Cabinet

22 September 2026

Medium Term Financial Outlook 2026-2031

Portfolio Holder: Councillor Vince Maple, Leader of the Council

Report from: Phil Watts, Chief Operating Officer

Author: Abbey Gough, Chief Finance Officer

Summary

This report sets out initial projections of the Council's income and of the cost of services for 2027/28 and across the medium term. The Council continues to face severe and unprecedented financial challenges driven primarily by demand-led pressures in Adult Social Care, Children's Services and financing costs. Current projections indicate a budget gap of £65.858million in 2027/28 rising to £359.314million across the medium term. Without significant savings, service transformation and further government support, the Council will be unable to deliver a sustainable balanced budget over the planning period.

1. Recommendations

1.1. The Cabinet is asked to note the projected budget requirement, the Council's resource assumptions, and the resultant projected budget shortfall for 2027/28 of £65.858million and a cumulative £359.314million shortfall over the medium term.

1.2. The Cabinet is asked to instruct the directorate management teams to continue to work with portfolio holders to identify savings and income generation proposals to balance the 2027/28 budget.

2. Suggested reasons for decisions

2.1. The Medium Term Financial Outlook (MTFO) provides the framework that underpins the budget setting process for 2027/28 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 2025-2030 presented to the Cabinet in August 2025 indicated a potential budget gap for 2026/27 of £29.942million. This cumulative projected gap rose to £191.258million 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 £25.897million by the time the Draft Budget was presented to the Cabinet in November 2025. The provisional Local Government Finance Settlement resulted in an increase of £7.920million 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 2026/27 was balanced with £9.856million through a capitalisation direction.

4.2. The Capital and Revenue Outturn for 2025/26 was reported to the Cabinet on 2 June 2026, and represented a net overspend on the cost of services of £9.819million. The 2025/26 Outturn position requires a further £9.819million of Exceptional Financial Support, taking the total borrowing required under the capitalisation direction to £28.003million. This is within the final amount agreed in-principle for 2025/26, of £28.169million

4.3. The result of the first round of the Council's revenue budget monitoring for 2026/27 was reported to the Cabinet on 4 August 2026 and projected an overspend of £26.724million, a figure in excess of the general reserve balance at 31 March 2026 of £10.12million. Following the first round of budget monitoring Cabinet instructed Corporate Management Team to implement urgent actions to bring expenditure back within the budget agreed by Full Council.

4.4. The Chief Operating Officer has been engaged in ongoing discussions with MHCLG colleagues regarding further 'exceptional financial support' and The Deputy Leader has written to the Secretary of State for Health and Social Care, copying in the Secretary of State for Housing, Communities and Local Government and the Chancellor of the Exchequer setting out the unique circumstances impacting the pressures on the Adult Social Care budget and requesting specific financial support in the form of additional grant funding.

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 2027.

5. Summary of Medium Term Financial Projections

5.1. The initial projections in this MTFO represent an increase in the cost of services of £65.858million compared to the 2026/27 approved budget. This MTFO focuses on unavoidable demand and price pressures, the Corporate Management Team are working with Cabinet Portfolio Holders to consider whether any investment items will feature in the 2027/28 budget.

5.2. The economic outlook remains uncertain over the medium-term, however there is increased certainty for local authorities on government funding following the multi-year funding settlement for 2026/27 to 2028/29. Funding assumptions are broadly in line with the final settlement issued in February 2026, with no significant changes anticipated. The Autumn Statement is due to be delivered on 28th October 2026, however given the agreed multiyear settlement no local government funding policy changes are expected.

5.3. The current MTFO projections cannot be balanced through the use of reserves and assume that further exceptional financial support from Government will be required. There remains a significant risk to the Council's financial resilience should additional support not be forthcoming

5.4. Table 1 overleaf summarises the current assumptions and their impact on the budget requirement over the medium term.

Table 1: Summary of Medium-Term Financial Projections

General Fund Activities	**2026/27 Budget**	**2027/28**	**2028/29**	**2029/30**	**2030/31**
	£000s	**£000s**	**£000s**	**£000s**	**£000s**
Adult Social Care	114,458	153,061	173,488	191,864	208,223
Directorate Management Team	2,466	2,466	2,466	2,466	2,466
Children's Services	74,808	84,018	87,407	90,875	94,435
Education	115,222	117,317	119,487	120,836	122,242
Partnership Commissioning	4,299	4,299	4,299	4,299	4,299
Public Health	21,541	21,992	21,992	21,992	21,992
School Retained Funding and Grants	47,748	44,276	46,138	48,037	49,936
Pay award	1,489	2,727	4,350	6,006	7,694
Total for Children and Adults	**382,031**	**430,157**	**459,628**	**486,375**	**511,288**
Culture & Community	27,287	32,338	33,031	33,574	33,574
Director's Office	616	616	616	616	616
Front Line Services	39,288	43,468	44,853	46,088	46,088
Regeneration	10,439	11,282	11,558	11,855	11,855
Medway Norse Profit Share	(280)	(280)	(280)	(280)	(280)
Pay award	772	1,349	2,105	2,876	3,662
Total for Regeneration, Culture and Environment	**78,123**	**88,773**	**91,883**	**94,729**	**95,515**
Communications	2,022	2,084	2,084	2,084	2,084
Directorate Management Team	800	800	800	800	800
Finance & Business Improvement	20,609	21,235	23,144	23,407	23,670
Crisis Resilience Fund	4,027	4,025	4,120	4,120	4,120
Legal & Governance	6,934	7,041	7,079	7,119	7,158
Pay award	611	1,050	1,626	2,213	2,812

