

Cabinet

10 February 2026

Revenue Budget Monitoring – Round 3 2025/26

Portfolio Holder: Councillor Vince Maple, Leader of the Council

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

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Summary

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

1. Recommendations

- 1.1. The Cabinet is asked to note the results of the third round of revenue budget monitoring for 2025/26.
- 1.2. The Cabinet is asked to instruct the Corporate Management Team to implement further urgent action to bring expenditure back within the budget agreed by Full Council.
- 1.3. The Cabinet is asked to note that officers have submitted an Exceptional Financial Support request to the Government seeking a further £9.9million in respect of 2025/26, in addition to the £18.184million incorporated into the budget.
- 1.4. The Cabinet is asked to agree to recommend that Full Council approves the use of £2.783million of Capital receipts under flexibilities to fund transformational activity in Adult Social Care and Business Support.
- 1.5. The Cabinet is asked to agree to recommend that Full Council declassifies the following amounts currently held in earmarked reserves and transfers them to general reserves:
 - £1,597,513 held in the Collection Fund reserve;
 - £450,000 held in the severance reserve;
 - £750,000 held in the SELEP reserve;
 - £27,000 held in the unrepresented Cheques reserve.

2. Suggested reasons for decision(s)

- 2.1. Full Council is responsible for agreeing a balanced budget in advance of each financial year. 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, Full 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 and there have been changes to the levels of Education funding. The net impact of these amendments takes the round 3 budget requirement to a total of £491.654million.
- 4.2. This report presents the results of the third 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 £15.592million a worsening of £5.644million from the position reported at round 2. Subject to the approval of Full Council, the suggested use of capital receipts under flexibilities and the use of declassified earmarked reserves will reduce the forecast overspend to £9.985million, which is £37,000 higher than reported at round 2.

Directorate	2025/26 R2 Variance £000's	2025/26 R3 Budget £000's	2025/26 R3 Forecast £000's	2025/26 R3 Variance £000's
<i>Budget requirement:</i>				
Children and Adult Services	12,022	371,719	386,970	15,251
Regeneration, Culture and Environment	(943)	83,836	80,542	(3,294)
Business Support Department	(1,055)	9,613	8,358	(1,255)
Business Support Centralised Services:				
Central Accounts	0	0	0	0
Interest & Financing	0	18,107	23,092	4,985
Corporate Management	(76)	4,391	4,296	(95)
Additional Government Support Grant Expenditure	0	3,988	3,988	0
Budget Requirement	9,948	491,654	507,246	15,592
<i>Funded by:</i>				

Directorate	2025/26 R2 Variance £000's	2025/26 R3 Budget £000's	2025/26 R3 Forecast £000's	2025/26 R3 Variance £000's
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	(131,362)	(131,362)	0
Other School Grants	0	(4,466)	(4,466)	0
Adult Social Care Grants	0	(35,251)	(35,251)	0
CSC Grants	0	(3,956)	(3,956)	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	(6,476)	(6,476)	0
Exceptional Financial support	0	(18,184)	(18,184)	0
Total Available Funding	0	(491,654)	(491,654)	0

Net Forecast Variance	9,948	0	15,592	15,592
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6. Children and Adults

6.1. The Directorate forecast is a pressure of £15.251million a worsening of £3.2300million from the position reported at round 2, with details of the forecasts in each service area in the Directorate set out in the tables below.

Adult Social Care	2025/26 R2 Variance £000's	2025/26 R3 Budget £000's	2025/26 R3 Forecast £000's	2025/26 R3 Variance £000's
AD ASC	763	1,553	2,356	804
Service Provision	10,078	85,367	100,146	14,779
Business Operations & Provider Services	(948)	6,485	5,563	(922)
Specialist Services, Safeguarding and PSW	(79)	5,476	5,356	(120)
Transformation & Improvement	(82)	2,403	1,337	(1,066)
Locality Services - Staffing	(1,277)	11,560	10,228	(1,332)
ASC Partnership Commissioning	201	657	557	(101)
Total	8,656	113,502	125,543	12,042

The Adult Social Care forecast is an overall pressure of £12.042million, which is a worsening of £3.687million from the position reported at round 2.

The forecasts for non-placement areas of the division have remained fairly static since round 2, with fairly small movements in staffing fluctuating across.

