

## **Cabinet**

**18 November 2025**

### **Revenue Budget Monitoring – Round 2 2025/26**

Portfolio Holder: Councillor Vince Maple, Leader of the Council

Report from: Phil Watts, Chief Operating Officer (S151 Officer)

Author: David Reynolds, Head of Revenue Accounts

#### **Summary**

This report presents the results of the second round of the Council's revenue budget monitoring process for 2025/26. The Council's summary position is presented in section 5, with sections 6-10 of the report, providing the detail for each service area.

#### **1. Recommendations**

- 1.1. The Cabinet is asked to note the results of the second round of revenue budget monitoring for 2025/26 and in particular the risk to interest and financing projections.
- 1.2. The Cabinet is requested to instruct the Corporate Management Team to implement urgent actions to bring expenditure back within the budget agreed by Full Council.

#### **2. Suggested reasons for decision(s)**

- 2.1. Full Council is responsible for agreeing a balanced budget in advance of each financial year. The Cabinet is responsible for ensuring that income and expenditure remain within the approved budget, including instructing corrective action to prevent any forecast overspend from materialising.

#### **3. Budget and policy framework**

- 3.1. The Cabinet is responsible for ensuring that income and expenditure remain within the budget approved by Full Council. Budget virements are subject to the financial limits contained in part 5, chapter 3 of the Council's Constitution.

#### **4. Background**

- 4.1. At its meeting on 27 February 2025, the Council set a total budget requirement of £496.441million for 2025/26. Since then, additional grant funding has been confirmed, primarily the Household Support Fund. The net impact of these amendments takes the round 2 budget requirement to a total of £499.865million.

- 4.2. This report presents the results of the first round of revenue budget monitoring based on returns submitted by individual budget managers. In preparing these forecasts, budget managers have taken account of last year's outturn, items of growth or savings agreed as part of the budget build, actual income and expenditure for the year to date, and most importantly, their knowledge of commitments and service requirements anticipated for the remainder of the financial year.

## 5. Summary Revenue Budget Forecast Position 2025/26

- 5.1. The forecast outturn for 2025/26 represents a pressure of £9.948million, an improvement of £1million from the position reported at round 1.

Directorate	2025/26 R1 Variance £000's	2025/26 R2 Budget £000's	2025/26 R2 Forecast £000's	2025/26 R2 Variance £000's
<i>Budget requirement:</i>				
Children and Adult Services	10,582	379,930	391,952	12,022
Regeneration, Culture and Environment	723	83,836	82,894	(943)
Business Support Department	(373)	9,613	8,558	(1,055)
Business Support Centralised Services:				
Central Accounts	0	0	0	0
Interest & Financing	0	18,107	18,107	0
Corporate Management	16	4,391	4,315	(76)
Additional Government Support Grant Expenditure	0	3,988	3,988	0
<b>Budget Requirement</b>	<b>10,948</b>	<b>499,865</b>	<b>509,813</b>	<b>9,948</b>
<i>Funded by:</i>				
Council Tax	0	(170,516)	(170,516)	0
Retained Business Rates & Baseline Need Funding	0	(76,806)	(76,806)	0
Government Grants - Non Ringfenced	0	(13,192)	(13,192)	0
New Homes Bonus	0	(1,311)	(1,311)	0
Dedicated Schools Grant	0	(139,614)	(139,614)	0
Other School Grants	0	(4,466)	(4,466)	0
Adult Social Care Grants	0	(35,251)	(35,251)	0
CSC Grants	0	(3,828)	(3,828)	0
Public Health Grant	0	(20,347)	(20,347)	0
Extended Producer Responsibility	0	(4,873)	(4,873)	0
Housing Related Grants	0	(4,862)	(4,862)	0
Use of Reserves	0	(50)	(50)	0
Additional Govt Support Ringfenced Grant Income	0	(6,563)	(6,563)	0
Exceptional Financial support	0	(18,184)	(18,184)	0
<b>Total Available Funding</b>	<b>0</b>	<b>(499,865)</b>	<b>(499,865)</b>	<b>0</b>
<b>Net Forecast Variance</b>	<b>10,948</b>	<b>0</b>	<b>9,948</b>	<b>9,948</b>

## 6. Children and Adults

- 6.1. The Directorate forecast is a pressure of £12.022million, a worsening of £1.440million from the position reported at round 1, with details of the forecasts in each service area in the Directorate set out in the tables below.