	2026/27 Budget £000s	2027/28 £000s	2028/29 £000s	2029/30 £000s	2030/31 £000s
Total for Business Support	**35,003**	**36,236**	**38,853**	**39,743**	**40,644**
Interest & Financing	**24,710**	**32,710**	**34,710**	**36,210**	**37,710**
Total Corporate Management	**3,885**	**4,053**	**4,926**	**5,105**	**5,284**
Total for Business Support and Corporate Management	**63,598**	**72,999**	**78,489**	**81,058**	**83,639**
Contribution to General Reserves	**0**	**5,000**	**5,000**	**5,000**	**5,000**
Total Projected Budget Requirement	**523,752**	**596,929**	**635,000**	**667,162**	**695,442**

Funding	**2026/27 Budget**	**2027/28**	**2028/29**	**2029/30**	**2030/31**
	£000s	**£000s**	**£000s**	**£000s**	**£000s**
Council Tax	(183,575)	(191,686)	(203,150)	(215,307)	(228,199)
Retained Business Rates	(70,230)	(74,439)	(74,779)	(76,275)	(77,800)
Business Rates Related Grants	0	0	0	0	0
Non ringfenced Government Grants	(58,783)	(75,904)	(84,391)	(82,621)	(83,429)
Education Related Grants	(148,996)	(145,524)	(147,386)	(149,285)	(151,184)
Children, Families and Youth Grant	(6,016)	(6,016)	(5,334)	(5,334)	(5,334)
Crisis Resilience Fund	(4,590)	(4,588)	(4,683)	(4,683)	(4,683)
Adult Social Care Related Grants	(9,015)	(0)	0	(0)	0
Public Health Grant	(22,686)	(23,117)	(23,568)	(23,568)	(23,568)
Homelessness, Rough Sleeping and Domestic Abuse Grant	(3,973)	(4,019)	(4,053)	(4,053)	(4,053)
Extended Producer Responsibility	(4,616)	(3,642)	(3,642)	(3,642)	(3,642)
Best Start in Life	(1,415)	(2,136)	(2,169)	(2,169)	(2,169)
Exceptional Finance Support Scheme	(9,856)	0	0	0	0
Budgeted Use of Reserves	0	0	0	0	0
Estimated Available Funding	**(523,752)**	**(531,070)**	**(553,153)**	**(566,935)**	**(584,060)**
Total Projected Budget Gap	**0**	**65,858**	**81,847**	**100,227**	**111,382**

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.

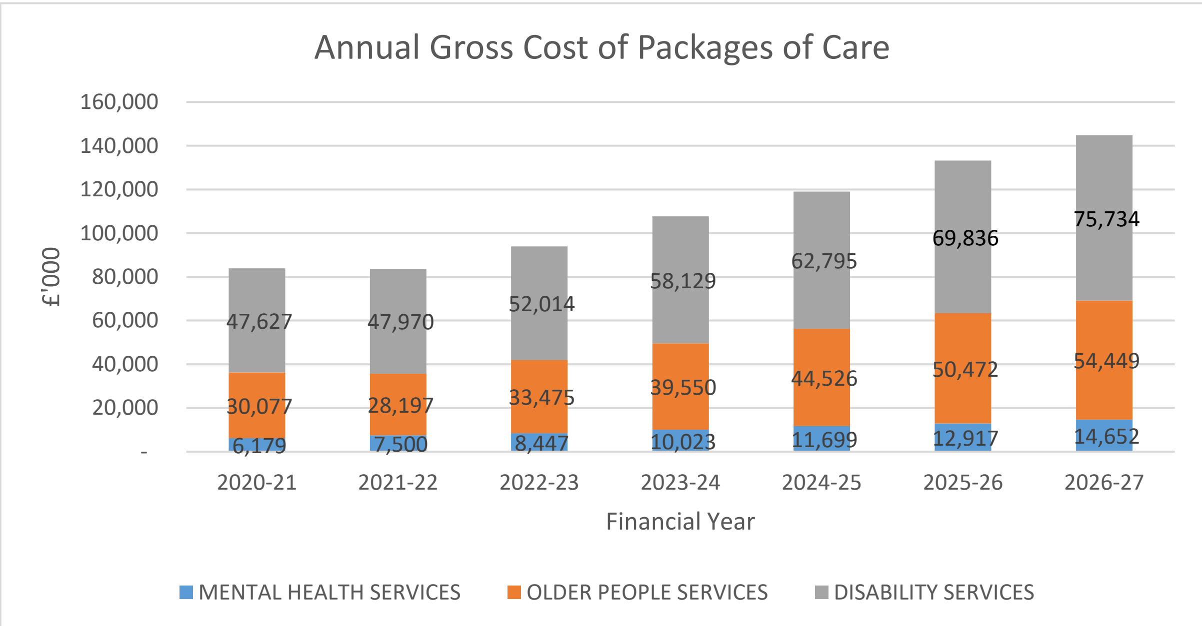
6.2. **Staff pay and pensions:** This MTFO reflects a 3% uplift in pay based on recent inflation forecasts. In July, the CPI rate of inflation rose to 2.9% from 2.6% and continues to track above the Bank of England target of 2.0%. Current forecasts suggest inflation will continue to rise during 2026/27 before falling back toward the Bank of England target over the medium term. Further work will continue with services to ensure that budgets are correctly aligned throughout the budget process. Alongside the pay uplift the MTFO also takes account of 1.9% reduction in the employer pension contribution from 18.3% to 16.4% to the LGPS scheme. Together this results in a net pressure of £5.086million in 2027/28.

