



## REPORT

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| <b>SUBJECT:</b>                 | <b>Revenue and Capital Budget 2025/26 – Final proposals following scrutiny and public consultation</b> |
| <b>MEETING:</b>                 | <b>Cabinet</b>   |
| <b>DATE:</b>                    | <b>5th March 2025</b>  |
| <b>DIVISION/WARDS AFFECTED:</b> | <b>ALL</b>   |

### 1. PURPOSE:

- 1.1. To update Cabinet with the consultation responses to the draft budget proposals issued by them on the 22nd of January in respect of the Capital and Revenue budgets for 2025/26.
- 1.2. To make recommendations to Council on the Capital and Revenue budgets including the level of Council Tax for 2025/26.
- 1.3. To receive the statutory report of the Responsible Financial Officer on the budget process and the adequacy of reserves.
- 1.4. To receive the Responsible Financial Officer's Prudential Indicator calculations for capital financing.

### 2. RECOMMENDATIONS:

- 2.1. That Cabinet considers the responses to consultation and recommends to Council:
  - a) The 2025/26 revenue budget as attached in **Appendix B**.
  - b) The 2025/26 capital budget and indicative 2026/27 to 2028/29 budgets as attached in **Appendix H**.
- 2.2. That a 7.8% increase in the Band "D" equivalent Council Tax is applied for County Council purposes for 2025/26. Cabinet asks that efforts continue to be maximised to ensure that individuals and households eligible for council tax exemptions or reductions claim the benefit available to them.

- 2.3. That Cabinet approves changes to proposed saving and pressures, updated following public consultation, scrutiny and more up to date information being made available since the draft proposals were released on consultation on 22nd January 2025.
- 2.4. That Cabinet considers the Responsible Financial Officer's report on the robustness of the budget process and adequacy of reserves issued under the provisions of the Local Government Act 2003 and an assessment of the current and future financial risks facing the Council.
- 2.5. That Cabinet adopts the Responsible Financial Officer's recommendation for the prudential Indicators for capital financing.
- 2.6. That Cabinet requests:
  - a) That the existing arrangements in place for more regular budget monitoring and scrutiny continue during 2025/26, noting the levels of cost pressure being accommodated by services, and the deliverability risk in achieving required budget savings.
  - b) That the Medium Term Financial Plan continues to be updated and reported regularly, using the most up-to-date information available to assess cost pressures and risks, the underlying modelling assumptions, any service changes resulting from the programme of change, and the ongoing affordability implications of the Community and Corporate Plan.

### 3. KEY MESSAGES

| Key frontline services will see increases in funding with Education increasing by 11.3% and for Social care & health by 10.6%   |
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| This includes an <b>additional £1m investment in local school budgets</b> to meet the demands that schools are facing in restoring attendance levels and standards following the pandemic period. This investment is above meeting in full all pay and pension related pressures in schools                                       |
| There will continue to be a focus on tackling inequalities and to protect the most vulnerable in our society. This means <b>support for additional learning needs provision will increase</b> , as will the investment in <b>specialist resource bases for children and young people</b> helping them stay in their local schools |
| Cabinet have resolved to <b>invest in our Foster carer service</b> to retain and recruit valued carers and to recognise their essential skills, patience, time, and the resources that it takes to support some of the most vulnerable children in our County   |
| Whilst hard choices have had to be made to protect services, <b>the services that are available to residents this year will be available in 2025/26</b> . Waste collections will remain the same. Leisure centres, recycling centres, libraries and community hubs are all remaining open   |

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| <b>Total additional capital investment of £2.3m</b> will be made within some of our key infrastructure, predominantly around <b>Highways structures, carriageways, footpaths, public rights of way, and our property estate</b>   |
| The Cabinet are committed to protecting our local environment and nature and will <b>be increasing investment in Flood alleviation measures</b> , and continue to review our property estate and energy usage <b>to reduce our carbon footprint</b>   |
| <b>Cabinet have listened to and reacted to the feedback from residents and key stakeholders</b>   |
| <b>Cabinet have listened to feedback</b> on the proposal to change the opening hours at four community hubs and reacted accordingly. The proposed changes will not be taken forward at this time. The consultation process highlighted the importance and value placed on these facilities within our communities and highlighted the ancillary impact these changes may have on the wider provision of Council services. |
| <b>Welsh Government's final budget provides a minimum funding floor of 3.8% for Monmouthshire</b>   |
| Monmouthshire will benefit from further funding of £1.54m from this floor being put in place  |
| A package of specific grant announcements totalling £70m for local government responsibilities across Wales was also made   |
| This funding aids in meeting the specific challenges in providing local services in a rural County such as Monmouthshire, and will go a long way towards being able to continue to protect the most vulnerable members of our community   |
| <b>To partly fund the increased investment in key services noted above, there will be changes to the way some things operate and a need to increase income</b>  |
| The final budget includes £5m of service savings and efficiencies. This helps to reduce costs wherever possible and to ensure the Council is operating as efficiently and effectively as it can   |
| Income will be increased through an increase in council tax for County purposes of 7.8% and through specific charging for on-demand services to manage the increased demand and cost of our services  |
| A cumulative impact assessment has been produced that supports the final budget which enables us to assess the overall potential impact of the budget on residents within our communities, and where any negative impact can possibly be mitigated  |

