded services and Medway's funding is not confirmed beyond June 2026, so would add a pressure of £365,000 if the national scheme ends. The Council is currently operating in a pilot for the Supported Housing Improvement Programme, which aims to help improve and uphold standards of supported housing for vulnerable people. Continuing this work beyond the end of the period for which the Government has confirmed funding is projected to cost £37,000. Inflationary uplifts on the corporate ICT software and hardware licensing managed here add £198,000 in 2026/27 and a further c£130,000 each year across the medium term. Income pressures in the Customer and Business Support add a further £56,000. Finally, the correction of a series of income budgets in HR and Organisational Culture results in a net saving of £32,000.
- 9.4. The cost of Legal, Contracts and Governance is projected to increase by £342,000 in 2026/27. The primary driver is a £256,000 pressure on the cost of supporting Children's Services legal proceedings. The cost of a required upgrade to the Legal Services case management system is estimated at £65,000, however this is anticipated to generate savings in future years. In 2027/28 the service projects costs of £120,000 relating to other necessary ICT upgrades and maintenance costs. The interface with His Majesty's Land Registry and other ICT licensing costs along with inflationary uplifts on practising certificates collectively add £25,000. The projected uplift of Members Allowances in line with the staff pay uplift projection will add £36,000 in 2026/27 and reflects a 3% increase each year across the medium term. These pressures are partially mitigated by savings on £40,000 across Legal Services supplies and services budgets.

10. Expenditure Projections – Centralised Services

10.1. The expenditure projections relating to Centralised Services represent a total reduction in the cost of services for 2026/27 of £1.085million. Details of each projection are provided at Appendix 4.

10.2. **Corporate Management**

10.2.1. Corporate Management includes the budgets in respect of bank charges, external audit fees and organisational membership/subscription fees, and collectively these are projected to add £57,000 to the budget requirement for 2026/27 and in each year across the medium term.

10.2.2. 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 5.5% from 2023/24 to 2024/25. This MTFO projects that the cost to Medway of these levies will increase by a further 5% each year across the medium term, adding a total of £100,000 to the Council's budget requirement for 2026/27.

10.3. **Interest and Financing**

10.3.1. Around 64% of the Council's current capital programme of £229.606million is funded through borrowing and high interest rates continue to impact the financing of the capital programme. The Council also borrows to support day to day cashflow, and to fund the activities of Medway Development Company via onward loans. In addition to borrowing to fund the activities of the Council, the 2025/26 budget also reflects the need to borrow from the Public Works Loans Board (PWLb) to the value of the capitalisation directions the Ministry of Homes, Communities and Local Government (MHCLG) have agreed in principle for Medway.

10.3.2. Where authorities borrow to finance capital spend, we are required under regulations to set aside money each year from the revenue account to make sure we can afford to repay the principal of the debt, known as the Minimum Revenue Provision (MRP). The Council's interest and financing budget also funds the cost of contributions to this provision.

10.3.3. The extent to which projected interest costs and MRP will impact the Council's borrowing is dependent on progress with the agreed capital programme, on any additional capital schemes the Council may agree through the budget build process, and finally the impact of any borrowing that would be required to fund a further capitalisation direction should the Council need to request further support through the EFS scheme. At this stage, in order to fund the budget gap projected in this MTFO, it would be necessary to request an additional £29.942million EFS for 2026/27. This would require a further growth in the Interest & Financing budget of c£1million to fund the borrowing required, however as officers and Members continue to work to reduce this

potential gap, this MTFO does not include any addition to the budget to cover this treasury cost at this stage.

- 10.3.4. As set out in section 8.5, this MTFO reflects the projection that the sale of the Council's surplus assets will result in a reduced borrowing requirement of £1.242million, offsetting the reduction in rental income reflected in the Regeneration division.
- 10.3.5. On 29 July the Cabinet agreed to recommend to Council the addition of a total of c£44million to the Council's capital programme for the development of a Medway Council owned and operated care home at Innovation Park Medway (IPM) South. Due to the need for detailed planning and procurement activity, it is not anticipated that significant expenditure will be made until late 2026 and the impact on the treasury budgets for 2026/27 is therefore expected to be minimal.
- 10.3.6. This therefore assumes the budget will remain as per 2025/26 with the exception of the adjustment for the sale of property assets.

