

Appendix F - Responsible Financial Officers Opinion

- 1.1 The 2003 Local Government Act imposes a number of statutory duties on a Council's Responsible Financial Officer (RFO). Section 25 specifically requires that the chief financial officer reports the following matters to members when agreeing its annual budget:
- The robustness of the estimates made for the purposes of the budget calculations, and
 - The adequacy of the proposed financial reserves.
- 1.2 Guidance on these duties is contained within CIPFA Bulletin 13 and CIPFA's updated Statement on the Role of the Finance Director. The primary duties are for me, as RFO, to provide a view on the robustness of the budget process, budgetary risk and the adequacy of reserves and balances.

Robustness of the budget process

- 1.3 In terms of robustness of the budget process, I have placed reliance on the work carried out by members of the Strategic Leadership Team within their Directorates involving budget managers and devolved finance teams. The process has been undertaken properly and rigorously with notable elements of good practice. These include:
- The budget has been produced within the framework of the approved Medium Term Financial Strategy (MTFS). The use of scenario planning has ensured that the budget is developed in a prudent and flexible way, highlighting the risk faced by the Council as a result of proposed changes in funding and increasing cost pressures, and offering some choice in how resources are prioritised and risk is mitigated.
 - The Council's financial management arrangements are clearly defined within the Constitution and Financial Procedure Rules. Strategic Leadership Team oversight and regular reporting together with internal audit reviews and Scrutiny committee challenge ensures that officers across the Council are held accountable for the budgets that they are responsible for.
 - Additional training and further development of financial and performance benchmarking data will strengthen these arrangements.
 - Cabinet ownership of budget principles and assumptions through the development of the Medium Term Financial Plan (MTFP) and budget proposals.
 - Anticipating likely and known events through the modelling of appropriate indices for base costs.
 - Applying rigour and challenge via Directorate Management Teams, Chief Officers, Strategic Leadership Team and Cabinet Member scrutiny.
 - Comparing budget trends and intelligence by using 2024/25 outturn and 2025/26 budget monitoring data.
 - Looking at benchmarking unit cost data for services against other authorities where necessary.

- Providing the Performance & Overview Scrutiny Committee with opportunity to look at and scrutinize budget monitoring, in-year budget recovery action and draft budget proposals, gaining an understanding of the budgets and allowing the committee to scrutinize performance as well as any proposed changes.
- Providing Cabinet and Performance & Overview Scrutiny Committee and Governance & Audit Committee with the assumptions and sensitivity underlying the MTFP and budget.
- Consulting on budget proposals through face to face and virtual public meetings, the website and social media, and with key stakeholders.
- Communicating emerging Settlement considerations to Cabinet members.
- Being clear on risks and assumptions within budget proposals and recognising the priorities of the Council and as set out in the Community and Corporate Plan, with reducing the impact of inequality on citizens and climate change on communities being central to all considerations.
- Ensuring all members are involved in the budget setting process by establishing that budget and Council Tax setting is a function of full Council.

1.4 This strategic approach to allocating resources ensures that our financial plans consider the delivery of the Community and Corporate Plan, and the supporting enabling strategies, and ensures that service improvement and appropriate levels of statutory provision are all included. Budgets are aligned and ensure that our limited resources are prioritised to achieve maximum effectiveness in securing outcomes.

Short-term budgetary Risks

- 1.5 The budget process for 2026/27 has again been challenging, with some significant variables and uncertainties that will continue into the financial year. The risk that these present have been identified as part of the budget proposals and are also captured as part of the MTFP. Outlined below are the key risks and how they are being managed:
- Continued increase in demand and cost pressures facing services, particularly the increasing demand and complexity in social services, demographic changes such as increasing elderly population, changes in pupil numbers, increases in additional learning needs provision, and from homeless presentations. Where known pressures have been modelled and included in the budget process.
 - Whilst the service reforms incorporated into the budget are broadly a continuation of the existing programmes of change which are already well established, these do involve change to practices, systems and processes, and have implications for service design involving community, other partners and entities. These involve higher levels of deliverability risk.
 - The impact of any in-year (2025/26) overspend on revenue and capital budgets which would result in reduced levels of revenue reserves being carried forward. This risk has been significantly mitigated through the financial year through strong financial discipline and cost control. With a forecast under spend reported at period 3 offering the potential for modest reserve replenishment at year-end.
 - Significant recurrent cost pressures developing during in-year monitoring have been addressed in the 2026/27 budget proposals, and furthermore adjustments needed to

be made in respect of approved savings previously put forward that are now not deemed deliverable. The pressures incorporated into the budget proposals for 2026/27 are based on the latest period 3 forecast. A risk remains going into the end of the financial year of increasing pressures, particularly in volatile and demand led services. 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.