#### 4. BUDGET CONTEXT

- 4.1. Local Government across the UK continues to face significant financial challenges. It is widely acknowledged that for many years funding has not kept pace with the increased demand for services and increases in the cost of provision. 2025/26 will be no different.

4.2. The Council has seen continuing headwinds which are having a severe impact upon the service operating environment:

- The wider socio-economic landscape and cost of living challenges continue to have an impact on our communities, with a consequential increase in demand for Council services, and impact upon income generating services. This particularly impacts the service areas of Children's Social care, Adult social care, Homelessness, and Children's additional learning needs.
- Wider public sector challenges continue to impact upon Council services, notably within Health where efforts to improve patient pathways impact upon the level and complexity of demand for Social care.
- Whilst headline inflation has fallen, some discrete areas of Council services continue to experience cost pressures on supplies and services, alongside supply chain issues.
- In continuing efforts to combat inflation, interest rates have remained high, with revised forecasts suggesting that they will remain higher for longer than previously anticipated.
- The Council continues to deal with a shortage of staff resources in some specific areas.

4.3. All the above results in a growing need for supportive Council services, a reduced demand for income generating services, increased risks around debt recovery, and a continued high-cost operating environment.

4.4. This ultimately leads to difficult decisions needing to be made to prioritise services most vital to our communities, whilst ensuring the Council continues to operate in a financially sustainable and safe manner.

4.5. Cabinet published their budget setting process and timetable at their meeting on the 16th of October 2024. This highlighted an initial budget gap of £11.4m, which was made up of gross expenditure pressures of £15.5m, offset by modelled increases in funding of £4.1m from Council tax and fees and charges for services, alongside a standstill in the level of Welsh Government core grant funding.

4.6. The draft budget published in January updated this position based on refreshed data, with revised additional cost pressures projected for 2025/26, compared to 2024/25 of £23.7m, or 11% of the Council's budget. This will be the third successive year that the Council has needed to tackle gross expenditure pressures of £20m+. Whilst the Council has in the past regularly dealt with financial challenges in the order of £5m - £10m in an annual planning cycle, the level of sustained increase in demand for high-cost services continues to put a strain on the Council's finances

4.7. Cabinet's draft budget proposals looked to meet these pressures through:

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| Reduction in energy costs              | £0.7m |
| Increased income from Fees and charges | £0.7m |

|                                   |       |
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| National insurance funding        | £3.3m |
| Increased in income through grant | £5.1m |
| Service savings and efficiencies  | £5.1m |
| Increased income from Council tax | £5.9m |

- 4.8. At draft budget stage there remained a £2.86m budget gap that would need to be resolved to set a final budget. Cabinet indicated their intention to purposefully engage with Welsh Government around the need for a minimum funding settlement (a funding floor) to meet a significant proportion of this gap.

## 5. FINAL SETTLEMENT

- 5.1. The provisional settlement from Welsh Government received on 11th December 2024 provided an indicative funding increase of 2.6% for 2025/26, set alongside an all-Wales average increase of 4.5%, and introduced a year-on-year increase of £5.1m of funding to the Council, when adjusted for specific grant transfers.
- 5.2. Welsh Government published its final budget on the 20th February 2025 and alongside it the final settlement for local authorities in Wales. The budget and final settlement contained the following key changes:
- a) A guaranteed 3.8% funding floor for all local authorities, at a cost to Welsh Government of £8.24m. This will increase funding available to nine local authorities – Monmouthshire, Powys, Gwynedd, Vale of Glamorgan, Flintshire, Pembrokeshire, Ynys Mon Ceredigion and Conwy. Monmouthshire will benefit from further funding of £1.54m from this floor.
  - b) A package of specific grant announcements totalling £70m for local government in Wales:
    - An extra £30m for childcare, which will ensure funding for the Flying Start programme to deliver childcare to two-year-olds across Wales. The hourly rate will also be increased to £6.40 an hour to further support childcare providers.
    - £30m more for social care to target delayed hospital discharges and provide more care and support in local communities to prevent people being admitted to hospital unnecessarily.
    - £5m to improve playgrounds and play facilities for children.
    - An extra £5m to support leisure centres to be more energy efficient.
- 5.3. The full details of the £70m of specific grant announcements, including individual Council funding allocations and the terms and conditions relating to use of grant is still awaited. This funding may provide an opportunity to further support service cost pressures or mitigate existing budget risks, however, at the current time is excluded from the final budget outlined in this report.