11. Additional Government Grant Schemes – Expenditure

- 11.1. This MTFO assumes the continuation of the MedwayGo and Start 4 Life schemes in their present form, at a cost of £2.576million. SR 2025 has confirmed the continuation of the continuation of the Holiday Activities Fund and Start 4 Life funding, as set out in section 12.11 below.
- 11.2. The MTFO also assumes the continuation of expenditure through the current Household Support Fund but at the reduced level of £3.988million, as SR 2025 confirmed that funding to support the same broad aims would be delivered through a new Crisis and Resilience Fund (CRF) and outlined national allocations, as set out in section 12.11 below.

12. Income Projections

- 12.1. As set out in section 5.2 of this report, the Government published the Spending Review 2025 (SR) on 11 June, setting out the departmental budgets for revenue spending from 2026/27 to 2028/29, however the next SR will take place in 2027 and will update the allocations for 2028/29. The SR sets out 1.2% overall real-terms growth in funding, with increases front-loaded (real-terms growth falls from 1.9% in 2026/27 to 0.9% in 2028/29). Local government's Core Spending Power (CSP) will increase 3.1% real terms between 2023/24 and 2028/29. While this is more positive than other parts of the sector besides the NHS, it falls short of what the sector is projected to need to meet spending pressures. It also represents much smaller increases in funding than have been received in recent years; the average CSP increase between 2019/20 and 2025/26 was 6.9% in cash terms, while this will now fall to around 4.5% over the next three years. The major part of the increase arises from Council Tax with only modest additional grant funding.
- 12.2. The SR represents only modest additional resources and is in line with the projections of our funding advisors in terms of national funding allocations. As

such, the basis for the Medium-Term Financial Projections we published in February 2025 alongside the 2025/26 budget is broadly sound. We do not yet know which specific grants will be rolled into the settlement funding assessment (becoming non-ringfenced) and we are not expecting any clarity around this until the Provisional Settlement is published in November/December.

- 12.3. The most significant impact for Medway will come through the Government's plans to change the methodology for distributing national funding allocations to individual councils. In the Settlement for 2025/26, the Government introduced new grants targeted at the 50% most deprived local authorities and set out its intention to shift the distribution of all funding towards deprivation as a proxy for need as a precursor to the funding reforms planned.
- 12.4. Based on the proposals in the latest phase of the funding reforms consultation, Medway's relatively high Indices of Multiple Deprivation rank would result in us receiving a greater share of national allocations. Our funding advisors are currently projecting that the new methodology would see materially significant gains in the national share of funding allocated to Medway in future, however there is no funding in the settlement for transitional arrangements. Any transitional support for councils who will lose funding will therefore be financed by scaling back the gains in other authorities. As such, our assumption is that Medway will receive significantly less than the new methodology calculates we should in 2026/27, gradually increasing to the 'correct' level by the end of this SR period.
- 12.5. In the absence of any clarity as to the future funding streams the Council can expect, this MTFO holds over the position from the projections approved by Cabinet and Council in February 2025, presented in Table 1 above and summarised below. This represents total income growth of £33.279million compared to the 2025/26 approved budget.
- 12.6. **Council Tax** – the SR 2025 confirmed the assumption made in the February projections, that the referendum principles will remain for Medway as a core referendum threshold of up to 3% per year and as a local authority with social care responsibilities, the ability to set an Adult Social Care Precept of 2% per year without a referendum. The council tax base was projected to grow by 1% in line with actual growth averaged over the last three years. The projections also reflect that it will be necessary to contribute £1.00million each year to the provision for non-collection of debt. The total level of income projected from the Council Tax in 2026/27 is £178.934million.
- 12.7. **Retained Business Rates and Business Rates Related Grants** – the projections reflected the uplift of the business rates multipliers by inflation at 2% (or that local authorities would be compensated if the multipliers were not inflated). The projections also reflected the assumptions of our funding advisors that a full reset of business rates baselines would result in lesser income here but an increased level of non-ringfenced grants. The total level of income projected in 2026/27 is £71.641million.