Adult Social Care	2025/26 R1 Variance £000's	2025/26 R2 Budget £000's	2025/26 R2 Forecast £000's	2025/26 R2 Variance £000's
AD ASC	709	1,553	2,315	763
Service Provision	6,772	85,367	95,445	10,078
Business Operations & Provider Services	(954)	6,485	5,537	(948)
Specialist Services, Safeguarding and PSW	623	5,476	5,397	(79)
Transformation & Improvement	(83)	2,403	2,322	(82)
Locality Services - Staffing	(1,555)	11,560	10,283	(1,277)
ASC Partnership Commissioning	526	657	858	201
<b>Total</b>	<b>6,038</b>	<b>113,502</b>	<b>122,157</b>	<b>8,656</b>

The Adult Social Care forecast is an overall pressure of £8.656million, which is a worsening of £2.618million from the position reported at round 1.

The service has seen success in some areas of staff recruitment since the last round of monitoring. The number of locums in the service has reduced from 59 to 44, and it is expected that this will reduce further as recruitment to substantive posts continues. Staffing overall is forecasting an underspend in excess of £1million in the locality teams, with staffing underspends also being forecast across other teams in the division. This is an indicator of the high level of vacancies that have been (or continue to be) held across the division as the rightsizing continues to bed in.

The ongoing net cost of placements continues to be the biggest area of pressure, with a net increase of 97 packages in this round. The gross costs are showing an increase of 9% on the 2024/25 outturn position, being driven by unbudgeted increases in average weekly costs, alongside increases in client numbers in high-cost Mental Health and Learning Disability placements. This includes people who are being discharged from mental health wards, who were previously supported and funded by other Local Authorities but have now become the responsibility of Medway Council to support and fund their care as per the Worcester Judgement.

Work continues at pace to deliver the savings agreed in the FIT plan. As at the end of August, £1.363million cashable savings have been delivered, and are included in this forecast, with a further £684,000 cost avoidance identified and validated. A further 2 locums, funded using vacant post budgets, are being recruited to maximise the opportunity for delivery of targeted review cashable savings for the remainder of this financial year.

Children's Services	2025/26 R1 Variance £000's	2025/26 R2 Budget £000's	2025/26 R2 Forecast £000's	2025/26 R2 Variance £000's
Head Of Safeguarding & Quality Assurance	590	3,529	4,125	595
Children's Care Improvement	325	238	841	603
Children's Social Work Team	684	7,786	7,040	(747)
Business Support	(92)	2,135	1,997	(138)
Family SOL, Youth, MASH & ADOL	740	10,559	11,201	642
Children's Legal	46	3,222	3,268	46

Children's Social Care Management	(457)	417	64	(353)
Client Support Packages	1,145	4,840	6,293	1,453
Corporate Parenting	328	5,812	6,025	213
Placements	(986)	36,298	35,702	(596)
Provider Services	859	8,507	9,130	623
Children's Commissioning	28	714	781	67
<b>Total</b>	<b>3,210</b>	<b>84,058</b>	<b>86,465</b>	<b>2,407</b>

The Children's Services is forecasting an overspend of £2.407million, which is an improvement of £803,000 from the round 1 forecast.

There is a net overspend on staffing cover across the service of c£1million. This is driven by a combination of three key factors:

- market premia payments not being budgeted in 2025/26 on the assumption that the MedPay review would have corrected pay and largely negated the requirement for market premia payments. This will need to be corrected through the use of the MedPay allowance currently held in the directorate management team;
- a significant proportion of staff are being paid at the top of their respective pay bands, while the budget has been built on the guided distribution; and
- agency cover for vacant posts.

There is a £900,000 forecast overspend on client support packages to stabilize placements and to help stop children coming into care which is resulting in an underspend on placement costs.

In provider services there are also overspends relating to equipment and materials, on expert assessments and independent social worker costs.