The ongoing net cost of placements continues to be the biggest area of pressure. Overall demand through the front door has increased year on year, with 10,933 requests for support

for clients without an existing long-term package of care in 2023/24, increasing to 11,470 from July 2024 to the end of June 2025. Of these requests, 7.1% resulted in a new long-term care package in 2023/24, reducing to 6.2% for the year to June 2025. Although demand continues to rise, management action and improved practice and scrutiny across the division are impacting the rate of new long-term packages of care overall. However, these rates still fall above the anticipated demographic growth predicted in 2025/26.

The gross placement costs are showing as £134million for 2025/26 in this round, which is an increase of 11.4% on the 2024/25 gross placement cost outturn position, being driven by unbudgeted increases in average weekly costs, alongside increases in client numbers, increases in complexity of placement, and increases in the rate of financially depleting service users whom the Local Authority are now responsible for funding. Increases to the placement budget were awarded for 2025/26 at the modelled rate of 4% for price uplifts, and 3% for demographic growth, but this was offset against delivery of £5.7million cashable savings. Forecasts submitted at earlier rounds of forecasting included aspects of expected growth equal to budgeted demographic funding, but this has been outstripped by the real rate of increase in client numbers, growing complexity of care and support needs, and the transfer of support from health to local government care without associated funding seen this year to date.

Focus continues to strive to deliver the savings agreed in the FIT plan. As at the end of November, £2.082million cashable savings have been delivered, and are included in this forecast, with a further £2.467million cost avoidance identified and validated. The current forecast does assume that the remainder of the savings will be delivered in a cashable manner before the end of this financial year. Any savings not delivered in a cashable manner may render a further pressure on the final outturn position.

Children's Services	2025/26 R2 Variance £000's	2025/26 R3 Budget £000's	2025/26 R3 Forecast £000's	2025/26 R3 Variance £000's
Head Of Safeguarding & Quality Assurance	595	3,529	3,823	294
Childrens Care Improvement	603	366	798	432
Childrens Social Work Team	(747)	7,786	7,132	(654)
Business Support	(138)	2,135	1,944	(191)
Family SOL, Youth, MASH & ADOL	642	10,636	11,092	456
Childrens Legal	46	3,222	3,306	84
Childrens Social Care Management	(353)	186	(268)	(454)
Client Support Packages	1,453	4,840	7,146	2,306
Corporate Parenting	213	5,890	6,119	230
Placements	(596)	36,298	35,767	(531)
Provider Services	623	8,585	9,269	684
Childrens Commissioning	67	714	808	95
Total	2,407	84,186	86,936	2,750

The Children's Services is forecasting an overspend of £2.750million, which is a worsening of £343,000 from the round 2 forecast

There is a net overspend on staffing cover across the service of £597,000 which has improved by £403,000 from round 2. 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 £1.872million forecast overspend on placements and client support packages. This area of spend has worsened by £853,000 compared to round 2 due to the special guardianship and adoption annual reviews taking place in September and October which has resulted in the weekly allowance rates being increased and backdated to the start of the financial year.

There are also overspends relating to equipment and materials, on Expert assessments and independent social worker cost (mainly within providers services) which have a combined overspend of £280,000.

Directorate Management Team	2025/26 R2 Variance £000's	2025/26 R3 Budget £000's	2025/26 R3 Forecast £000's	2025/26 R3 Variance £000's
Directorate Management Team	48	2,651	2,689	38
Total	48	2,651	2,689	38

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 R2 Variance £000's	2025/26 R3 Budget £000's	2025/26 R3 Forecast £000's	2025/26 R3 Variance £000's
Special Educational Needs & Disabilities Transport	(350)	14,009	13,134	(875)
Education Management Team	9	865	882	17
SEND & Inclusion - Client & Providers	0	46,625	46,625	0
Early Years	0	43,657	43,657	0
SEND & Inclusion - Council Services	1,384	3,799	5,304	1,504
Medway Virtual School	0	886	847	(39)
Education, Planning & Access	(23)	3,701	3,658	(43)
School Effectiveness & Attendance	(107)	581	451	(130)
Total	913	114,124	114,558	434

The Education division is forecasting is an overspend of £434,000 which is an improvement of £525,000 from round 2.

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 £875,000 which is an improvement of £314,000 from the position reported at round 2.