- 12.8. **Non-ringfenced Government Grants** – the projections reflected the assumptions of our funding advisors that non-ringfenced grants would increase offsetting the reduction in business rates income outlined in section. The total level of income projected in 2026/27 is £31.721million.
- 12.9. **New Homes Bonus** – the projections reflected the cessation of the New Homes Bonus, now confirmed through the SR 2025.
- 12.10. **Education Related Grants** – the projections reflected growth to these grants in line with indicative future grant allocations published by the Department for Education, however as these grants are ring-fenced, this MTFO also reflects additional expenditure equal to the increase in the Schools Retained Funding services budget requirement. The projected income from education related grants in 2026/27 is £149.215million.
- 12.11. **Additional Government Grants** – this MTFO assumes the continuation of the Holiday Activities and Food Scheme (funding MedwayGo) and the Start 4 Life scheme in their present form, alongside hypothecated expenditure to the value of the grants, of £2.576million. In SR 2025 the Government confirmed the funding currently delivering the Household Support Fund would be used to deliver a new Crisis and Resilience Fund (CRF), with broadly equivalent national allocations as in 2025/26. As such, this MTFO reflects an estimated income through the CRF as at the 2025/26 funding level, with equal expenditure reflected in the Additional Government Support Expenditure at section 11 above. The total level of income projected for CRF in 2026/27 is £3.988million. The total level of income projected in 2026/27 is £6.563million.
- 12.12. **Children's Social Care Related Grants** – the projections reflected the assumptions of our funding advisors that these grants would continue at broadly the same allocation as 2025/26. The total level of income projected in 2026/27 is £3.861million.
- 12.13. **Adult Social Care Related Grants** – the projections reflected the assumptions of our funding advisors that these grants would be distributed based on an updated Relative Needs Formula (RNF) for Adults. The total level of income projected in 2026/27 is £43.944million.
- 12.14. **Public Health Grant** – SR 2025 made no announcements relating to the Public Health grant, so this MTFO reflects the projection of our funding advisors that the grant will remain at the 2025/26 level for 2026/27. The total Public Health Grant for 2026/27 is projected to be £20.347million.
- 12.15. **Housing Related Grants** – the projections reflected the assumptions of our funding advisors that these grants would continue at broadly the same allocation as 2025/26. The total level of income projected in 2026/27 is £4.862million.
- 12.16. **Extended Producer Responsibility for Packaging (EPR)** – the projections reflected the assumptions of our funding advisors that these grants would continue at broadly the same allocation as 2025/26. In June 2025 the

Government confirmed the current year allocations as the budget was agreed incorporating the indicative allocations published to that date; Medway's final allocation for 2025/26 and therefore the total level of income projected in 2026/27 is £257,000 less than indicated, at £4.616million.

- 12.17. Alongside these base projections, two further funding scenarios have been compiled. An optimistic scenario is presented at Appendix 5 to this report, and represents total income growth of £41.083million compared to the 2025/26 budget. This scenario assumes that the impact of the Fair Funding Review 2.0 will be immediate, with no transitional protections funded for those authorities who will lose being funded from a slower increase for those who will gain, recognising that those losing have effectively been unfairly overfunded to date. It also assumes there will be transitional protection for all authorities who lose accumulated business rates growth through the reset over the SR period.
- 12.18. A more pessimistic scenario is presented at Appendix 6, representing total income growth of just £21.240million compared to the 2025/26 budget. This scenario assumes that the impact of the Fair Funding Review 2.0 will be phased over the SR period, so those authorities who will see increased shares of national funding will not see those gains materialise fully until year three. This scenario also assumes that the Business Rates Reset will take place with no transitional protection supporting councils who have accumulated significant growth, with growth in grant income dampened by full council tax equalisation.

13. Reserves Strategy

- 13.1. CIPFA states in the Financial Management Code states that "the aim of the authority's financial reserves is to provide funding for investment in future activities and to act as a safety net in case of short-term financial challenges." A Reserves Strategy has been prepared and is presented as Appendix 7 to this report. The Strategy articulates the Council's current reserves position, the governance around use of reserves, actions planned to increase the level of General Reserves and arrangements to ensure reserves are used most effectively to support the Council's medium term financial position.
- 13.2. As at 31 March 2026, the Council is projected to hold £10.011million in general reserves. The General Reserves balance therefore represents less than 2% of the 2025/26 net revenue budget. The Section 151 Officer has set out an aspiration to increase General Reserves to represent 5% of the net revenue budget (c£25.000million) to ensure a sufficient safety net to insulate the Council from financial shocks.
- 13.3. The MTFO reflects this aspiration in the projections for future years. The latest review of the Council's earmarked reserves has concluded that the sum of £1.597million, which had been earmarked to offset projected shortfalls in business rates income as the Covid-19 grant schemes were wound up, is no longer needed as no shortfall materialised and instead the collection fund was in a surplus position at the end of the 2024/25 financial year. Cabinet is

therefore asked to recommend to Council that this sum be declassified from the Collection Fund Adjustment Reserve to increase General Reserves, taking the General Reserves balance to a projected £11.6million at 31 March 2026. This MTFO then reflects the contribution of £5million a year from the revenue budget to build reserves to the level required for General Reserves to meet 5% of the net revenue budget for 2029/30.