Directorate Management Team	2025/26 R1 Variance £000's	2025/26 R2 Budget £000's	2025/26 R2 Forecast £000's	2025/26 R2 Variance £000's
Directorate Management Team	22	2,651	2,699	48
<b>Total</b>	<b>22</b>	<b>2,651</b>	<b>2,699</b>	<b>48</b>

The People Directorate contribution to Child-Friendly Medway is £35,000. Work continues to identify additional funding sources. There are also projected overspends on staff recruitment expenses and training although these overspends are offset by an underspend on staffing.

Education	2025/26 R1 Variance £000's	2025/26 R2 Budget £000's	2025/26 R2 Forecast £000's	2025/26 R2 Variance £000's
Special Educational Needs & Disabilities Transport	(36)	14,009	13,659	(350)
Education Management Team	5	865	874	9
SEND & Inclusion - Client & Providers	0	46,850	46,850	0
Early Years	0	43,994	43,994	0
SEND & Inclusion - Council Services	1,349	3,799	5,184	1,384
Medway Virtual School	0	847	847	0
Education, Planning & Access	21	3,701	3,678	(23)
School Effectiveness & Attendance	(99)	581	473	(107)
<b>Total</b>	<b>1,240</b>	<b>114,647</b>	<b>115,560</b>	<b>913</b>

The Education division is forecasting is an overspend of £913,000 which is an improvement of £327,000 from round 1.

The main areas of projected overspend for the general fund are an overspend on the SEN Team due to the extension of the Assessment team agency staff between July and January

2026. There is also an overspend in the Educational Psychology Team due to the cost of additional agency staff required to process assessments being required above the capacity within the team. Since May the volume of EHC needs assessment requests has doubled. This is a national issue triggered as a reaction to the expected SEND reforms. The increasing demand is also causing a reduction in predicted traded income for the in house Education psychology team, due to the capacity of the team to deliver the traded work.

SEN Transport is currently forecasting to underspend by £350,000 which is an improvement of £314,000 from the position reported at round 1.

As of 31 March 2025, the DSG reserve was reporting a £16.398million deficit; this is forecast to increase to £19.346million by March 2026 when the projected in year overspend of £2.948million is transferred into the reserve. Work is being undertaken to increase the savings delivery in line with the plan. The statutory override which allows Local Authorities to keep the DSG reserve separate was expected to end on 31 March 2026 but has been extended to 31 March 2028.

Public Health	2025/26 R1 Variance £000's	2025/26 R2 Budget £000's	2025/26 R2 Forecast £000's	2025/26 R2 Variance £000's
Public Health Management	503	2,492	2,265	(227)
Health Improvement Programmes	7	4,516	4,646	130
Stop Smoking Services	(105)	970	1,075	104
Supporting Healthy Weight	(61)	1,806	1,847	41
Substance Misuse	(93)	2,350	2,307	(43)
Child Health	(252)	5,747	5,742	(5)
<b>Total</b>	<b>0</b>	<b>17,880</b>	<b>17,880</b>	<b>0</b>

Planning is continuing to fully spend the grant available in 2025/26 to achieve the optimum outcome for the prevention agenda, and to improve the public health of the community of Medway. Public Health held general reserves of £656,000 at the beginning of this financial year, with a further £892,000 held in earmarked reserves. The current activity forecast at round 2 suggests that a further contribution of £211,000 may be made to the Public Health general reserve at the end of this financial year. The Public Health grant is ringfenced and any Public Health expenditure does not draw on the general reserves of the Authority, so it is good practice to build up an appropriate level of grant reserve funding to manage risks, fund unforeseen pressures, and provide flexibility for future planning.

Partnership Commissioning & Additional Government Grants	2025/26 R1 Variance £000's	2025/26 R2 Budget £000's	2025/26 R2 Forecast £000's	2025/26 R2 Variance £000's
Partnership Commissioning and C&A Intelligence	57	1,760	1,758	(1)
Start 4 Life Funding	0	1,415	1,415	0
Holiday Activity Fund	0	1,161	1,161	0
Health Determinants Research Collaboration	0	0	0	0
<b>Total</b>	<b>57</b>	<b>4,335</b>	<b>4,334</b>	<b>(1)</b>

It has recently been confirmed that funding for the Holiday Activity Fund will continue for a further 3 years. We are also anticipating a continuation of funding for Start 4 Life schemes, which will be known in the future as Best Start in Life (BSIL), but we are awaiting details on value and duration beyond March 2026.

