Medway COUNCIL
Serving You

Business Support and Digital Overview and Scrutiny Committee

20 August 2026

Revenue Budget Monitoring – Round 1 2026/27

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Summary

This report presents the results of the first round of the Council's revenue budget monitoring process for 2026/27. The Council's summary position is presented in section 4, with section 5 providing the details for each service area.

1. Recommendations

1.1. The Committee notes the results of the first round of revenue budget monitoring for 2026/27.

1.2. The Committee notes that Cabinet instructed the Corporate Management Team to implement urgent actions to bring expenditure back within the budget agreed by Full Council.

2. Budget and policy framework

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

3. Background

3.1. At its meeting on 25 February 2026 the Council approved the 2026/27 budget requirement of £523.752m.

3.2. 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.

3.3. The Round one forecast is based on returns completed at the end of Month 2 (May 2026).

4. Summary Revenue Budget Forecast Position 2026/27

4.1. The Round one forecast outturn for 2026/27 represents a pressure of **£42.831m**, with **£16.107m** proposed management actions. ASC savings of £5.900m were identified as part of the 2026/27 FIT plan which has not yet been included in the forecasts; however, if this management action is delivered it will reduce the overspend to **£26.724m**. This represents an overspend of 5.1% against the approved budget.

Directorate	**2026/27 R1 Budget £000's**	**2026/27 R1 Forecast £000's**	**Proposed Management Action**	**2026/27 R1 Variance £000's**
Budget requirement:				
Children and Adult Services	397,806	432,827	(11,030)	23,991
Regeneration, Culture and Environment	83,604	90,127	(3,427)	3,095
Business Support Department	9,799	7,108	(1,650)	(4,341)
Business Support Centralised Services:				
Interest & Financing	24,710	28,872		4,162
Corporate Management	3,754	3,570		(185)
Additional Government Support Grant Expenditure	4,027	4,027		0
Budget Requirement	**523,700**	**566,531**	**(16,107)**	**26,724**

5. Business Support Directorate (BSD)

5.1. The Business Support Directorate (BCD) is forecasting a £1.285m overspend at Round 1. The most significant variance at this stage is in the BSD and Interest and Financing.

5.2. BSD 2026/27 Round 1 Forecast

BSD	**2026/27 M2 Budget £000s**	**2026/27 M2 Forecast £000s**	**2026/27 M2 Variance £000s**
Business Support Department	31,323	28,631	(2,692)
Additional Government Support:	4,027	4,027	0
Interest & Financing	24,710	28,872	4,162
Corporate Management	4,396	4,211	(185)
Total	**64,456**	**65,741**	**1,285**

5.3. **Management actions** of £1.650m have been put forward by BSD, this includes £150,000 in Communications and a further £1.500m across the directorate. Whilst Business Support is already forecasting an underspend, the Business Support Management Team has discussed the management action that could be taken within the department in order to offset the overspend against the Interest and Financing budget. DMT is confident that through strict management of vacancies, reviewing and reducing non-essential spend and continuing to drive greater efficiency through the Medway 2.0 programme, forecast expenditure could be reduced by a further £1.500m.

Business Support Department

5.4. Benefit Payments is reporting a £1.100m favourable position against Benefit Payments. The caseload is now stable following managed migration to universal credit and there is a positive upturn on Non HRA (temporary accommodation) subsidy because we are seeing increased subsidy following the use of the owned TA accommodation. This is because we are not restricted to 2011 LHA rates for the reclaim and can claim the full cost of the rent for these properties. Due to the increases in rent, overall, the reclaim from the collection fund has not reduced however the subsidy has.

5.5. **Interest and Financing**

5.6. The Interest and Financing budget is forecast to overspend by £4.162m at Round 1 monitoring, there are various factors that could influence this position as the year progresses such as interest rates, and the need to borrow, both as a result of refinancing loans that are redeemed and continued capital expenditure.

5.7. The Interest and Financing budget ended the 2025/26 financial year with a £23.960m outturn resulting in an overspend of £5.853m, as a result of stubbornly high interest rates. The 2026/27 budget for Interest and Financing was set at £24.710m reflecting our assumption that PWLB interest rates would have reduced to around 4.0%. Global events affecting the economy mean that no longer looks likely and with average interest rates estimated to be just below 5% during 2026/27, this will result in a pressure on the Councils interest payable budget of just under £4.900m. It is projected that the majority of the £150m redeemable will need to be refinanced and added to this will be a further £69m as a result of estimated capital expenditure funded from borrowing in the current financial year.

5.8. A significant element of the interest payable by the Council relates to the loans taken to fund MDC Ltd, however, the interest payable on these loans is more than offset by interest received from the company and a favourable variance is forecast against interest earned. It is projected that this part of the interest and financing budget will achieve excess income against the approved budget of just under £440,000.

5.9. The budget for the Minimum Revenue Provision (MRP), a statutory amount set aside to repay debt, will be lower than anticipated as the time the 2026/27 budget was set, mainly due to lower than estimated capital spend in 2025/26 funded by borrowing. This has been calculated to produce an underspend of £240,000 for 2026/27.

5.10. There are fees payable to both the Debt Management Office and brokers the Council works with to obtain competitive borrowing from other Local Authorities. It is estimated that these costs, together with the reduced cost of our Treasury Management Advisory contract will produce an underspend of just over £50,000 within the Treasury Costs area.

6. Conclusions

6.1. The first round of revenue budget monitoring for 2026/27 forecasts a significant overspend of £26.7m, after management action. The Finance Team will continue to work with services throughout the Council to mitigate pressures, develop management actions and ensure that forecasting is as accurate as possible.

7. Risk management

Risk	Description	Action to avoid or mitigate risk	Risk rating
The Council overspends against the agreed budget	Overspends against the revenue budget would need to be met from the Council's limited reserves; or through the consideration of further Exceptional Financial Support is overspends are greater than reserve balances.	The revenue monitoring process is designed to identify and facilitate management action to mitigate the risk of overspending against the agreed budget.	A1
Impact on service delivery	An overspend that cannot be funded from reserves could result in difficult decisions having to be taken over service delivery.	Ensuring investment is prioritised to statutory services and key priorities, reviewing and reducing non-essential spend and maximising income.	B2
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, robust and timely budget monitoring and decisive management action.	B2
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 and decisive action to mitigate them.	A2
Interest rate risk	Global events, not least conflict in the Middle East, has impacted the UK economy, both in terms of inflation and interest rates. Interest rates now appear unlikely to reduce in line with	Work has already commenced to understand the impact of stubbornly high interest rates on the cost of refinancing short term debt and any new borrowing forecast.	B2

Risk	Description	Action to avoid or mitigate risk	Risk rating
	the projections provided by our treasury advisors.	A review of the capital programme will need to be undertaken, to assess affordability.	

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

8. Financial implications

8.1. The first round of revenue budget monitoring for 2026/27 identifies a signification forecast pressure to the revenue budget of £26.7m. The Council's general reserves currently stand at just over £10.0m. The Council would not therefore be in a position to fund an overspend on the scale of that currently projected.

8.2. Should the 2026/27 budget monitoring continue to forecast an overspend against the agreed budget at a level greater than the level of reserves held, then it may be necessary to seek further government support through the Exceptional Financial Support scheme.

8.3. 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.

9. Legal implications

9.1. 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.

9.2. 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."

9.3. 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.

9.4. 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.

9.5. 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

9.6. 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.

9.7. 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