- 5.4. No further changes to funding levels are anticipated beyond those noted above. Should any changes arise, these will need to be considered as part of the Council Tax resolution when it is considered by Full Council on 6th March 2025.

## **6. BUDGET CONSULTATION**

- 6.1. Given the nature and extent of the cost pressures faced for 2025/26 and the broad range of budget savings proposals being proposed, Cabinet reached out and purposefully engaged with a wide range of different interest groups and communities within Monmouthshire. The feedback received has been considered and addressed in the final budget.
- 6.2. The Council's engaged with over 650 people across 15 stakeholder sessions that included:
- a) Delivering a number of countywide drop-in events throughout the consultation period;
  - b) Reaching out and consulting with town and community councils and with business representatives and forums;
  - c) Holding a number of targeted consultation events with groups who were keen to engage in the consultation process (e.g. MyMates, School Council representatives);
  - d) Engaging with the school budget forum, Head Teachers and School Governors
- 6.3. Beyond the direct engagement held with residents, key stakeholders and interest groups, a letter was sent out to other stakeholders to signpost them to the consultation on the draft budget proposals and in offering them to provide feedback or to meet if required.
- 6.4. A dedicated budget section on the Council's website signposted members of the public to accessible information about the draft budget proposals along with ways to engage in the process. A budget survey was also available and to allow feedback on the proposals to be rated and commented upon.
- 6.5. Beyond the direct and targeted engagement outlined above, three digital engagement sessions were held which, despite attracting lower numbers than in previous years, generated a good level of scrutiny and challenge. Members of the public were also able to pre-submit questions in advance of these events. The budget survey was by far the most popular means by which the wider public engaged in the consultation process with 243 responses received.
- 6.6. The proposals were also scrutinised by the Performance and Overview Scrutiny Committee, People Scrutiny Committee, Place Scrutiny Committee and the Joint Advisory Group (JAG).
- 6.7. **Appendix A** outlines the feedback received throughout the consultation process. In summary this positioned itself in the following areas:
- a) The majority of respondents to the budget survey agreed with the individual savings proposals being considered. However, there was disagreement in respect of the changes proposed to community hubs; with the proposed increase in car parking fees; and with the

proposed reduction in staffing to the Monmouthshire specialist teacher team. The disagreement to the changes to community hubs was similarly echoed in public consultation events, stakeholder engagement, and during member scrutiny.

- b) A significant number of residents raising concern about the level of council tax increase proposed, especially in light of cost of living pressures being experienced in households. However, there was also a recognition that the choices available to the Council were limited in the face of significant cost and demand pressures for services that directly support the needs of residents.
- c) Concerns were raised regarding the level of teaching support provided within schools generally, but also specifically for targeted support for pupils with additional learning needs.
- d) Clarification on the number of compulsory redundancies, particularly to frontline services was sought.
- e) A number of comments were made about the realistic deliverability of service savings, particularly within social care given the pressurised operating context.
- f) Queries were raised about the proposed changes to youth services across the County and how this would impact the ability to access the services throughout various parts of the County.
- g) Clarification was sought about the proposal to remove some ICT support provision at a time when Cyber based threats were increasing across large organisations.
- h) Comments were raised about condition of the extensive highways network across the county and the need to improve infrastructure for residents.
- i) Concerns raised around continued pressure on services such as in education, social care, with operational frontline services, and for children with additional learning needs.
- j) Finally, clarification was sought on how the remaining budget gap was going to be resolved and whether this would result in further service changes that had not been consulted upon.

## **7. FINAL REVENUE BUDGET**

- 7.1. After review, reflection and consideration of feedback received, and taking into account new and updated information available, it is recommended that the following revisions are made to the revenue budget proposals:

### Change in service savings:

- Cabinet have listened to feedback on the proposal to change the opening hours at four community hubs and reacted accordingly. The proposed changes will not be taken forward at this time. The consultation process highlighted the importance and value placed on these facilities within our communities and also highlighted the ancillary impact these changes may have on the wider provision of

Council services. A fuller review of the service will be carried out in due course to establish if the service is working in the most effective way for our residents. This change reduces overall service savings by £110k.

- The latest forecasts for energy usage and costs based on advice from the Council's purchasing consortium indicates that savings are estimated to be £157k less than previously modelled at draft budget stage.

#### Change in service pressures:

- The anticipated pressure of £236k relating to the indicative reduction in Housing & Homelessness related grants has been removed following confirmation in the final settlement that these have been transferred into the settlement at existing (2024/25) values.