Round 2 shows a reduction to the forecast previously reported for partnership Commissioning and C&A intelligence and is mainly due to slippage in recruiting into staff vacancies.

Schools Retained Funding & Grants	2025/26 R1 Variance £000's	2025/26 R2 Budget £000's	2025/26 R2 Forecast £000's	2025/26 R2 Variance £000's
Finance Provisions	0	1,021	1,021	0
Hr Provisions	0	740	740	0
School Grants	14	41,094	41,094	0
<b>Total</b>	<b>14</b>	<b>42,856</b>	<b>42,856</b>	<b>0</b>
Schools Retained Funding & Grants is forecasting to budget. Most of these services are funded by the DSG or ring-fenced grants with any under or overspend on these services being transferred into the DSG reserve at the end of the year.				

## 7. Regeneration, Culture and Environment

- 7.1. The Directorate forecast is an underspend of £943,000 which is an improvement of £1.666million from the position reported at round 1. Details of the forecasts in each service area are set out in the tables below.

Culture & Community	2025/26 R1 Variance £000's	2025/26 R2 Budget £000's	2025/26 R2 Forecast £000's	2025/26 R2 Variance £000's
Sport and Leisure	(86)	3,859	2,978	(881)
Culture	(17)	3,813	3,867	54
Greenspaces	34	6,096	6,122	26
Planning	(613)	2,929	2,458	(472)
South Thames Gateway Partnership	29	281	310	29
Strategic Housing	169	12,559	13,521	962
Libraries & Community Hubs	(39)	5,574	5,772	198
Culture & Community Support	60	90	147	57
<b>Total</b>	<b>(463)</b>	<b>35,201</b>	<b>35,174</b>	<b>(27)</b>
<p>The Culture &amp; Community division forecast is a net underspend of £27,000, a worsening of £436,000 from the position reported at round 1.</p> <p>There is a projected underspend of £881,000 on Sport and Leisure largely due to additional income and underspends on staffing.</p> <p>There is a £472,000 forecast underspend on the Planning service due to additional planning fee income, vacancies across the service and due to the receipt of central government funding to help Councils deliver the Local Plan. However, as we move from Reg 19 to submission stage, we will need to appoint various staff (Local Plan Officer/Council and specialist consultants) to guide us through the Examination in Public (EIP).</p> <p>There is a £962,000 pressure on Strategic Housing, which is a worsening of £793,000 from round 1. As previously reported, this is largely around Temporary Accommodation (TA). The demand for nightly paid TA has remained around 500 placements, while there have been positive outcomes with move-on including 21 TA households move into settled fully managed private sector accommodation via One Medway Lettings. The acquisition programme is progressing, however due to the nature of this work, there has been slippage in handover, this has primarily been seen with the Pullman House acquisitions where there has been delays with exchange due to the developers' team. Both large acquisitions are expected to complete before December, however if there is a slippage, there will be a negative impact due to a delay in moving nightly paid occupants into the TA owned.</p> <p>There is a £198,000 pressure on Libraries &amp; Community Hubs, this is mainly due to additional security costs across a number of libraries.</p>				

Director's Office	2025/26 R1 Variance £000's	2025/26 R2 Budget £000's	2025/26 R2 Forecast £000's	2025/26 R2 Variance £000's
Director's Office	(9)	811	790	(22)
<b>Total</b>	<b>(9)</b>	<b>811</b>	<b>790</b>	<b>(22)</b>
The Director's Office is forecast to underspend by £22,000 due to vacancy savings.				