14. Conclusions

- 14.1. The Council's initial projections indicate a potential budget gap for 2026/27 of £29.942million, rising to £191.257million across the medium term. Work is underway with Cabinet Portfolio Holders and services identifying potential savings and additional income however after successive years of making savings and increasing efficiency, it is becoming ever more difficult to reduce costs without materially impacting on service delivery. We await the publication of the Government's response to the funding consultations and the policy paper expected from MHCLG in the Autumn, ahead of the publication of the Provisional Local Government Finance Settlement before Christmas. Progress in reducing the projected gap will be reflected in the Draft Budget 2026/27 which will be presented to the Cabinet in November.

15. Risk management

Risk	Description	Action to avoid or mitigate risk	Risk rating
Exceptional Financial Support not granted	The Council's 2024/25 budget was balanced on the basis of a 'minded to' decision from the Minister, subject to a series of conditions. There is therefore a risk that the EFS/capitalisation direction may not be granted, meaning the Council's budget for the current year would not be balanced, meaning the Section 151 Officer would be required to issue a Section 114 Notice.	Close liaison with officers of the Ministry of Homes, Communities and Local Government including supporting the Assurance Review CIPFA have been commissioned by MHCLG to carry out.	CI
Statutory service costs	Further increases may arise in the number of people requiring support across services including Social Care, Housing and SEND, increasing complexity of need and increasing cost of provision than assumed in	Close monitoring of demand for service to identify pressures early, robust budget monitoring.	BII

Risk	Description	Action to avoid or mitigate risk	Risk rating
	our projections.		
Demographic Growth	Further demographic pressures may surface across social care above those assumed in our projections.	Close monitoring of demand for service to identify pressures early, robust budget monitoring.	BII
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 B Likely C Unlikely D Rare		I Catastrophic II Major III Moderate IV Minor	

16. Consultation

- 16.1. The Draft Budget is subject to consultation with Members via Overview and Scrutiny Committees as follows:

Initial budget proposals to Cabinet	18 November 2025
Reports to Overview and Scrutiny Committees	December 2025
Budget proposals to Cabinet	10 February 2026
Budget proposals to Council	26 February 2026

- 16.2. Officers from Finance and Business Improvement will work with the Leader to agree any further consultation required.

17. Climate change implications

- 17.1. Any climate change implications of the decisions underpinning the budget will be set out alongside the Diversity Impact Assessment when Cabinet and Council consider the final budget proposals in February 2026.

18. Financial implications

- 18.1. Our initial projections for income and expenditure result in a potential budget gap for 2026/27 of £29.942million, with a cumulative gap of £191.257million

projected over the medium term.

- 18.2. The first round of the Council's budget monitoring for 2025/26 projects an overspend of £10.948million, in excess of the Council's general reserves, which stand at £10.061million. It will now be necessary for the administration and senior officers to materially reduce expenditure in the current year, and to identify and implement a robust savings programme in order to balance the budget for 2025/26 and 2026/27 while limiting reliance on EFS from the Government.

19. Legal implications

- 19.1. 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.
- 19.2. Section 14 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 Section 151 finance officer). The Section 151 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.

Lead officer contact

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Appendices

Appendix 1 – Children and Adults Pressures and Savings
Appendix 2 – Regeneration, Culture and Environment Pressures and Savings
Appendix 3 – Business Support Department Pressures and Savings
Appendix 4 – Centralised Services Pressures and Savings
Appendix 5 – MTFO: Optimistic Funding Scenario
Appendix 6 – MTFO: Pessimistic Funding Scenario
Appendix 7 – Reserves Strategy

Background papers

Capital and Revenue Budget 2025/26 Report to Full Council 28 February 2025:
<https://democracy.medway.gov.uk/ielssueDetails.aspx?Id=39741&Opt=3>