As of 31st March 2025, the DSG reserve was reporting a £16.398million deficit; this is forecast to increase to £19.264million by March 2026 when the projected in year overspend of £2.866million 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 R2 Variance £000's	2025/26 R3 Budget £000's	2025/26 R3 Forecast £000's	2025/26 R3 Variance £000's
Public Health Management	(227)	2,492	2,404	(88)
Health Improvement Programmes	130	4,516	4,659	143
Stop Smoking Services	104	970	1,000	30
Supporting Healthy Weight	41	1,806	1,797	(9)
Substance Misuse	(43)	2,350	2,221	(128)
Child Health	(5)	5,747	5,799	52
Total	0	17,880	17,880	0

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.

Partnership Commissioning & Additional Government Grants	2025/26 R2 Variance £000's	2025/26 R3 Budget £000's	2025/26 R3 Forecast £000's	2025/26 R3 Variance £000's
Partnership Commissioning and C&A Intelligence	(1)	1,760	1,708	(51)
Start 4 Life Funding	0	1,327	1,327	0
Holiday Activity Fund	0	1,161	1,161	0
Health Determinants Research Collaboration	0	0	0	0
Total	(1)	4,248	4,197	(51)

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 3 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 R2 Variance £000's	2025/26 R3 Budget £000's	2025/26 R3 Forecast £000's	2025/26 R3 Variance £000's
Finance Provisions	0	1,021	1,021	0
Hr Provisions	0	740	779	38
School Grants	0	33,366	33,366	0
Total	0	35,127	35,166	38

Schools Retained Funding & Grants is forecasting a small overspend. 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 £3.294million which is an improvement of £2.351million from the position reported at round 2. Details of the forecasts in each service area are set out in the tables below.

Culture & Community	2025/26 R2 Variance £000's	2025/26 R3 Budget £000's	2025/26 R3 Forecast £000's	2025/26 R3 Variance £000's
Sport and Leisure	(881)	3,859	2,660	(1,199)
Culture	54	3,813	3,748	(65)
Greenspaces	26	6,142	6,114	(27)
Planning	(472)	2,929	2,445	(484)
South Thames Gateway Partnership	29	281	310	29
Strategic Housing	962	12,513	13,235	722
Libraries & Community Hubs	198	5,574	5,743	170
Culture & Community Support	57	90	118	27
Total	(27)	35,201	34,373	(828)

The Culture & Community division forecast is a net underspend of £828,000, an improvement of £801,000 from the position reported at round 2.

There is a projected underspend of £1.199million on Sport and Leisure largely due to additional income and underspends on staffing.

There is a £484,000 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).

There is a £722,000 pressure on Strategic Housing, which is an improvement of £240,000 from round 2. 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 33 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 with a further delay being advised at the beginning of January 2026. Chatham Waterside has completed, and occupation commenced December 2025. The service is engaged with a review of temporary accommodation nightly placements, costs and providers that is being led by Kent Housing Group, with the aim to reduce the current nightly rates across Kent and Medway.

There is a £170,000 pressure on Libraries & community Hubs, this is mainly due to additional staffing and security costs across a number of libraries.

Director's Office	2025/26 R2 Variance £000's	2025/26 R3 Budget £000's	2025/26 R3 Forecast £000's	2025/26 R3 Variance £000's
Director's Office	(22)	811	791	(20)
Total	(22)	811	791	(20)

The Director's Office is forecast to underspend by £20,000 due to vacancy savings.

Front Line Services	2025/26 R2 Variance £000's	2025/26 R3 Budget £000's	2025/26 R3 Forecast £000's	2025/26 R3 Variance £000's
Front Line Services Support	(149)	925	747	(178)
Highways	(205)	6,951	6,539	(412)
Parking Services	477	(7,781)	(7,940)	(159)
Environmental Services	(122)	33,052	32,890	(162)
Integrated Transport	(7)	7,917	7,824	(94)
Regulatory Services	(162)	3,493	3,304	(189)
Total	(168)	44,556	43,363	(1,193)

The Front Line Services division is forecast to underspend by £1.193million, an improvement of £1.025million from the position reported at round 2.

Front Line Services Support is forecast to underspend by £178,000 due to a number of vacant posts across the service.

Highways is reporting a £412,000 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 an underspend of £159,000. 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. There is higher than budgeted income from Penalty Charge Notices (PCNs) issued in respect of the Safer, Healthier Streets programme. In addition, there is also additional off street and on street parking income in excess of budgeted levels.

The Environmental Services forecast is an underspend of £162,000, there is a staffing underspend due to recruitment lag in appointing to vacant posts and there has been a reduction in the waste services forecast largely due to reduced volumes of organic waste.