- Late notification of grant funding streams being removed or reduced. There are still significant specific grant streams that the Council relies upon, that have either not yet been communicated by grant funding bodies, 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.
- Allowance of 1.75% non-pay inflation is afforded in the budget, however headline inflation rates remain above UK Government targets, with some discrete areas of Council services continuing to experience cost pressures on supplies and services. There is an expectation that any cost pressure above allowance will need to be managed within overall directorate budgets to the extent they are not recognized as discrete pressures as part of the budget process.
- The risk of pay awards being greater than modelled budget assumptions and not being fully funded by UK and Welsh Government.
- Treasury estimates established in the budget are based on cashflows, timing of capital spend, forecast interest rate levels and capital receipts occurring as planned. Mitigation has already taken place through long term borrowing being undertaken at preferential rates in order to manage interest rate risk and fluctuations, along with a continued use of cash balances ahead of any external borrowing being taken.
- Whilst the Council is not placing a reliance on commercial income generation its commercial activities do naturally present commercial risks. Monitoring of Investment performance is carried out through the Performance and Overview Scrutiny Committee, and through budget monitoring reports.
- The ongoing cost-of-living crisis continues to affect household disposable income, which in turn impacts demand and collectability for income-generating Council services.
- There are a significant amount of unbudgeted capital backlog pressures and aspirational investment plans which can impact on the Council's limited capital resources if policy commitments are made to add further to the capital programme or risks materialize and that require the Council to act to respond to failures in the operational nature of assets, such as the recent flood events in the County and the deterioration of highways infrastructure assets.

1.6 Budget monitoring arrangements will continue to be maintained and reported into the Strategic Leadership Team and Cabinet Members. This includes increased informal budget monitoring through the year together with a targeted focus in social care or any developing areas of concern where the greatest risk and volatility exists.

School reserve balances

1.7 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. The

decline in school balances from the healthy surplus at the beginning of 2022/23 of £6.95 million to the latest forecast deficit of £7.5 million by the end of 2025/26 remains a concern.

- 1.8 A significant amount of investment was enacted by schools in the immediate aftermath of the pandemic period to recover, particularly in respect of attendance, behaviour and increased additional learning needs. This has required increased staff and specialist resources to tackle the issues presenting and increased overall costs of provision.
- 1.9 It is currently anticipated that nineteen (54%) of the Council's thirty-five schools will be in a deficit balance by the 2025/26 year-end. Those schools forecasting to end the financial year in deficit balance have brought forward recovery plans that are being considered by officers and Cabinet.
- 1.10 Three schools - King Henry VIII 3-19 School, Chepstow Comprehensive School and the Pupil Referral Service, account for three quarters of the projected deficit. All three of these schools are a focus of support and challenge from the Local Authority to ensure budgets return to a surplus within the agreed recovery plan timeframe.
- 1.11 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 recurrent £1m further investment in schools within this budget beyond pay and pension increases, the Council will need to take assessment of this financial risk within its medium term financial planning.