Children and Adults Directorate Budget Assumptions

Budget assumption	2026/27 £000s	2027/28 £000s	2028/29 £000s	2029/30 £000s
Children and Adults adjusted base budget	364,589	398,668	422,560	445,955
Adult Social Care				
Children & Adults IT Applications - Support and uplifts	25		9	10
PH Substitution funding	(568)			
Cost of Current Service pressure	7,596			
Demographic growth estimated at 3%	3,137	3,426	3,970	4,322
Price Uplift at 5% per annum	6,504	7,034	7,608	8,228
Increase in Adult Social Care Bad Debt Provision	500	500		
Adult Social Care Transformation & CQC Improvements	596	701	54	
Removal of non-recurrent funding allocated for service transformation initiatives	(2,200)			
Realign ASC staffing budgets to reflect workforce requirements	3,365			
Total Adult Social Care	18,954	11,661	11,641	12,560
Children's Services				
Demographic Growth	1,199	1,235	1,272	1,310
Price uplift on placement costs	1,798	1,049	1,101	1,151
Contribution to Corporate Bad Debt Provision	100	100	100	100
Increase placement sufficiency	802	934		
PH Substitution funding	(1,136)			
Total Children's Services	2,764	3,318	2,473	2,561
Education				
Running costs for former Academy buildings handed back to the LA	5	5	5	5
Cost of current service, provision for growth and inflationary uplifts on mainstream transport	345	291	330	395
Inflationary uplifts on SEND contracts	6	7	7	8
Cost of current service, provision for growth and inflationary uplifts on SEND transport	1,528	1,104	1,168	1,224
Saving projected arising from the introduction of Artificial Intelligence to support the compilation of Education, Health and Social Care Plans	(140)			
Cut in centrally retained Early Years Block funding from DSG	450			
Information Advice Guidance & Post 16 - staffing and engagement work due to significant increase in NEETs	150			
Increased staffing capacity to meet statutory assessment timeframes.	1,600			
Children's Wellbeing and Schools Bill additional staffing to meet new statutory duties	165			

Children and Adults Directorate Budget Assumptions

Budget assumption	2026/27 £000s	2027/28 £000s	2028/29 £000s	2029/30 £000s
Total Education	4,109	1,407	1,510	1,632
Public Health Realignment of expenditure to maximise delivery through the Public Health Grant	1,756	817	880	
Total Public Health	1,756	817	880	0
Schools Retained Funding Hypothecated increase in Schools Funding	4,341	4,469	4,604	4,740
Total Schools Retained Funding	4,341	4,469	4,604	4,740
Children and Adults pay increases: COLA Pay award	2,155	2,220	2,287	2,355
Total Children and Adults pay increases	2,155	2,220	2,287	2,355
Directorate summary:				
Adjusted base budget	364,589	398,668	422,560	445,955
Additional expenditure budget required	34,079	23,892	23,394	23,848
Projected budget requirement	398,668	422,560	445,955	469,803

Regeneration, Culture and Environment Directorate Proposed Budget Assumptions

Budget Assumption	2026/27 £000s	2027/28 £000s	2028/29 £000s	2029/30 £000s
Regeneration, Culture and Environment adjusted base budget	77,876	87,485	91,197	96,636
Culture and Community				
Inflationary uplifts on contracts	274	274	274	274
Utilities cost projected increase	85	89	94	94
Increased Business Rates liabilities	150			
Festivals and Events - Direct delivery of Sweeps and Dickensian Christmas	300	50	50	50
Net saving from Planning service	(80)	(200)	(120)	
Additional income from leisure facilities	(492)	(143)	(185)	(75)
Library front line staff	600			
STG Partner contributions	47	26	28	31
Temporary accommodation pressure	1,000	500		
Visitor Economy investment	70			
Rochester Castle 900 Celebration	100		(100)	
Additional sports officers	96			
Investment to enhance greenspaces - Staffing	432			
Investment to enhance greenspaces - Maintenance costs	364			
Total Culture and Community	2,946	596	40	373
Directors Office				
Increase in Corporate Bad Debt Provision	100	100	100	100
Total Directors Office	100	100	100	100
Front Line Services				
Inflationary uplifts on contracts including waste and highways	1,713	1,308	1,364	1,422
Utilities cost projected increase	136	143	150	150
Increased Business Rates liabilities	50			
Maintenance of Highways and Footways	810			
Costs associated with the delivery and enforcement of the Safer, Healthier Streets programme	1,795			
Additional Highways & parking income	(1,088)	(260)		
Bus subsidy contract payments	422			
Concessionary Travel, Medway Youth Pass	110			
Emissions trading scheme		776	2,391	63
Simpler recycling - additional costs	50	248	48	1
Biodegradable landfill waste ban			276	6
Kennels, associated long terms savings and income potential.		(110)	(134)	(145)
Total Front Line Services	3,997	2,105	4,095	1,496