#### Funding changes

- The Council's final settlement has introduced further grant funding of £1.54m as a result of the funding floor put in place by Welsh Government.
- The Council has received indicative allocations of funding under the Extended Producer Responsibility ("EPR") scheme for packaging which have been jointly developed on a four nations basis. The Welsh Government's intention is that the funding from the EPR scheme for packaging to cover the costs of managing packaging waste should be additional to the funding Authorities have previously received via the Local Government Settlement. This is intended to unlock additional investment to improve recycling against the 70% minimum statutory target and support wider action as a key part of the action to decarbonise and grow the green economy. This provides additional funding of £4.8m that will support the existing Waste service and cover additional improvements to service delivery to maintain Monmouthshire's excellent recycling rates. Therefore, there is a corresponding increase in Waste pressures of £2.678m, and a transfer to a Waste risk management reserve to manage resultant service pressures over the medium term.

#### Other changes

- The modelled increase in Teacher's pay from September 2025 has been increased from 2.8% to 3.1% based on latest available data. This has increased cost pressures by £247,000.
- A contingency budget of £850k has been established to mitigate some of the budget risks identified within this report. In particular the funding risks associated with National insurance increases and the EPR scheme, alongside the potential for the final level of pay awards and service cost pressures to be greater than anticipated. The establishment of a contingency budget was recommended as part of the approved medium-term financial strategy as a measure to enhance the Council's financial resilience and budget flexibility.
- Capital financing budgets have been reviewed in light of updated economic data, and capital programme progress and have been supported by independent treasury advice. This results in a reduction in cost pressure of £513k.



- The South Wales Fire and Rescue service have given notification of their final levy for 2025/26 of £6,143,347. This is £80k less than anticipated in draft budgets.
- The Police and Crime Commissioner for Gwent has given notification of their final precept level for 2025/26 of £18,324,800. This is £230k more than anticipated in draft budgets. As the Council acts as the precepting body on behalf of the Police, this variation does not impact the Council's overall budget position.
- Community Councils have given notification of their final precept levels for 2025/26 of £3,963,956. This is £356k more than anticipated in draft budgets. As the Council acts as the precepting body on behalf of Community Councils, this variation does not impact the Council's overall budget position.

7.2. The table below illustrates the movements from draft to final budget and subsequent to public consultation, scrutiny and more up to date information being made available:

| Budget Reconciliation                               | Amount<br>£'000 | Amount<br>£'000 |
|---|-----------------|-----------------|
| Draft budget proposals – <b>(Surplus)</b> / Deficit |                 | <b>2,861</b>    |
| <i><b>Change in service savings:</b></i>            |                 |                 |
| Removal of Community hub saving                     | 110             |                 |
| Energy cost saving reduced                          | 154             |                 |
|   |                 | 264             |
| <i><b>Change in service pressures:</b></i>          |                 |                 |
| Waste services pressures added                      | 2,678           |                 |
| Housing & Homelessness grant pressure removed       | <b>(236)</b>    |                 |
| Budget contingency added                            | 850             |                 |
|   |                 | 3,292           |
| Update to core WG funding                           |                 | <b>(1,544)</b>  |
| Specific grant changes                              |                 | <b>(4,527)</b>  |
| Teachers pay award assumption                       |                 | 247             |
| Reduction in capital financing costs                |                 | <b>(513)</b>    |

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|---|--|----------|
| Clarification of final fire levy                    |  | (80)     |
|   |  |          |
| <b>Final budget proposals – (Surplus) / Deficit</b> |  | <b>0</b> |

## BUDGETARY RISK

7.3. The key risks remaining to be assessed and managed in 2025/26 and as yet unknown are:

- The **deliverability of budget savings proposals** represents an ongoing risk for 2025/26, especially where the budget proposals involve the generation of income, changes to current structures, systems and processes, consideration of alternative delivery models or have implications for service design involving community, other partners and entities. The most recent monitoring report for this year's budget shows an anticipated 78% delivery of £10.9m of savings and therefore a resultant deficit that has needed to be managed as part of in-year budget recovery action taken.
- **Demand for Council services remains high** and is particularly acute within social care with an increasing elderly population, and increasing complexity in the required levels of care which are increasing costs significantly. The need for continued and robust monitoring is essential to ensure that there is cost control and continued efforts are made to refrain from non-essential spend.
- **Final notification of specific grant funding streams.** There are still some specific grant streams that the Council relies upon, that have either not yet been communicated, have been received late in the budget process or where the impact of notifications is awaiting further clarification. Any funding shortfalls will need to be managed on a case-by-case basis.
- The most significant grant risk is the Extended Producer Responsibility funding within Waste. The final award is not expected to be confirmed until the end of Summer 2025, and given this is a new funding stream, there remains risks around the quantum of funding and in determining the expected operational delivery outcomes that need to be delivered.
- **Pay awards** - Uncertainty will remain around the pay awards for local government staff and teaching staff. Actual pay awards will not be confirmed nationally by independent pay bodies until later in 2025 and therefore further consideration might need to be given in-

year to adjust pay budgets at that time. Whilst the pay award assumptions factored into the budget are set at a level which is seen as prudent, there remains an unknown risk of the effect of the wider economic and political landscape as we move through 2025.