The integrated Transport forecast is an underspend of £94,000, 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 £189,000, 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 R2 Variance £000's	2025/26 R3 Budget £000's	2025/26 R3 Forecast £000's	2025/26 R3 Variance £000's
Medway Norse	0	0	0	0
Property & Capital Projects	(245)	1,932	1,475	(457)
Regeneration Delivery	(76)	1,255	1,166	(89)
Valuation & Asset Management	(543)	(1,448)	(2,124)	(676)
Economic Development	(90)	1,074	877	(197)
Skills & Employability	270	724	929	206
Total	(685)	3,537	2,324	(1,212)

The Regeneration division forecast is an underspend of £1.212million which is an improvement of £527,000 on the position reported at round 2.

The Property & Capital Projects forecast is an underspend of £457,000 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 shows a £804,000 underspend against budget. Elsewhere across the service there are some historical income targets which are not projected to be achievable.

There is a forecast underspend of £197,000 on Economic Development due to underspends on staffing budgets and increased income from Innovation Centre Medway (ICM).

There is a forecast pressure of £206,000 in Skill & Employability, there is a reduction in income from the Department for Education which has been offset by over delivery of our 24/25 academic year contract, there is however a loss on the completion of the Multiply programme and an increased level of tutor costs.

Medway Norse Profit Share	2025/26 R2 Variance £000's	2025/26 R3 Budget £000's	2025/26 R3 Forecast £000's	2025/26 R3 Variance £000's
Medway Norse Profit Share	(41)	(269)	(310)	(41)
Total	(41)	(269)	(310)	(41)

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 R2 Variance £000's	2025/26 R3 Budget £000's	2025/26 R3 Forecast £000's	2025/26 R3 Variance £000's
Housing Revenue Account	(204)	(0)	(394)	(394)
Total	(204)	(0)	(394)	(394)

The forecast outturn for the Housing Revenue Account (HRA) is an underspend of £394,000 compared with a £204,000 underspend forecast at round 2. 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 £1.255million, while the Centralised Services forecast is an overspend of £4.890million, bringing the overall forecast to an overspend of £3.635million. This is an overall worsening of £4.766million from the position reported at round 2. The details of the forecasts in each service area are set out in the tables below.

Communications & Marketing	2025/26 R2 Variance £000's	2025/26 R3 Budget £000's	2025/26 R3 Forecast £000's	2025/26 R3 Variance £000's
Communications & Marketing	(251)	323	71	(251)
Total	(251)	323	71	(251)

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.

Divisional Management Team	2025/26 R2 Variance £000's	2025/26 R3 Budget £000's	2025/26 R3 Forecast £000's	2025/26 R3 Variance £000's
Divisional Management Team	(26)	0	(7)	(7)
Total	(26)	0	(7)	(7)

There is a reported underspend on staffing of £7,000 due to a vacant post and maternity leave.

Finance & Business Improvement	2025/26 R2 Variance £000's	2025/26 R3 Budget £000's	2025/26 R3 Forecast £000's	2025/26 R3 Variance £000's
Internal Audit & Counter Fraud	(122)	0	(127)	(127)
FBI Divisional Management Team	(1)	0	(15)	(15)
FBI - Finance	15	4,358	4,339	(20)
FBI - Information	(593)	1,298	817	(481)

Finance & Business Improvement	2025/26 R2 Variance £000's	2025/26 R3 Budget £000's	2025/26 R3 Forecast £000's	2025/26 R3 Variance £000's
FBI - Organisational Culture	(109)	(108)	(394)	(286)
Policy & Partnerships Unit	0	450	324	(126)
Total	(809)	5,998	4,944	(1,054)

The Finance & Business Improvement division forecast is an underspend of £1.054million an improvement of £118,000 from round 2.

There is a reported underspend of £127,000 in Internal Audit and 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 £20,000. There is a forecast overspend of £313,000 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 £481,000. There is a pressure on software budgets of £155,000. That overspend is offset by staffing underspends in ICT of £297,000 and in Customer & Business Support (CABS) of £393,000 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 £286,000. This is due to a mixture of income targets not being achieved offset by savings on staffing teams and additional income from agencies.

Legal & Governance	2025/26 R2 Variance £000's	2025/26 R3 Budget £000's	2025/26 R3 Forecast £000's	2025/26 R3 Variance £000's
Democratic Services	4	743	738	(5)
Members & Elections	(65)	2,625	2,582	(43)
Category Management	(28)	0	(1)	(1)
Legal, Land Charges & Licensing	121	(75)	31	106
Total	31	3,293	3,350	57

The divisional forecast is an overspend of £57,000.