Regeneration, Culture and Environment Directorate Proposed Budget Assumptions

Budget Assumption	2026/27 £000s	2027/28 £000s	2028/29 £000s	2029/30 £000s
Regeneration				
Utilities cost projected increase	73	76	80	80
Increased Business Rates liabilities	100			
Impact of delivering HLC in the Pentagon	(48)			
Property income lost due to capital sales	1,242			
Medway Norse savings from internalising FM contracts	(606)			
Reductions in the grant funding for Medway Adult Education and Multiply	245	(245)		
Chatham and Gillingham Safe & Clean High Streets Initiative	271			
Gillingham Regeneration Enablement Fund	75			
Rainham Reimagined Enablement Fund	75			
Town Centre Forum Development	5			
Market Strategy implementation	17	(11)		
Develop Chatham Taskforce	57			
Total Regeneration	1,507	(180)	80	80
RCE Pay				
COLA Pay award	1,059	1,091	1,124	1,158
Total Regeneration, Culture and Environment pay increases	1,059	1,091	1,124	1,158
Directorate summary:				
Adjusted base budget	77,876	87,485	91,197	96,636
Additional expenditure budget required	9,608	3,712	5,439	3,207
Projected budget requirement	87,485	91,197	96,636	99,843

Business Support Department Budget Assumptions

Budget Assumptions	2026/27 £000s	2027/28 £000s	2028/29 £000s	2029/30 £000s
Business Support Adjusted Base Budget	30,717	33,271	34,458	35,638
Communications				
Child Friendly Medway - Additional investment	60			
Full year Effect of additional permanent resource to meet growing service demand for marketing support to help services meet objectives and income targets	155			
Total Communications	215	0	0	0
Finance & Business Improvement				
Internal Audit & Counter Fraud - Increase budgeted income to levels actually achieved	(65)			
Housing Benefit admin grant reduction - move to UC		28	29	30
Benefits subsidy projection - move to UC	350	100	100	100
Macmillan team costs if funding ends/reduces	365			
SHIP - continue after funding ends - staff cost	37			
Increased Postage costs	80			
Inflationary uplifts on the corporate ICT software and hardware licenses	198	131	133	133
Correction of income budgets for Customer and Business Support	56	(13)		
Correction of Income budgets in HR and Organisational Culture	(32)	(9)	(9)	(9)
Total Finance & Business Improvement	989	238	253	255
Legal & Governance				
Members Allowances uplift	36	37	38	39
Upgrade to Legal services case management system	65	(50)		
ICT Licencing costs and uplifts	25	120		
Children's Legal BSD Counsel/Process Servers - increase to reflect current cost	256			
Savings on Centralised Legal Budgets	(40)			
Total Legal & Governance	342	107	38	39
Business Support Department pay increases				
COLA Pay award	838	863	889	915
Total Business Support pay increases	838	863	889	915

Department summary:				
Adjusted base budget	30,717	33,271	34,458	35,638
Additional expenditure budget required	2,384	1,207	1,180	1,209
Projected budget requirement	33,101	34,309	35,489	36,698

Centralised Services Budget Assumptions

Budget assumptions	2026/27 £000s	2027/28 £000s	2028/29 £000s	2029/30 £000s
Centralised Services adjusted base budget	23,489	22,405	22,569	22,737
Corporate Management				
Projected inflationary uplifts to Levies	100	105	111	116
Treasury expenses - historic pressure on bank charges and projected increase in cost over life of new banking contract	7	7	7	7
Core Audit fee increase projected based on approved PSAA uplifts	50	50	50	50
Total Corporate Management	157	162	168	173
Interest and Financing				
Interest & Financing - Saving on I&F budget due to capital receipts from sale of investment properties	(1,242)			
Total Interest and Financing	(1,242)	0	0	0
Centralised Services summary:				
Adjusted base budget	23,489	22,405	22,569	22,737
Additional expenditure budget required	(1,085)	162	168	173
Projected budget requirement	22,404	22,567	22,734	22,908