- **Employer's national insurance contributions** – There remains a risk that the quantum and allocation of funding to support Councils is insufficient to meet the additional costs incurred directly within the Council's workforce, and indirectly through increased costs of commissioned services.

7.4. In light of the above risks, the strengthened financial governance arrangements will continue through 2025/26 to provide assurance that robust arrangements are in place to deliver on service savings, and to respond to any circumstances where further budget pressures might require additional mitigation or savings to be brought forward.

## 2025/26 REVENUE BUDGET AND INDICATIVE FUTURE BUDGETS

7.5. The proposed revenue budget for 2025/26 and indicative budgets for 2026/27 to 2028/29 are shown below.

| Services                             | Adjusted<br>Base<br>Budget<br>2024/25 | Final<br>Base<br>Budget<br>2025/26<br>£000's | Indicative<br>Base<br>Budget<br>2026/27<br>£000's | Indicative<br>Base<br>Budget<br>2027/28<br>£000's | Indicative<br>Base<br>Budget<br>2028/29<br>£000's |
|--------------------------------------|---------------------------------------|--|---|---|---|
| Learning, Skills and Economy         | 65,118                                | 72,486                                       | 73,831  | 75,206  | 76,652  |
| Social Care & Health                 | 68,196                                | 75,404                                       | 75,517  | 75,955  | 76,399  |
| Infrastructure & Place               | 26,695                                | 25,440                                       | 29,917  | 30,068  | 30,333  |
| Customer, Culture and Wellbeing      | 8,205                                 | 8,622  | 8,611   | 8,654   | 8,727   |
| Resources                            | 8,284                                 | 8,446  | 8,532   | 8,623   | 8,716   |
| People, Performance and Partnerships | 3,259                                 | 3,400  | 3,425   | 3,465   | 3,515   |
| Law & Governance                     | 2,875                                 | 3,050  | 3,274   | 3,148   | 3,199   |
| Corporate Costs & Levies             | 29,764                                | 29,147                                       | 38,122  | 47,736  | 57,754  |
| <b>Sub Total</b>                     | <b>212,396</b>                        | <b>225,994</b>                               | <b>241,227</b>                                    | <b>252,856</b>                                    | <b>265,294</b>                                    |
| Transfers to reserves                | 833                                   | 2,483  | 718   | 743   | 769   |
| Transfers from reserves              | (1,748)                               | (775)  | (516)   | (341)   | (341)   |
| Capital financing costs              | 8,423                                 | 9,076  | 10,119  | 10,699  | 11,044  |
| <b>Total Expenditure Budget</b>      | <b>219,904</b>                        | <b>236,778</b>                               | <b>251,548</b>                                    | <b>263,957</b>                                    | <b>276,767</b>                                    |
| Aggregate External Financing (AEF)   | (126,019)                             | (135,248)                                    | (137,007)   | (138,240)   | (139,760)   |

|                                  |                  |                  |                  |                  |                  |
|----------------------------------|------------------|------------------|------------------|------------------|------------------|
| Council Tax (MCC)                | (72,582)         | (78,626)         | (81,732)         | (84,960)         | (88,316)         |
| Council Tax (MCC Premium)        | (755)            | (615)            | (640)            | (665)            | (691)            |
| Council Tax (Gwent Police)       | (16,940)         | (18,325)         | (19,049)         | (19,801)         | (20,583)         |
| Council Tax (Community Councils) | (3,608)          | (3,964)          | (3,964)          | (3,964)          | (3,964)          |
| <b>Sub Total Financing</b>       | <b>(219,904)</b> | <b>(236,778)</b> | <b>(242,391)</b> | <b>(247,630)</b> | <b>(253,315)</b> |
| <b>(Surplus)/Deficit</b>         | <b>0</b>         | <b>0</b>         | <b>9,157</b>     | <b>16,328</b>    | <b>23,452</b>    |

**Note:** An explanation of how services are grouped is included in **Appendix F**.

- 7.6. Indicative budgets for the 2026/27 to 2028/29 period are modelled using a range of budget assumptions for pay and employer pension contributions, future Welsh Government funding increases and council tax increases (for modelling purposes only).
- 7.7. Importantly, there is provision of £7.5m per annum currently made within the medium-term financial plan for modelling purposes, reflective of the trend in service pressures developing annually over recent years, over and above the approved budget. This is represented in the table above by the increase in Corporate Costs and Levies over the period.
- 7.8. The use of Welsh Government's guidance allowing flexible use of capital receipts to meet one-off costs associated with service reform is modelled to be reversed gradually over the above period in order to return to a more financially sustainable position.
- 7.9. It is clear from current modelling that the challenge over the medium term remains a significant one with a £23.45m budget shortfall projected to be managed over the next three years.
- 7.10. The ongoing financial challenges remain as always, a dynamic situation. Work continues to shape the wider programme of service change that will include an ongoing assessment of key service pressures, the risks and modelling assumptions that sit alongside this, with the aim to establish a clear plan and approach to address the medium-term budget shortfalls forecast. The next iteration of the Medium term financial plan will be considered early in 2025/26 and post the UK Government Spring budget.