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 2027/28 of £48.125million. Details of each projection are provided at Appendix 1.

7.2. Adult Social Care (ASC) budget will need to increase by £38.603million in 2027/28. The principal driver is the ongoing pressure from care package costs, with the cost of current services projected to increase by £18.684 million. This is consistent with the 2026/27 Round 1 forecast position, which identified an overspend of £26.395million before management actions were implemented. In addition, £6.093million is required to rebase service provision budgets for further in year growth, £7.304million relates to provider fee uplifts, and £8.615million has been provided for forecast demographic growth next year. A further £3.490million has been included to support the transition of children into Adult Social Care services during 2027/28.

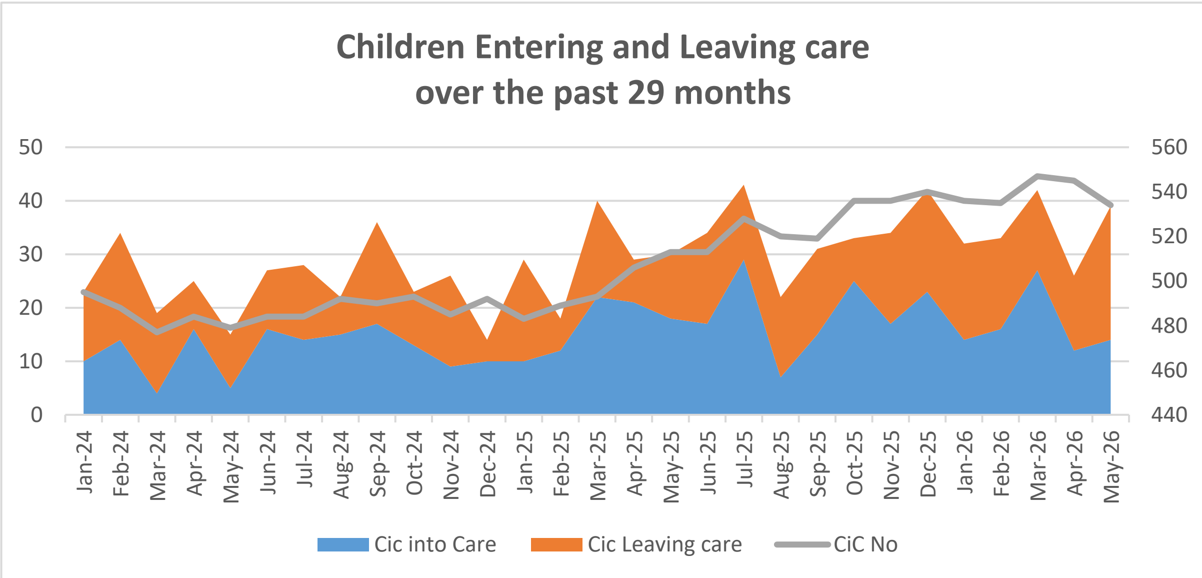
7.3. The chart below shows the annual gross cost for long term packages of care and the increase since 2020/21.



7.4. The Adult Social Care Recovery: Better Lives, Better Value Programme is Medway Council's transformation and recovery programme for Adult Social Care, designed to improve outcomes for residents while delivering a more financially sustainable model of support. The programme is already demonstrating positive outcomes through a stronger focus on prevention, early intervention and strengths-based practice, supporting people to maximise their independence and progress towards their personal goals and aspirations. Alongside this, commissioning arrangements will be reviewed to ensure services continue to deliver high-quality, outcome-focused support and best value. The Medium Term Financial Outlook (MTFO) includes a full-year Adult Social Care saving of £8.946million arising from this programme. However, achievement of the full saving is dependent on the pace of programme implementation, including the availability of appropriate accommodation solutions, individual care planning, and the realisation of benefits associated with supporting people to achieve greater independence where this aligns with their assessed needs and outcomes. Further validation is also required to ensure there is no duplication within the client cohort assumptions underpinning the savings estimate.