Medway Council Reserves Strategy 2025/26

Introduction

CIPFA states in the Financial Management Code that *“the aim of the authority’s financial reserves is to provide funding for investment in future activities and to act as a safety net in case of short-term financial challenges.”*

The Council has managed its reserves effectively in line with this aim to date, including growing the level of General Reserves from £5million in March 2018 to almost £27million in March 2022 including doubling the minimum working balance required by the Section 151 Officer to £10million. Since then, it has been necessary to use reserves to manage the significant budget pressures impacting all local authorities, particularly those with upper tier responsibilities, however the Council has maintained the level of General Reserves at a level above the minimum required.

The introduction of a Reserves Strategy during 2025/26 is intended to increase transparency and improve the level of awareness across the Council. It will help our officers and Members to understand our reserves and ensure that they are actively managed, proportionate to the risks and uncertainties the Council faces and provide a degree of financial resilience.

The Strategy sets out the Council’s current reserves position and explains why effective management of reserves is important and how we make decisions about the level of reserves we hold. It also articulates our aspirations and the action planned to increase the level of General Reserves, alongside arrangements to ensure reserves are used most effectively to support the Council’s medium term financial position.

This strategy relates primarily to the Council’s usable reserves and the distinction between these and its unusable reserves is explained below:

- **Usable reserves:** these are cash-backed and are available to the Council to finance its activities in future years. They can be either revenue or capital.
- **Unusable reserves:** these are created by movements in the value of the Council’s assets and liabilities, and are therefore not cash-backed, so are not available to the Council to finance future activity. The most significant reserves included in this category for Medway are the Revaluation Reserve, Pension Reserve and Capital Adjustment Account. Their purpose is of a technical accounting nature and cannot be used to support the services of the authority.

In addition to its reserves, the Council holds a variety of provisions on its balance sheet. Local Government accounting rules require Councils to be prudent in the way they manage their finances, and as such if there is a possibility that a financial expense will be incurred in the future, councils must provide for an estimate of this cost. For example, despite its best efforts, it is unlikely that the Council will recover 100% of the council tax and business rates owing in the financial year. Therefore,

officers will make an estimate of the percentage amount that is considered doubtful and provide for this amount in a provision for 'bad' or doubtful debts.

Summary of Reserve Balances

The Council holds reserves for a range of purposes, including to mitigate financial risks such that the risk materialising would not undermine the Council's financial position or service delivery, to ensure the Council meets funding conditions that restrict the use of grants or developer contributions, to accumulate funding for larger investments and projects in the future (including transformation) or to build up sums to cover potential damage to assets (i.e. self-insurance). The (Draft) Statement of Accounts for 2024/25 sets out the Council's reserve balances as follows:

Reserve classification	Balance at 31/03/2025 £000s	Commentary
Revenue Reserves		
General Reserve	10,061	This is the 'working balance' of the Council and acts as a contingency to fund unforeseen eventualities.
Housing Revenue Account	7,206	This contains any surplus or deficit arising from the provision of social housing by the Council and earmarked Housing Revenue Account reserves. It can only be used for local authority housing provision.
Earmarked General Fund Reserves	27,462	These are reserves created to fund specific revenue or capital expenditure relating to the General Fund, for example, for building repairs and maintenance or ICT replacement. Revenue Section 106 contributions also sit here.
Insurance Fund	2,414	This fund supports the management of the Council's insurance arrangements, with some risks self-insured and external insurance policies in place for others. Premiums and settlements relating to claims along with staffing and administration costs are charged to the Fund and the total cost is recharged to Council service budgets alongside the support service recharges.
Schools Balances	852	Balances held by the local authority on behalf of schools.
Dedicated Schools Grant Reserve	7,131	Significant increases in Special Educational Needs (SEN) expenditure in 2018/19 and 2019/20 was transferred here. The deficit on this reserve was transferred to an unusable reserve, the Dedicated Schools Grant Adjustment Account during 2020/21, the purpose of which will be to manage the deficit on Schools Budgets that would otherwise impact on the Earmarked Schools Reserves. Statutory arrangements require that the impact on the General Fund balances is neutralised by this transfer.
Capital Reserves	60,143	This range of reserves contains Government grants, other contributions (e.g. Section 106) and capital receipts, which are held to finance future capital expenditure.
Total Usable Reserves	115,269	
Total Unusable Reserves	414,433	

Strategic aim to build reserves

Since 2010 local authorities have been operating in an extremely challenging environment, with limited funding increases and ever-growing pressures on statutory services. As a result, local authorities are exposed to and are required to manage increasingly higher levels of risk and an effective reserves strategy, supporting an adequate level of reserves, is a key tool in support of the effective management of financial risks.