## THE ROBUSTNESS OF BUDGET PROCESS AND RESERVES

- 7.11. Cabinet have again reaffirmed in their budget planning framework for 2025/26 that there is a need to progress the Council on a path towards financial sustainability including conserving an appropriate and prudent level of financial resilience. The framework established the principles for general and earmarked reserve use.
- 7.12. **Council Fund:** The level of the Council Fund reserve stood at £10.4m at the start of 2024/25, excluding delegated school balances. This represented 5% cover as a proportion of the Council's 2024/25 net revenue budget.

- 7.13. The final revenue budget proposals for 2025/26 do not include any use of the Council Fund reserve to balance the budget in line with the budget planning framework agreed by Cabinet. If the current reserve level is maintained, subject to outturn, this will represent 4.85% of net revenue budget for 2025/26. Crucially, the 2025/26 budget creates a budget risk contingency which will sit alongside the Council fund as a measure of de-risking the overall budget.
- 7.14. The focus therefore turns to the uncertain economic outlook and future financial challenges facing the Council, and where the Council Fund and any budget contingency can help mitigate unknown impacts, such as those identified as budget risks earlier in this report.
- 7.15. **Schools reserve balances:** School balances are designed to provide a level of financial resilience to mitigate and smooth such risks and are not expected to fund ongoing day-to-day expenditure.
- 7.16. The decline in school balances from the healthy surplus at the beginning of 2022/23 of £6.95m to the latest forecast deficit of £6.1m by the end of 2024/25 is of concern.
- 7.17. Whilst a significant amount of investment was enacted by schools in the immediate aftermath of the pandemic period to recover, it remains clear that the inherent structural budget deficits that led to a significant number of schools being in deficit over recent years remain.
- 7.18. It is currently anticipated that twenty-four (69%) of the Council's thirty-five schools will be in a deficit balance by the 2024/25 year-end. Those schools forecasting to end the 2024/25 financial year in deficit balance have brought forward recovery plans that are being considered by officers and Cabinet.
- 7.19. It is clear from these budget recovery plans that it will take schools a considerable amount of time to fully recover deficit balances, and that in addition to the £1m further investment in schools within this budget, the Council will need to take assessment of this financial risk within medium term financial planning.
- 7.20. **Earmarked reserves:** The final budget includes planned use of earmarked reserves in support of one-off revenue and capital expenditure of £775k. Earmarked reserve use is only planned to meet one-off costs and in line with a specific reserve's intended purpose and use.
- 7.21. Set alongside this is a planned contribution to earmarked reserves of £2.5m. The majority of this relates to specific funding streams for Council tax premiums and Waste risk management which will have strict criteria over their future use. Nevertheless, this will result in a welcomed increase in overall reserve levels to aid in balance sheet strength and resilience.
- 7.22. **Appendix E** shows the individual planned use and contribution to reserves for the 2025/26 budget and the reserve balances projected over the medium term.

- 7.23. Over the medium term overall earmarked reserve levels are projected to remain stable. However, it should be noted that Monmouthshire's overall reserve cover as a percentage of net revenue budget is currently the lowest in Wales<sup>1</sup> and therefore requires the reserves policy to adapt such that revenue reserves are very much protected to provide cover for foreseen or unforeseen risks. Improved budget management and discipline going forward will need to ensure that in-year over spends are quickly identified and to the extent they cannot be mitigated for in-year savings to be found.
- 7.24. **Capital receipts:** Useable capital receipts are forecast to reduce to minimal levels by the end of 2028/29 based on usage modelled within the current capital and revenue MTFPs, alongside the forecast future receipts.
- 7.25. Useable capital receipts provide a limited one-off resource to support financing of the capital programme. In recent years the Council has also made use of Welsh Government's guidance allowing flexible use of capital receipts to meet one-off costs associated with service reform. The Council has needed to make use of this flexibility since 2019/20, and plans to extend this support for 2025/26, after which time it will gradually be reversed over the medium term.
- 7.26. The continued use of capital receipts for revenue purposes is recognised as a necessary approach to support the Council to transition itself on to a more sustainable financial footing. However, this is not a sustainable approach in itself and has the added consequence of requiring the Council to fund any further and future capital investment through prudential borrowing where it cannot be met from other sources.
- 7.27. Under the provisions of the 2003 Local Government Act, the Responsible Financial Officer has to provide conclusions on the robustness of the budget process and the adequacy of reserves. Those conclusions are shown at **Appendix G**. The RFO opinion also includes an acknowledgement of the risks taken into account in producing the budget proposals for 2025/26 as well as those budgetary risks that will need to be managed going forward in the medium term.
- 7.28. The effect of Cabinets revenue budget recommendations is shown at **Appendix B**. The effect of Cabinet's capital recommendations is shown at **Appendix H**. Final Council Tax and budget setting is reserved for decision of Full Council on 6th March 2025.