Front Line Services	2025/26 R1 Variance £000's	2025/26 R2 Budget £000's	2025/26 R2 Forecast £000's	2025/26 R2 Variance £000's
Front Line Services Support	(122)	925	776	(149)
Highways	31	6,977	6,772	(205)
Parking Services	1,626	(7,781)	(7,304)	477
Environmental Services	78	33,102	32,980	(122)
Integrated Transport	167	7,890	7,883	(7)
Regulatory Services	(34)	3,442	3,280	(162)
<b>Total</b>	<b>1,746</b>	<b>44,556</b>	<b>44,388</b>	<b>(168)</b>

The Front Line Services division is forecast to underspend by £168,000, an improvement of £1.914million from the position reported at round 1.

Front Line Services Support is forecast to underspend by £149,000 due to a number of vacant posts across the service.

Highways is reporting a £205,000 underspend, largely due to reduced electricity costs for street lighting and Medway Tunnel, there is also additional income from capital schemes and some staffing underspends. These underspends are partially offset by an overspend on highways preliminary works costs.

Parking Services is forecasting a net overspend of £477,000. There are additional costs associated with the operation of enforcement relating to legal fees, postage, DVLA costs, camera maintenance and support, and clip reviews to identify offences that progress to the PCN stage, although these forecasts have been reduced from round 1. There is higher than budgeted income from Penalty Charge Notices (PCNs) issued in respect of the Safer, Healthier Streets programme. In addition, off street and on street parking income is also in excess of budgeted levels.

The Environmental Services forecast is an underspend of £122,000, there has been a reduction in the waste services forecast largely due to reduced volumes of organic waste.

The integrated transport forecast is an overspend of £7,000, there is a pressure on the salaries/consultancy budgets due to unsuccessful attempts to recruit to the Principal Transport Planner post resulting in the use of a transport consultant to carry out this statutory function. However, this is offset by other staffing savings and additional income.

Regulatory services are forecasting an underspend of £162,000, income from the crematorium and registration services are in excess of budgeted levels although there are some additional costs of providing services. The annual budgeted contribution to the crematorium reserve will not be made in 2025/26.



Regeneration	2025/26 R1 Variance £000's	2025/26 R2 Budget £000's	2025/26 R2 Forecast £000's	2025/26 R2 Variance £000's
Medway Norse	0	0	0	0
Property & Capital Projects	(96)	1,932	1,687	(245)
Regeneration Delivery	(12)	1,255	1,179	(76)
Valuation & Asset Management	(569)	(1,448)	(1,992)	(543)
Economic Development	(9)	1,074	984	(90)
Skills & Employability	135	724	993	270
<b>Total</b>	<b>(551)</b>	<b>3,537</b>	<b>2,852</b>	<b>(685)</b>

The Regeneration division forecast is an underspend of £685,000 which is an improvement of £134,000 on the position reported at round 1.

The Property & Capital Projects forecast is an underspend of £245,000 which in the main is due to reduced cost of utilities costs at Gun Wharf along with some small underspends on staff budgets.

There is a forecast underspend on the Asset & Property Management budget of £543,000. Current projections for the operation of the Pentagon show a £584,000 underspend against budget. Elsewhere across the service there are some historical income targets which are not projected to be achievable.

There is a forecast pressure of £270,000 in Skill & Employability which relates to a reduction in income from the Department for Education, alongside the completion of the Multiply programme. Activity is underway to assess options for the reduction in budget.

Medway Norse Profit Share	2025/26 R1 Variance £000's	2025/26 R2 Budget £000's	2025/26 R2 Forecast £000's	2025/26 R2 Variance £000's
Medway Norse Profit Share	0	(269)	(310)	(41)
<b>Total</b>	<b>0</b>	<b>(269)</b>	<b>(310)</b>	<b>(41)</b>

The Medway Norse profit share is currently forecast to be £41,000 above the budgeted amount.

## 8. Housing Revenue Account

Housing Revenue Account	2025/26 R1 Variance £000's	2025/26 R2 Budget £000's	2025/26 R2 Forecast £000's	2025/26 R2 Variance £000's
Housing Revenue Account	(7)	0	(204)	(204)
<b>Total</b>	<b>(7)</b>	<b>0</b>	<b>(204)</b>	<b>(204)</b>

The forecast outturn for the Housing Revenue Account (HRA) is an underspend of £204,000 compared with a £7,000 underspend forecast at round 1. Pressures forecast against communal cleaning and play area maintenance have been offset by larger savings forecast against salary costs due to vacant posts and utilities on homes for independent living.