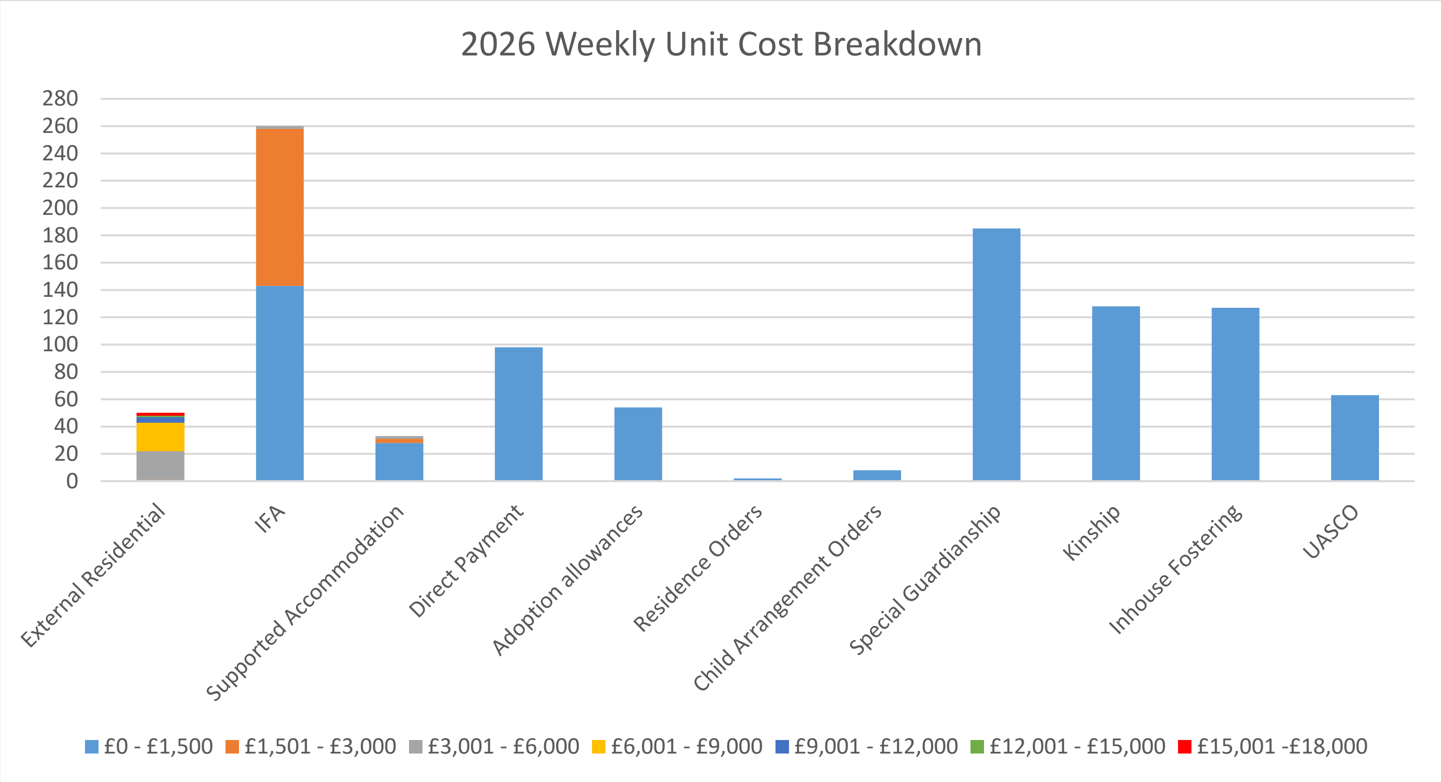
7.5. Demographic growth adds £9.615million to 2027/28 based on data from the Intelligence Team and Finance. Further work will continue to be carried out with the Finance Team, Intelligence Team and ASC Team to refine and reflect the most appropriate forecasts in the MTFO.

7.6. Children's Social Care projections suggest an increase of £9.210m in 2027/28. The primary driver is the change in demographics which show an increase of 50 placements at a cost of £2.202million in 2027/28. Further to this an increase of £4.444million is projected for the current cost of service pressure. This reflects the forecast presented in the 2026/27 Round 1 monitoring report. Inflationary pressures at £1.614million have been included based on a 3% uplift. This is aligned with current inflation forecasts.

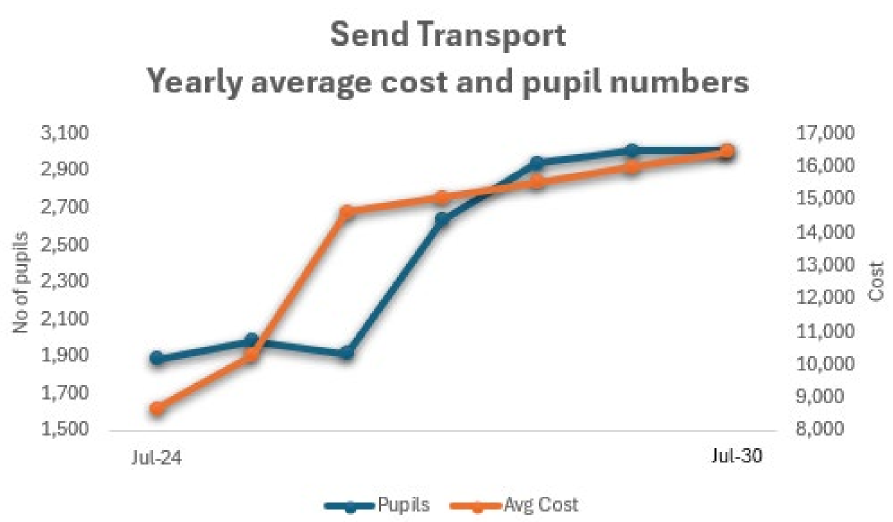


7.7. The chart below shows the number of children entering and leaving care over the last two years. This illustrates a gradual increase in the number of children in care which is reflected in the current cost of service.

7.8. Further to the above, the increase in the number of children in higher cost placements seen to date in 2026/27 is also reflected. This can be seen in the chart below which shows that to date in 2026/27 there are 21 External Residential placements at a weekly cost between £6,001 - £9,000 current and a further 21 in placements costing between £3,001 - £6,000.



7.9. Education spend is projected to increase by £2.095million in 2027/28. The most significant pressure is a £1.196million increase in Special Educational Needs and Disabilities (SEND) transport requirements. This is based on a projected growth of 9% for 2027/8. The chart below shows the yearly average cost and pupil numbers in SEND transport from 2024 to projected to 2030. Since June 2024 to June 2026 the average cost has increased by approximately £6,000. In addition, mainstream transport cost is also projected to increase by £635,000 in 2027/28 based on a 10% growth in in numbers and inflation uplift.