## CAPITAL BUDGET

- 7.29. In the current climate of financial constraint, capital investment needs to remain within affordable limits. Demand for capital resources remains high and therefore inevitably, prioritisation of projects, leveraging in other sources of funding and working with partners remain key to meeting this demand.

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<sup>1</sup> [Audit Wales report on financial sustainability of local government, December 2024 – Table 3](#)

- 7.30. The current Capital programme is impacted by the same external factors affecting the revenue budget. Some discrete areas of inflation, supply chain issues and internal resourcing capacity means that current capital budgets are being delayed or deliver less for the same amount of budget.
- 7.31. The Welsh Government capital settlement provides an increase in respect of core general funding of £540,000 for 2025/26, alongside a further funding commitment to enable Councils the ability to fund further borrowing to support Highways capital pressures. No changes were made as part of the final settlement.
- 7.32. The draft capital budget proposals were released on consultation by Cabinet on January 22<sup>nd</sup>. A small number of 100% grant funded schemes have been added to the final budget, but otherwise there have been no substantive changes from the budget proposed at draft stage.
- 7.33. There is potential that further borrowing headroom may be announced during the year which will increase the funding made available to support Highways capital pressures. If this materializes it will be directed towards investment to rectify damage to carriageways and structures from the recent storm damage.
- 7.34. The Summary Capital MTFP is shown in **Appendix H**. Whilst the core capital programme is being sustained and sees planned investment in the most urgent issues in the Council's infrastructure, there still remains a considerable number of backlog pressures that sit outside the core capital programme that have varying levels of risk associated with them.
- 7.35. Although the risks associated are captured through ongoing condition surveys and monitoring, it is inevitable that as time progresses that more significant sums of investment will be required to maintain or substantially refurbish ageing assets.
- 7.36. The level of annual investment included in the capital programme for maintenance and refurbishment of assets assists in addressing the highest priority backlog issues, focusing on worst condition first and associated risk. However, estate optimisation programmes, closure/disposal of assets, asset transfers and other capital projects to refurbish or replace operational properties will also be utilised to offset these risks. This will not address the specific total backlog but is a way of targeting the main issues in an affordable manner.
- 7.37. The capital receipts summary below shows the expected level of receipts and planned usage, and highlights the balances available in the next few years. Future investment in capital schemes, is in part dependent on future success of achieving capital receipts and there remain risks attached to some receipts materialising over this period.

| <b>Forecast Useable Capital Receipts</b>  | <b>2024/25</b> | <b>2025/26</b> | <b>2026/27</b> | <b>2027/28</b> | <b>2028/29</b> |
|---|----------------|----------------|----------------|----------------|----------------|
|   | <b>£000</b>    | <b>£000</b>    | <b>£000</b>    | <b>£000</b>    | <b>£000</b>    |
| Balance as at 1st April                   | 9,984          | 4,877          | 3,217          | 1,412          | 307            |
| Less: capital receipts used for financing | (1,556)        | (230)          | (50)           | (50)           | (50)           |

|   |              |              |              |            |            |
|---|--------------|--------------|--------------|------------|------------|
| Less: capital receipts used to support capitalisation directive | (3,744)      | (3,708)      | (2,358)      | (1,358)    | 0          |
| Capital receipts Received                                       | 91           | 0            | 0            | 0          | 0          |
| Capital receipts Forecast                                       | 103          | 2,278        | 603          | 303        | 0          |
| <b>Forecast Balance as at 31st March</b>                        | <b>4,877</b> | <b>3,217</b> | <b>1,412</b> | <b>307</b> | <b>257</b> |

- 7.38. The level of capital receipts anticipated over the next 4-year window has not been increased as the Council awaits the conclusion of the replacement Local Development Plan.

## THE PRUDENTIAL CODE

- 7.39. Under the Prudential Code, local authorities are required to publish Prudential Indicators produced to demonstrate that capital programmes are prudent, sustainable and affordable in the longer term. The indicators for 2025/26 to 2028/29 are contained at **Appendix I** to this report, assuming eventual Council approval of Cabinet's budget and Council Tax recommendations.