## 9. Business Support & Centralised Services

- 9.1. The Business Support Services forecast is an underspend of £1.055million, while the Centralised Services forecast is an underspend of £76,000, bringing the overall forecast to an underspend of £1.131million. This is an overall improvement of £774,000 from the position reported at round 1. The details of the forecasts in each service area are set out in the tables below.



<b>Communications &amp; Marketing</b>	<b>2025/26 R1 Variance £000's</b>	<b>2025/26 R2 Budget £000's</b>	<b>2025/26 R2 Forecast £000's</b>	<b>2025/26 R2 Variance £000's</b>
Communications & Marketing	1	323	72	(251)
<b>Total</b>	<b>1</b>	<b>323</b>	<b>72</b>	<b>(251)</b>

The service is forecasting an underspend of £251,000 due to a number of posts that were built into the budget for 2025/26 not being recruited until Q3 of 2025/26.

<b>Divisional Management Team</b>	<b>2025/26 R1 Variance £000's</b>	<b>2025/26 R2 Budget £000's</b>	<b>2025/26 R2 Forecast £000's</b>	<b>2025/26 R2 Variance £000's</b>
Divisional Management Team	(55)	0	(26)	(26)
<b>Total</b>	<b>(55)</b>	<b>0</b>	<b>(26)</b>	<b>(26)</b>

There is a reported underspend on staffing of £26,000 due to a vacant post and maternity leave.

<b>Finance &amp; Business Improvement</b>	<b>2025/26 R1 Variance £000's</b>	<b>2025/26 R2 Budget £000's</b>	<b>2025/26 R2 Forecast £000's</b>	<b>2025/26 R2 Variance £000's</b>
Internal Audit & Counter Fraud	(133)	0	(122)	(122)
FBI Divisional Management Team	0	0	(1)	(1)
FBI - Finance	145	4,358	4,373	15
FBI - Information	(342)	1,298	705	(593)
FBI - Organisational Culture	(52)	(108)	(217)	(109)
Policy & Partnerships Unit	0	450	450	0
<b>Total</b>	<b>(381)</b>	<b>5,998</b>	<b>5,188</b>	<b>(809)</b>

The Finance & Business Improvement division forecast is an underspend of £809,000, an improvement of £428,000 from round 1.

There is a reported underspend of £122,000 in Internal Audit & Counter Fraud which is a combination of savings on staffing due to vacancies and from additional income from the shared service arrangement with Gravesham.

The Finance forecast (which includes Accountancy, Revenues, Benefits and Debt) is an overspend of £15,000. There is a forecast overspend of £350,000 on the Benefits and Financial Welfare service relating to the projected increase in the level of shortfall in benefits subsidy as the final stages of the migration to Universal Credit with the process expected to be complete by the end of 2025/26. This process is seeing all cases that are 100% funded by the benefits subsidy transferred to the DWP, leaving local authorities with only caseloads that do not attract full subsidy. This is offset by staffing underspends across accountancy, revenues and debt teams.

The Information forecast (which includes Technology, Customer Experience and Digital) is an underspend of £593,000. There is a pressure on software budgets of £137,000. That overspend is offset by staffing underspends in ICT of £225,000 and in Customer & Business Support (CABS) of £354,000 a combination of vacancies and due to the make-up of the team being below that of the MedPay guided distribution along with vacancy savings across a number of other teams. There is some additional income from the ICT equipment reserve above budgeted levels.

The Organisational Culture forecast (which includes HR, Payroll and Council Plan service areas) is an underspend of £109,000. This is due to a mixture of income targets not being achieved offset by savings on staffing teams and additional income from agencies.

<b>Legal &amp; Governance</b>	<b>2025/26 R1 Variance £000's</b>	<b>2025/26 R2 Budget £000's</b>	<b>2025/26 R2 Forecast £000's</b>	<b>2025/26 R2 Variance £000's</b>
Democratic Services	(4)	743	747	4
Members & Elections	(19)	2,625	2,560	(65)
Category Management	0	0	(28)	(28)
Legal, Land Charges & Licensing	85	(75)	45	121
<b>Total</b>	<b>62</b>	<b>3,293</b>	<b>3,324</b>	<b>31</b>

The divisional forecast is an overspend of £31,000.