As at 31 March 2026, the Council is projected to hold a circa £10.0million General Fund balance. The General Reserves balance therefore represents less than 2% of the 2025/26 net revenue budget. This Strategy sets a target to increase the General Fund balance to a level commensurate with 5% of the annual Budget Requirement to ensure a sufficient safety net to insulate the Council from financial shocks.

The Medium Term Financial Outlook 2025-2030 projects that the Council's net revenue budget will reach £576million in 2029/30, which would therefore require General Reserves of circa £29million to reach this 5% aspiration, a growth of £19million compared to the current level.

As set out in the 'Governance, management and monitoring' section below, the Council carries out a review of its reserve balances at least twice each year. The latest review of the Council's earmarked reserves has concluded that the sum of £1.6million, which had been earmarked to offset projected shortfalls in business rates income as the Covid-19 grant schemes were wound up, is no longer needed as no shortfall materialised and instead the collection fund was in a surplus position at the end of the 2024/25 financial year. This sum can therefore be declassified from earmarked reserves to increase General Reserves, taking the General Reserves balance to a projected £11.6million at 31 March 2026.

The Medium Term Financial Outlook projections from 2027/28 onwards reflect the contribution of £5million each year from the revenue budget to General Reserves. If these sums were to be incorporated into the budgets for those financial years, the Council's General Reserves would stand at a projected £26.6million, representing almost 5% of the projected Budget Requirement by 2029/30.

Governance, management and monitoring

The Council's Constitution determines that the Chief Operating Officer is the officer responsible for the proper administration of the authority's financial affairs in line with Section 151 of the Local Government Finance Act 1972. In delivering this role, the Chief Operating Officer has operational responsibility for the management of the Council's reserves, alongside the Council's insurance cover and insurance fund, and is supported to do so by the Chief Finance Officer and the Heads of Revenue and Corporate Accounts. The Chief Operating Officer is required to report to the Council annually on the robustness of estimates and financial reserves, with this requirement met through the Section 25 report from this Officer included in the annual budget reports to Cabinet and Council each February.

Reserve balances held are monitored regularly by the Chief Operating Officer and the Finance Team, with full reviews carried out at least twice each year; in the process to produce the Medium Term Financial Outlook (presented to the Cabinet in August of each year) and again in the process to finalise the budget for the coming year (presented to the Cabinet and Council in February of each year).

The Constitution does not include any delegated responsibility for decisions around the creation, management, use or removal of reserves or provisions (aside from the Insurance Fund referenced above) and as such, all decisions are a matter for Council following recommendations from the Cabinet, typically via the Budget and Budget Monitoring reports from Finance. The Budget and Policy Framework Rules in the Constitution do however define budget transfers and virements as applying to both revenue and capital budgets and the creation or use of reserves, as follows:

- Budget Transfer: A movement of budget between two or more cost centres to reflect changes in structures or reallocation of recharges, but where the original purpose of the budget remains unchanged.
- Budget Virement: A movement of budget between two or more cost centres where the budget is being redeployed to fund a different service or activity from that for which it was originally allocated.

The Constitution then sets out the Budget Virement limits as follows:

Limits applicable to the Cabinet:

- i. Revenue item up to £1,000,000
- ii. Capital item up to £2,000,000

Limits applicable to Chief Executive and directors:

- i. Revenue item up to £500,000
- ii. Capital item up to £1,000,000

Guiding principles in the use of reserves

Just as the creation and maintenance of the Council's reserves arises in a structured way through the process to develop the annual budget, so too must the release of reserves be similarly planned and controlled. The key principles are:

- All planned use of reserves will be included in the Council's annual budget reports to Cabinet and Council each February.
- The creation of any new reserves, movements between reserves and/or the release of any reserves to the revenue budget be reported to the Cabinet through the Revenue Budget Monitoring Reports.
- The Chief Operating Officer must agree to any action that will result in a change to the level of General Reserves.
- Reserves cannot be used to fund overspends without the Cabinet agreement of a plan to mitigate the causes of the overspend.