7.10. The budget for tribunal costs - SEND medications and compensation is projected to increase by £188,000 in 2027/28. The budget overspent in 2025/26 and an overspend of £150,000 is currently forecast in 2026/27.

7.11. Schools related expenditure is projected to decrease by £3.472million, reflecting the extent to which we anticipate ring-fenced funding for these services will decrease in 2027/28.

7.12. Partnership Commissioning is projected to deliver within the 2027/28 budget envelope, excluding staff pay uplifts.

7.13. Public Health is projected to deliver within the 2027/28 grant allocation.

8. Expenditure projections – Regeneration, Culture and Environment

8.1. The expenditure projections for Regeneration, Culture and Environment indicate a total increase in the cost of services of £10.651million in 2027/28, including £1.349 million relating to pay awards.

8.2. Front Line Services expenditure is projected to increase by £4.180million in 2027/28. As the division accounts for a significant proportion of the Council's expenditure on externally contracted waste and highways services, the principal pressure relates to inflationary uplifts within these contracts. A further £1.200million pressure relates to the annual running costs of the Medway Tunnel, however, is subject to the outcome of a Department for Transport funding application.

8.3. The cost of Culture and Community Services is projected to increase by £5.051million in 2027/28. The primary drivers are contractual inflationary uplifts within Housing and Facilities Management services. Forecast increases are based on current inflation assumptions and discussions with contract managers, with negotiations continuing throughout the budget-setting process

8.4. A further significant pressure relates to Temporary Accommodation (TA) costs of £3.800 million. The principal cost driver is the continued use of nightly paid accommodation provided by private landlords. Pressures arise from both the increasing number of households requiring temporary accommodation and the higher costs being charged by providers. Round 1 revenue budget monitoring for 2026/27 forecast an in-year pressure of £1.6 million against the approved budget.

8.5. The service has reviewed demand and expenditure trends over the previous two years and proposes a baseline growth assumption of 10% for 2027/28. Applying this assumption to current expenditure levels generates an estimated additional cost pressure of £1.800million within Temporary Accommodation (TA) nightly provision. Further work is underway to ensure that the 2027/28 budget is appropriately rebased and accurately reflects the underlying cost of service delivery.

8.6. The Regeneration Service is forecasting an increase of £0.843million in 2027/28, primarily attributable to contractual inflationary uplifts and the loss of rental income arising from capital asset disposals. Current in-year forecasts indicate that utility costs will remain within existing budget provision, driven by reduced consumption and favourable market price assumptions. As a result, no additional growth provision for utility costs is proposed within the Medium-Term Financial Outlook (MTFO).

9. Expenditure projections – Business Support

9.1. The expenditure projections relating to Business Support represent a total growth in the cost of services for 2027/28 of £1.233million, including £439,000 for pay uplift.

9.2. The Finance and Business Improvement division is forecasting an increase of £626,000. The most significant pressure is the increased Microsoft Licensing costs which are projected to be £412,000 in 2027/28, an increase in 2026/27 has been reported and is currently being managed. Further inflationary pressures of £99,000 for various ICT costs have been included. A further £100,000 relates to the additional requirement for Council funded benefits.

10. Expenditure Projections – Centralised Services

10.1. The expenditure projections relating to Centralised Services represent a total increase in the cost of services for 2027/28 of £9.400million.

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 2027/8 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 an average of 5.5% from 2023/24 to 2025/6. 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 £111,000 to the Council’s budget requirement for 2027/28.

10.3. **Interest and Financing**

10.3.1. The Interest and Financing budget has been projected to increase by £8million in 2027/28 and is currently forecast to overspend by £4.162m at Round 1 monitoring for 2026/27.

10.3.2. 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 interest rates remaining higher than previously forecast. 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.

10.3.3. The current forecast reflects the 2026/27 in year budget shortfall and for predicted increases in interest rates. An in-depth review is taking place on the Interest and Financing budgets to accurately assess this position. This MTFO currently presents a budget which cannot be mitigated through use of reserves and would require additional Exceptional Financial Support from government. If additional borrowing was required this would result in a further pressure to the MTFO.

11. Income Projections

11.1. The Final Local Government Finance Settlement was published on 9 February 2026 which set out the three-year funding assumptions. The MTFO funding has been based on these assumptions and represents a £7.318million increase funding.

11.2. **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 total level of income projected from the Council Tax in 2027/28 is £191.686million.

11.3. **Retained Business Rates and Business Rates Related Grants –** The projections reflect the assumptions of our funding advisors. The total level of income projected in 2027/28 is £74.439million.

11.4. **Non-ringfenced Government Grants** – the total level of income projected in 2027/28 is £75.904million. This includes £2.675million for Recovery Grant and further £73.229m for Revenue Support Grant which follows the governments consolidation of funding steams as outline within the 2026/27 budget setting process.

11.5. **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 2027/28 is £145.2245million.

11.6. **Consolidated Grants**

11.7. **Children, Families and Youth Grant** – the projections reflected the assumptions of our funding advisors that these grants would continue at broadly the same allocation as 2026/27. The total level of income projected in 2027/28 is £6.016million.