There is a forecast overspend of £231,000 on Counsel/Process Servers. The service is engaging agency staff and third-party solicitors to reduce the need to use highly expensive Counsel for all but the most complex cases and using email and internal staff to deliver legal documents to reduce the need to pay third party process servers for all cases except where there is a security risk to staff for serving.

In Legal there is a forecast £697,000 underspend on permanent staff as new posts agreed in the budget are not yet all in post, offset by an overspend of £567,000 on agency staffing to deliver the caseload.

<b>Centralised Services</b>	<b>2025/26 R1 Variance £000's</b>	<b>2025/26 R2 Budget £000's</b>	<b>2025/26 R2 Forecast £000's</b>	<b>2025/26 R2 Variance £000's</b>
Interest & Financing	0	18,107	18,107	0
Levies	(19)	1,996	1,954	(42)
Corporate Management	35	2,394	2,361	(34)
<b>Total</b>	<b>16</b>	<b>22,498</b>	<b>22,422</b>	<b>(76)</b>

Collectively, Centralised Services are forecasting an underspend of £76,000 an improvement of £60,000 from the position reported at round 1.

Interest and financing is still reported to breakeven at round 2, however given some significant expenditure against the capital programme since the previous quarter and a deterioration in the Council's working capital position, a more detailed review of the assumptions behind this forecast is planned and there is a high risk that the forecast position will worsen in round 3.

The Council's Interest and Financing Budget represent the net cost of the treasury activities required to fund the Council's capital programme and to ensure an adequate cash flow to support the delivery of all services. The primary driver of change to this budget is the extent of borrowing required (including any new capital schemes not funded by grant etc.) and the cost at which that borrowing can be financed. Around 64% of the Council's existing capital programme of £229.722million is funded through borrowing and interest rates continue to be higher than previously projected resulting in a budget pressure. The Council also previously borrowed from other local authorities, however the EFS agreed has resulted in those perceiving a higher risk and therefore elevated rates compared to the PWLB. In addition to the impact of the underlying bank rate remaining high, PWLB rates remain elevated as yields from Government Bonds have increased, where hedge fund investment demanding higher returns have replaced pension funds that are no longer investing in bonds.

The Council also borrows to ensure the maintenance of an adequate day to day cashflow. Historically the Council has had sufficient cash balances that a portion of the borrowing requirement could be financed internally, reducing external borrowing costs. The Council no longer has available cash balances as the level of debtors has grown in comparison to creditors, and as it has been forced to bear the cost of funding the deficit on the High Needs Block of the Dedicated Schools Grant while the statutory override and Safety Valve programme have worked to mitigate it.

There is a forecast underspend of £42,000 on levies. Drainage levy is forecast to underspend by £17,000 due to notice coming in below budget. Coroners court is forecasting to underspend by £25,000 based on the latest forecast from KCC.

The Corporate Management position is an underspend of £34,000, due to lower than budgeted additional lump sum pension costs.

## 10. Additional Government Support

<b>Additional Government Support Expenditure</b>	<b>2025/26 R1 Variance £000's</b>	<b>2025/26 R2 Budget £000's</b>	<b>2025/26 R2 Forecast £000's</b>	<b>2025/26 R2 Variance £000's</b>
Household Support Grant	0	3,988	3,988	0
Afghan Relocation Support	0	0	0	0
Homes for Ukraine	0	0	0	0
<b>Total</b>	<b>0</b>	<b>3,988</b>	<b>3,988</b>	<b>0</b>
All additional government support grants are currently forecast to be fully spent.				