## 8. OPTIONS APPRAISAL:

- 8.1. Chief Officers and Directorates are required to consider and outline the options that have been considered for each of the budget savings proposals and pressures accommodated within the final budget proposals presented in this report.
- 8.2. The detail is contained in the original budget mandates that supported the drafted budget proposals. Where budget proposals have been amended or new changes introduced these are outlined in the report as part of the final budget proposals. These changes are summarised in **Appendix B and C**.

## 9. EVALUATION CRITERIA:

- 9.1. The means of assessing whether the final budget proposals for 2025/26 have been successfully implemented is undertaken throughout the year via regular budget monitoring and periodic reports to Cabinet and then through Scrutiny committees. Given the financial risks facing the Council budget monitoring will continue to be strengthened in 2025/26, including the monitoring and evaluation of budget savings being implemented. This is being achieved through the ongoing review and assessment being undertaken by the Financial Management Board as well as periodic targeted review of service areas that carry budgetary risk.
- 9.2. Regular monitoring of the performance of the Council will take place against service business plans, and the Community and Corporate Plan. Taken together these arrangements enable the Council to evaluate its success and progress against its longer-term plans within the resources available.

## 10. REASONS:



- 10.1. To make appropriate recommendations to Council on the revenue and capital budgets for 2025/26, and the resultant Council Tax recommended to be set for County purposes, taking into account the public consultation and scrutiny process in January and February.
- 10.2. As required by statute, to consider the Responsible Financial Officer's conclusions on the robustness on the budget process and the adequacy of reserves going forward.
- 10.3. To approve the Prudential Capital Indicators calculated by the Responsible Financial Officer.

## **11. RESOURCE IMPLICATIONS:**

- 11.1. As identified within the report and appendices.

## **12. WELLBEING OF FUTURE GENERATIONS IMPLICATIONS (INCORPORATING EQUALITIES, SUSTAINABILITY, SAFEGUARDING and CORPORATE PARENTING):**

- 12.1. Where a budget proposal could alter a service, or the way it is delivered an Integrated Impact Assessment needs to be completed. This identifies the potential impact on the national well-being goals and the ways of working enshrined in the Well-being of Future Generations Act. It also considers the people and groups who possess the protected characteristics specified in the Equality Act 2010. We also evaluate the potential impact on those experiencing socio-economic disadvantage as well as the effects on the Welsh language.
- 12.2. The Council built considerations of equality, diversity and sustainability into the planning and delivery of its 2025/26 budget. It has done this by:
  - Requiring officers to undertake an Integrated Impact Assessment of individual savings proposals that could alter a service, or the way it is delivered. Where necessary this evaluation has been updated to reflect the final budget proposals.
  - Producing an overall impact assessment for the budget proposals. This was published as part of the budget consultation. The assessment has been updated where necessary following consultation to reflect recommended changes in service savings and pressures.
- 12.3. This has allowed us to assess the overall potential impact of the budget on people within the County. It is recognised that the proposals will affect different groups of people in different ways.
- 12.4. Given the funding constraints facing Local Government, it is inevitable that this has identified some negative impacts on some groups of people. The nature of the services the council provides means that almost any change to a council service will have a socio-economic impact. For example, disabled people will be more likely to use social services and people on lower incomes will be more affected by increased fees and charges. These are set out in more detail in **Appendix D**.

- 12.5. Conducting the assessment alongside the development of the budget has allowed us to identify actions that mitigate the potential negative effects of our proposals on vulnerable people and households on the lowest incomes. It also highlights the anticipated positive effects of increasing expenditure on certain groups. This helps to offset some of the negative effects. Changes to the impact assessment have also been made as a result of the consultation and final budget, for example with the effects on older people and national well-being goals being lessened as a result of the recommendation being made not to proceed with proposed changes in community hubs.
- 12.6. Once the final budget is agreed by Council in March, service areas will carry out work to mitigate, manage and monitor any impacts identified. Where proposals are subject of subsequent decisions, it is expected that further Integrated Impact Assessment will be undertaken at that time.

### **CONSULTEES:**

Cabinet  
Strategic Leadership Team

### **BACKGROUND PAPERS:**

- a) Directorate Budget builds, detailed capital programme and associated papers
- b) Draft revenue budget proposals, draft capital budget proposals – released on consultation by Cabinet on 22nd January 2025
- c) Provisional & Final Local Government Settlements
- d) The CIPFA Prudential Code for Capital Expenditure

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### **Appendices:**

- A Overview of Council budget consultation process and feedback
- B Revenue budget summary
- C Changes in service savings and pressures between draft and final budget
- D Cumulative impact assessment

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| E | Use of reserves for budget purposes and forecast reserve balances |
| F | Revenue budget service groupings                                  |
| G | Responsible Financial Officers Opinion                            |
| H | Capital Budget Summary  |
| I | Prudential Indicators   |
| J | Capital and treasury management strategies 2025/26                |
| K | Final Settlement Data and Specific Grants 2025/26 (All Wales)     |