There is a forecast overspend of £336,000 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 £651,000 underspend on permanent staff as new posts agreed in the budget are not yet all in post, offset by an overspend of £499,000 on agency staffing to deliver the caseload.

Centralised Services	2025/26 R2 Variance £000's	2025/26 R3 Budget £000's	2025/26 R3 Forecast £000's	2025/26 R3 Variance £000's
Interest & Financing	0	18,107	23,092	4,985
Levies	(42)	1,996	1,940	(56)
Corporate Management	(34)	2,394	2,356	(39)
Total	(76)	22,498	27,388	4,890

Collectively, Centralised Services are forecasting an underspend of £4.890million a worsening of £4.966million from the position reported at round 2.

At round 2 a high risk around the interest and financing budget was raised, given that the anticipated reduction in PWLB interest rates forecast by our treasury advisors had failed to manifest. A more detailed review of the assumptions behind this forecast has been undertaken and inertia in the PWLB rates, despite reductions in the bank rate, mean that we are now reporting an overspend of £4.985million.

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. PWLB rates remain elevated as yields from Government Bonds have increased, where hedge fund investors, demanding higher returns, have replaced the 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 our working capital requirement has grown to fund the deficit on the High Needs Block of the Dedicated Schools Grant while the statutory override and Safety Valve programme takes effect.

There is a forecast underspend of £56,000 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 £39,000 based on the latest forecast from KCC.

The Corporate Management position is an underspend of £39,000, due to lower than budgeted additional lump sum pension costs.

10. Additional Government Support

Additional Government Support Expenditure	2025/26 R2 Variance £000's	2025/26 R3 Budget £000's	2025/26 R3 Forecast £000's	2025/26 R3 Variance £000's
Household Support Grant	0	3,988	3,988	0
Afghan Relocation Support	0	0	0	0
Homes for Ukraine	0	0	0	0
Total	0	3,988	3,988	0

All additional government support grants are currently forecast to be fully spent.

11. Conclusions

- 11.1. The round 3 forecast outturn for 2025/26 represents a pressure of £15.592million. Subject to the approval of full council, the suggested use of capital receipts under flexibilities and the use of declassified earmarked reserves will reduce the forecast overspend back down to £9.985million.

12. Risk management

Risk	Description	Action to avoid or mitigate risk	Risk rating
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
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

For risk rating, please refer to the following table:

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

13. Financial implications

13.1. The third round of revenue budget monitoring for 2025/26 projects an overspend of £15.592million. 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. The Council would not therefore be in a position to fund an overspend on the scale of that currently projected.

13.2. It will now be necessary for the Council's senior managers and elected Members to implement further 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.

13.3. Therefore, in order to protect the Council's general reserve Cabinet is asked to recommend that Full Council approves the use of £2.783million of capital receipts under flexibilities to fund transformational activity in Adult Social Care and Business Support. In addition, Cabinet is asked to recommend that Full Council declassifies the following amounts currently held in earmarked reserves and transfers them to general reserves:

- £1,597,513 held in the Collection Fund reserve
- £450,000 held in the severance reserve
- £750,000 held in the SELEP reserve
- £27,000 held in the unrepresented Cheques reserve

13.4. Subject to the approval of full council, the suggested use of capital receipts under flexibilities and the use of declassified earmarked reserves will reduce the forecast overspend to £9.985million, which is £37,000 higher than reported at round 2

13.5. It may be necessary to seek further support from the government through the Exceptional Financial Support scheme in respect of 2025/26. When considering the Draft Capital and Revenue Budget 2026/27, reported in November, the Cabinet agreed to instruct officers to continue to work with Portfolio Holders in formulating robust proposals to reduce the budget deficit for 2026/27 and to liaise with the Ministry of Housing, Communities and Local Government to secure support through the Exceptional Financial Support scheme, should it be necessary. In December 2025 officers submitted an Exceptional Financial Support request to the government seeking a further £9.9million in respect of 2025/26, in addition to the £18.184million incorporated into the budget to fund the overspend projected at round 2

should that manifest at year end. The EFS request submitted in December 2025 also included support of £25.9million to fund the potential budget gap projected for 2026/27 at that stage. The outcome of these requests is expected to be confirmed by the government in February 2026.

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.

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Appendices

None

Background papers

None