## 11. Conclusions

11.1. The second round of revenue budget monitoring for 2025/26 projects an overspend of £9.948million.

## 12. Risk management

<b>Risk</b>	<b>Description</b>	<b>Action to avoid or mitigate risk</b>	<b>Risk rating</b>
The Council overspends against the agreed budget	Overspends on budget would need to be met from either an extension of the capitalisation direction or the Council's limited reserves.	The revenue monitoring process is designed to identify and facilitate management action to mitigate the risk of overspending against the agreed budget.	AI
Impact on service delivery	An overspend that cannot be funded from reserves could result in a diminution of the scale and quality of services that the Council is able to deliver.	Ensuring investment is prioritised to statutory services and key priorities, reviewing and reducing non-essential spend and maximising income.	All
Reputational damage	The challenging financial position of the Council, driven by increased demand for statutory services beyond available funding, could be misconstrued or reported as poor management or leadership, reducing the trust and confidence of residents, partners and regulators.	Clear communications with all interested parties on the cause of the financial position, lobbying the government for an improved funding settlement for local government, including implementation of the fair funding review.	BII

<b>Risk</b>	<b>Description</b>	<b>Action to avoid or mitigate risk</b>	<b>Risk rating</b>
Demographic Growth	Further demographic pressures may surface across our social care services above those assumed in the budget.	Close monitoring of demand for service to identify pressures early, robust budget monitoring.	All
Special Educational Needs and Disabilities	Further increases in the number of children requiring support, and in the complexity of needs may surface. Failure to deliver the recovery plan would risk the Council needing to use the £3million reserve created to fund any shortfall.	Close monitoring of demand for service to identify pressures early, robust budget monitoring.	BII
<b>Likelihood</b>		<b>Impact:</b>	
A Very likely		I Catastrophic	
B Likely		II Major	
C Unlikely		III Moderate	
D Rare		IV Minor	

### 13. Financial implications

- 13.1. The second round of revenue budget monitoring for 2025/26 projects an overspend of £9.948million. As reported to the Cabinet in June in the Capital and Revenue Budget Outturn for 2024/25, the Council's general reserve currently stands at £10.011million. An overspend on the scale of that currently projected would all but wipe out the general reserve.
- 13.2. It will now be necessary for the Council's senior managers and elected Members to implement urgent actions to bring expenditure back within the budget agreed by Full Council or as a minimum to within that which can be funded from general reserves.

### 14. Legal implications

- 14.1. The Cabinet has the responsibility to ensure effective budgetary control to contain expenditure within the approved limits set by Council. It is unlawful to set a budget that is not balanced or incur expenditure which results in the budget no longer being balanced.
- 14.2. Under section 114 of the Local Government Finance Act 1988, the Council's statutory Section 151 Officer, is required to produce a report, commonly known as a S114 report, "if it appears to him that the expenditure of the authority is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure."

- 14.3. The Council's Financial Procedure Rules state at Chapter 4, Part 6, the following paragraph references:
- 4.1 Approval by the Council of the overall revenue budget authorises the Cabinet and Chief Executive and directors to incur the expenditure in accordance with the scheme of delegation, the budget and policy framework rules and these rules.
  - 4.4 The Chief Operating Officer shall be responsible for monitoring the Council's overall expenditure and income and for reporting to the Cabinet and Council significant variations between the approved estimates and actual expenditure.
  - 4.6 There may be occasion in exceptional circumstances where additional expenditure is essential and therefore unavoidable. Requests for supplementary revenue estimates must be referred to Council for approval. Such referrals would only occur where proposals are incapable of being financed from within approved budgets and where it is not possible to defer the expenditure to a later year.
- 14.4. The Cabinet and officers may only spend within allocated budgets. If the budget is likely to be exceeded, the Council is required to consider if it wishes revise to the revenue budget or require mitigating action to be taken.
- 14.5. Article 7 of the Council's constitution states:
- 7.2 The Cabinet (meaning the Leader and such other Members of the Council as the Leader may appoint) will carry out all the authority's functions which are not the responsibility of any other part of the Council, whether by law or under this Constitution
- 14.6. Officers are mandated to deliver services within agreed performance standards and agreed policies. Subject to the scheme delegation officers do not have authority to vary policies or performance standards.
- 14.7. If the Council is not minded to agree a supplementary revenue estimate, then the Cabinet is required to operate with the approved estimate. If that necessitates revisions of policies or service standards, then unless those matters are delegated to officers, it is matter for Cabinet to determine those matters.

## Lead officer contact

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## Appendices

None

Background papers

None