11.8. **Crisis and Resilience Fund** – This will make it easier for local authorities to provide preventative support to communities and assist people when faced with a financial crisis, the projections reflect the assumptions of our funding advisors. The total level of income projected in 2027/28 is £4.588million.

11.9. **Public Health Grant** – This will bring together funding from the existing Public Health Grant using the same distribution approach as in previous years. This MTFO reflects the projection of our funding advisors and the total Public Health Grant for 2027/28 is projected to be £23.117million.

11.10. **Homelessness, Rough Sleeping and Domestic Abuse Grant** – This grant brings together the prevention, relief and staffing element of Homelessness Prevention Grant along with the Rough Sleeping and recovery Grant and the Domestic Abuse Safe Accommodation. The projections reflect the assumptions of our funding advisors that these grants would continue at broadly the same allocation as 2026/27. The total level of income projected in 2027/28 is £4.019million.

11.11. **Extended Producer Responsibility for Packaging (EPR)** – The Government confirmed the current year allocations Medway's allocation for 2026/27 at budget setting was £4.616million this has since been confirmed as £4.722million. Future years forecasts have been maintained at £3.642million based on previous performance forecasts, this will be reviewed throughout the budget process.

12. Reserves Strategy

12.1. 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 5 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.

12.2. As at 31 March 2027, the Council is projected to hold £10.012million in general reserves. The General Reserves balance therefore represents less than 2% of the 2026/27 net revenue budget, which is materially below the level typically regarded as prudent for an authority facing the degree of financial risk reflected within this MTFO.

12.3. The Section 151 Officer has set out an aspiration to increase General Reserves to represent 5% of the net revenue budget (c£25.000milion) to ensure a sufficient safety net to insulate the Council from financial shocks.

12.4. The MTFO reflects this aspiration in the projections for future years. Work is ongoing to review the Council’s earmarked reserves and identify any earmarked reserves which could be declassified to mitigate the 2026/27 budget pressures. 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.

13. Conclusions

13.1. The Medium Term Financial Outlook demonstrates that the Council continues to face a highly challenging financial position. Current projections indicate a budget gap of £65.858million in 2027/28, rising to a cumulative £359.314million across the period covered by the MTFO. The most significant pressures continue to arise from demand-led services, particularly Adult Social Care and Children's Services, together with the ongoing impact of financing costs and wider inflationary pressures. While the assumptions contained within this report represent the best estimates available at this stage of the budget process, a degree of uncertainty remains and assumptions will continue to be refined as further information becomes available.

13.2. The scale of the projected budget gap means that the Council cannot rely on incremental efficiencies alone to achieve a balanced and sustainable budget. Significant service transformation, demand management, income generation and expenditure reduction measures will be required alongside continued engagement with Government regarding Exceptional Financial Support. Following successive years of delivering savings and efficiencies, opportunities for further savings are becoming increasingly limited without materially impacting service delivery.

13.3. The Council's level of general reserves remains low relative to the scale of the financial risks it faces, limiting its ability to absorb further financial shocks. The Chief Operating Officer, in their role as the Council's Section 151 Officer, will continue to review the robustness of the assumptions underpinning the MTFO and advise Members on the affordability, sustainability and deliverability of the Council's financial plans as the budget-setting process progresses.

13.4. The Council awaits the Government's Autumn Budget and the publication of the Provisional Local Government Finance Settlement. Work is continuing with Cabinet Portfolio Holders and services to identify opportunities to reduce the projected budget gap, and progress will be reflected in the Draft Budget 2027/28 report to Cabinet in November 2026.

14. Risk management

Risk	**Description**	**Action to avoid or mitigate risk**	**Risk rating**
Council request for Exceptional Financial Support not granted	In the unlikely event that the MHCLG rejects the Council's latest application for EFS, the Section 151 Officer may be forced to issue a Section 114 notice to the Council.	Regular communication with officials from MHCLG to progress the Council's EFS request and a positive Assurance Review by CIPFA.	D1
Funding assumptions underpinning the Budget may be overstated	Our projections for Council Tax / Business Rates could be overstated.	Funding assumptions in the Budget are in line with assumptions prepared by the Council's advisors. Officers and Members continue to work closely to identify savings.	C2
Assumptions around the cost of service delivery underpinning the Budget may be understated	The growth in the cost of delivering the Council's services may be higher than anticipated in the Budget, or income may be lower than anticipated.	The pressures reflected in the Budget have been developed in consultation with management across the organisation.	B2

For risk rating, please refer to the following table:

Likelihood	**Impact:**
A Very likely B Likely C Unlikely D Rare	1 Critical 2 Major 3 Moderate 4 Minor

15. Consultation

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

Initial budget proposals to Cabinet	17 November 2026
Reports to Overview and Scrutiny Committees	November 2026 - January 2027
Budget proposals to Cabinet	9 February 2027
Budget proposals to Council	25 February 2027

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

16. Climate change implications

16.1. 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 2027.

17. Local Government Reorganisation

17.1. Following the announcement of the pause on 7 September 2026, officers will monitor the ongoing situation and will consider any relevant impacts as they arise

18. Financial implications

18.1. Our initial projections for income and expenditure result in a potential budget gap for 2027/28 of £65.858million, with a cumulative gap of £359.314million projected over the medium term.

18.2. The first round of budget monitoring for 2026/27 forecasts an overspend of £26.724 million, significantly exceeding the Council's general reserves of £10.012 million. To address this position, the administration and senior officers will need to take decisive action to reduce expenditure during the current financial year and identify and deliver a robust programme of savings to achieve a balanced budget in both 2026/27 and 2027/28

18.3. The Chief Operating Officer continues to engage with colleagues at the Ministry of Housing, Communities and Local Government (MHCLG) regarding the provision of further Exceptional Financial Support (EFS) in 2026/27 and the potential requirement for additional EFS to support the Council in balancing its budget in 2027/28

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's and Adults Directorate Budget Assumptions
Appendix 2 – Regeneration, Culture and Environment Budget Assumptions
Appendix 3 – Business Support Directorate Budget Assumptions
Appendix 4 – Centralised Services Budget Assumptions
Appendix 5 – 2027/28 Reserve Strategy

Background papers

Capital and Revenue Budget 2026/27 Report to Full Council 25 February 2026

Appendix 1

Children and Adults Directorate Budget Assumptions

Budget assumption	2027/28 £000s	2028/29 £000s	2029/30 £000s	2030/31 £000s
Children and Adults adjusted base budget	**382,031**	**430,157**	**459,628**	**486,375**
Adult Social Care				
CCoS pressure - 2026/27 R1 Deficit position	18,684			
Re-base of ASC Service Provision Budget	6,093			
Provider Price Uplift estimate at 5%	7,304	7,640	8,022	8,412
6% Demography	8,615	7,096	7,487	7,947
Transitions (equivalents to 2.4% for 27/28, 2.8% - 28/29, 2% - 29/30)	3,490	4,191	2,867	
Better Lives, Better Value Programme	(8,946)			
Use of Capital Receipts to fund Transformation - ASC non-perm in 26/27	880			
Re-Base of Staffing Pressure	620			
Items added from ASC AD / ASC HoS				
Aida (digital tool)	30			
Adult Friendly Medway - optional	300			
Care For Medway		1,500		
ASC additional staffing resource pending finalised business cases - tbc	1,533			
Total Adult Social Care	**38,603**	**20,427**	**18,376**	**16,359**
Children's Services				
Demographic Growth	2,202	2,268	2,336	2,406
Inflation	1,615	1,121	1,131	1,154
Current Cost of Service	4444			
RAA Contribution	58			
Aut Even	892			
Total Children's Services	**9,211**	**3,389**	**3,468**	**3,560**
Education				
Mainstream transport	635	256	286	344
SEND Transport	1196	1863	1000	1000
Medway Test	55			
Medway Test DSG Increase	(55)			
Tribunal Costs	188	62	62	62
Synergy System	76	(11)		

Appendix 1

Children and Adults Directorate Budget Assumptions

Budget assumption	2027/28 £000s	2028/29 £000s	2029/30 £000s	2030/31 £000s
Total Education	**2,095**	**2,171**	**1,348**	**1,406**
Public Health				
Grant	451			
Total Public Health	**451**	**0**	**0**	**0**
Schools Retained Funding				
Hypothecated increase in Schools Funding	(3,472)	1,862	1,899	1,899
Total Schools Retained Funding	**(3,472)**	**1,862**	**1,899**	**1,899**
Children and Adults pay increases:				
COLA Pay award and pension reduction	1,239	1,623	1,655	1,689
Total Children and Adults pay increases	**1,239**	**1,623**	**1,655**	**1,689**

Directorate summary:				
Adjusted base budget	382,031	430,157	459,628	486,375
Additional expenditure budget required	48,126	29,471	26,746	24,913
Projected budget requirement	430,157	459,628	486,375	511,288

Appendix 2

Regeneration, Culture and Environment Directorate Proposed Budget Assumptions

Budget Assumption	2027/28 £000s	2028/29 £000s	2029/30 £000s	2030/31 £000s
Regeneration, Culture and Environment adjusted base budget	**78,123**	**88,774**	**91,884**	**94,730**
Culture and Community				
- Inflation on contracts				
Grounds Maintenance	234			
Housing Related Support (potential increase of 75%)				
Temporary Accommodation (Private + HRA)	675			
Housing Benefit Recharge (TA)	1800	693	543	
Housing Options	2000			
	500			
Public Protection/Community Safety/Community Cohesion - Health & Safety Officer specialising in counter-terrorism to advise, deliver and monitor statutory				
HMO Compensation Claims	75			
Local Plan examination 4T263	500			
Anticipated shortfall in gas budget at Medway Park (based on 2025-26)	100			
Increase in Medway's Partnership Contribution	130			
	27			
Additional sports centre income (including Active Parks)	(250)			
Additional sports centre income through £2 per month increase in fees for all sports centre members	(240)			
Leisure annual income - offered up as savings	(500)			
Total Culture and Community	**5,051**	**693**	**543**	**0**
Front Line Services				
Year 2 Street Lighting Electrical Testing and then onto Structural Testing	270	150		
Medway Tunnel Annual Running Costs (excluding maintenance)	1,200	1,200	1,200	

Appendix 2

Regeneration, Culture and Environment Directorate Proposed Budget Assumptions

Budget Assumption	**2027/28 £000s**	**2028/29 £000s**	**2029/30 £000s**	**2030/31 £000s**
Street Furniture (highway signs, bollards, guard railing etc)	35	35	35	
New Highway Infrastructure Contract	200			
Subscriptions - Tribunal costs	16			
Postage	95			
Electricity	24			
Vehicle lease charges	5			
Bus Lane camera support charges	20			
Clinical Waste Contract Uplift	68			
Parish cleansing	26			
HWRC contract uplift	92			
HWRC rationalisation	450			
Waste Disposal contract inflationary uplifts	550			
Waste Disposal base budget adjustment	281			
Medway Norse Waste and Cleansing contract uplift	760			
Concessionary bus fares additional reimbursement to bus operators	150			
HRA income reduction	27			
Community Safety s106 allocation	35			
Reduction in Medway Fair Trader Scheme income	12			
Lamp Column Advertising	(15)			
Articles on the Highways Licences	(15)			
Lane Rental	(25)			
On-Street EV Charging Bays	(50)			
Car Park EV Charging Bays	(30)			
Total Front Line Services	**4,180**	**1,385**	**1,235**	**0**
Regeneration				
FM Service Costs	234	247	260	
BRMF	45	28	29	
New 'Smiths' Square Cleansing and Maintenance (Gillingham)	50	3	3	
The Paddock Cleansing & Maintenance Costs (Chatham)	40	2	2	
ICM 'Safe and Legal' Rightsizing	50	3	3	
Pentagon loss of income and increased service charge to Landlord.	150	0		
Property income lost due to capital sales.	274	(6)		

Appendix 2

Regeneration, Culture and Environment Directorate Proposed Budget Assumptions

Budget Assumption	**2027/28 £000s**	**2028/29 £000s**	**2029/30 £000s**	**2030/31 £000s**
Total Regeneration	**843**	**276**	**297**	**0**
RCE Pay COLA Pay award and pension reduction	577	756	771	786
Total Regeneration, Culture and Environment pay increases	**577**	**756**	**771**	**786**

Directorate summary:				
Adjusted base budget	78,123	88,774	91,884	94,730
Additional expenditure budget required	10,651	3,110	2,846	786
Projected budget requirement	88,774	91,884	94,730	95,516

Appendix 3

Business Support Directorate Budget Assumptions

Budget Assumptions	2027/28 £000s	2028/29 £000s	2029/30 £000s	2030/31 £000s
Business Support Adjusted Base Budget	**35,003**	**36,237**	**38,855**	**39,744**
Communications				
Full year Effect of additional permanent resource	62			
Total Communications	**62**	**0**	**0**	**0**
Finance & Business Improvement				
Housing Benefit admin grant reduction - move to UC	28	29	30	30
Benefits subsidy projection - move to UC	100	100	100	100
Macmillan team costs if funding ends/reduces				
SHIP - continue after funding ends - staff cost				
Internal/external income	(13)			
Inflationary uplifts on the corporate ICT software and hardware licenses	511	133	133	133
CRF grant change		95		
Build back from flexible use of reserves		1647		
Total Finance & Business Improvement	**626**	**2004**	**263**	**263**
Legal & Governance				
Members Allowances uplift	37	38	39	39
Civica	100			
Council Chamber costs	20			
IKEN Upgrade	-50			
Total Legal & Governance	**107**	**38**	**39**	**39**
Business Support Department pay increases				
COLA Pay award and pension reduction	439	576	587	599
Total Business Support pay increases	**439**	**576**	**587**	**599**

Department summary:				
Adjusted base budget	35,003	36,237	38,855	39,744
Additional expenditure budget required	1,234	2,618	889	901
Projected budget requirement	36,237	38,855	39,744	40,645

Appendix 4

Centralised Services Budget Assumptions

Budget assumptions	**2027/28 £000s**	**2028/29 £000s**	**2029/30 £000s**	**2030/31 £000s**
Centralised Services adjusted base budget	**28,595**	**36,763**	**39,636**	**41,315**
Corporate Management				
Projected inflationary uplifts to Levies	111	116	122	122
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
Building back costs funded from Flexible use of capital receipts		700		
Total Corporate Management	**168**	**873**	**179**	**179**
Interest and Financing				
Interest & Financing - Saving on I&F budget due to capital receipts from sale of investment properties	8,000	2,000	1,500	1,500
Total Interest and Financing	**8,000**	**2,000**	**1,500**	**1,500**

Centralised Services summary:				
Adjusted base budget	28,595	36,763	39,636	41,315
Additional expenditure budget required	8,168	2,873	1,679	1,679
Projected budget requirement	36,763	39,636	41,315	42,994

Medway Council Reserves Strategy 2027/28

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 set 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 set.

The introduction of a Reserves Strategy in 2025/26 was 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:

- to mitigate financial risks and prevent these from undermining 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 Statement of Accounts for 2025/26 sets out the Council’s reserve balances as follows:

Reserve classification	Balance at 31/03/2026 £000s	Commentary
Revenue Reserves		
General Reserve	10,012	This is the ‘working balance’ of the Council and acts as a contingency to fund unforeseen eventualities.
Housing Revenue Account	1,637	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	26,377	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	2,439	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	842	Balances held by the local authority on behalf of schools.
Dedicated Schools Grant Reserve	4,266	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	69,355	This range of reserves contains Government grants, other contributions (e.g. Section 106) and capital receipts, which are held to finance future capital expenditure.

Reserve classification	Balance at 31/03/2026 £000s	Commentary
Total Usable Reserves	**114,928**	
Total Unusable Reserves	**391,112**	

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 2027, the Council is projected to hold a circa £10.0million General Fund balance. The General Reserves balance therefore represents less than 2% of the 2026/27 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 2026-2031 projects that the Council's net revenue budget will reach £584million in 2030/31, which would therefore require General Reserves of circa £29million to reach this 5% aspiration, a growth of £19million compared to the current level.

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.