Medium-term financial risks

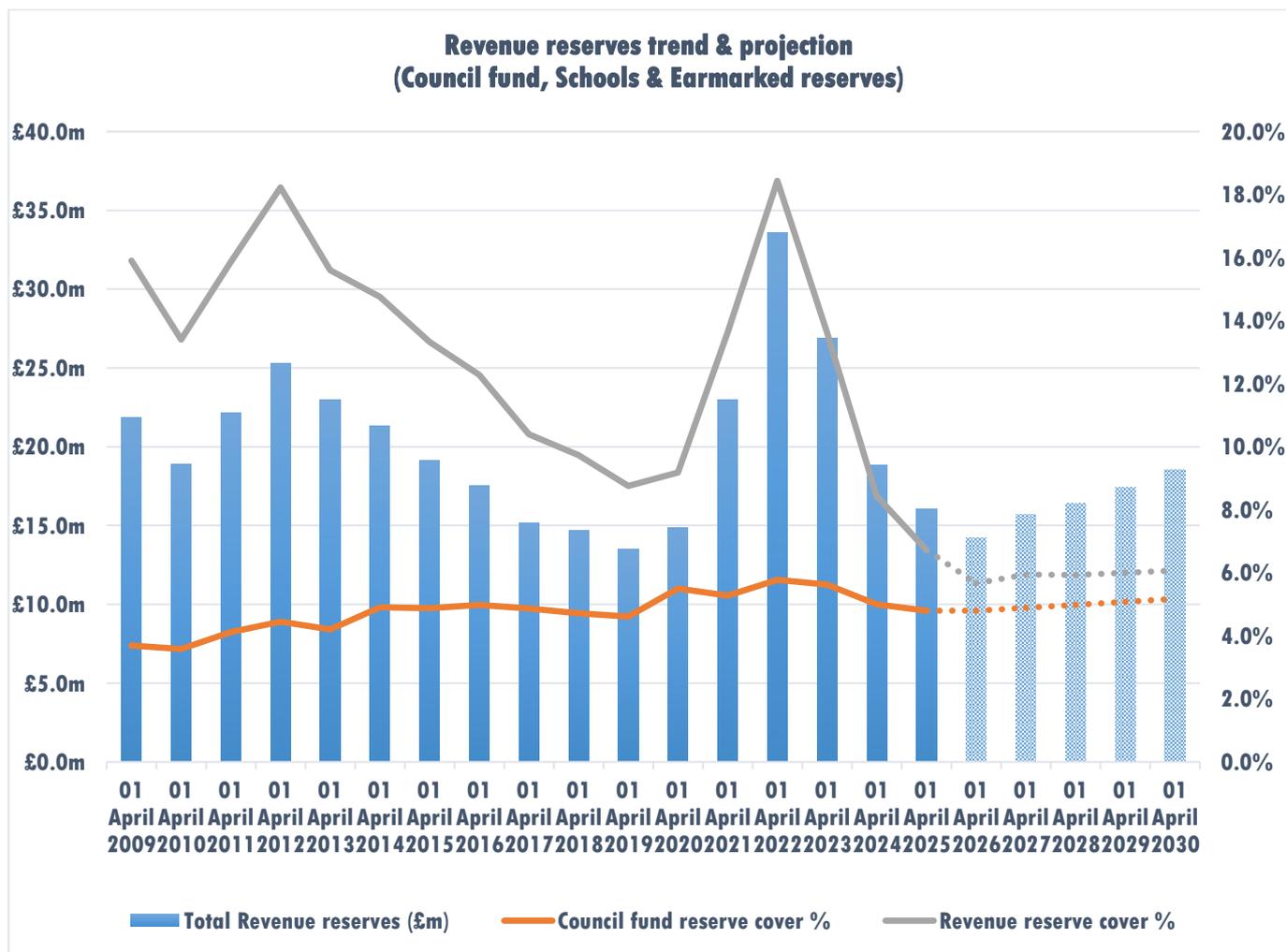
- 1.12 Whilst the above risks in the 2026/27 budget have been identified, the main financial risks that influence the medium-term financial planning are as follows:
 - A cumulative budget shortfall of £26.3m remains over the MTFP period to 2029/30. This presents as a core medium-term risk, reflecting the scale of savings and transformation required beyond 2026/27 and the risk that these may not be deliverable in full.
 - The increasing challenges with sustaining and maintaining existing service delivery within available capacity and resources in line with the priorities outlined in the Council's Community and Corporate Plan.
 - Notwithstanding the UK Government's previous spending review the absence of multi-year indicative funding settlements from Welsh Government remains a key risk over the medium-term. The MTFP is therefore based on assumptions that may change year-by-year.
 - Whilst the MTFP assumes inflation remains under control there remains downside risks if inflation re-emerges, borrowing costs increase, or wider economic conditions deteriorate.
 - The sustained growth in demand-led services linked to demographics and complexity of need across Monmouthshire communities, embedding ongoing cost pressures into the base budget.
 - The low level of reserves held reduces resilience over the medium-term, with the risk that reserves cannot be used to smooth future budget shocks. To counter this risk the MTFP and reserve strategy now prevents one-off reserve use to balance

the budget together with the introduction of a £1m revenue base budget contingency. Ongoing financial discipline and cost control have started to allow for modest replenishment of reserves.

- The medium-term financial strategy relies on the successful delivery of the Council's programme of change, including service redesign, digital transformation, and prevention. At a time when services are operating at close to statutory minimum levels and there is limited remaining scope for efficiencies and savings from the Council's current operating model.
- The consequence of ongoing commitments and expectation to pay in line with National Living Wage and Real Living Wage.
- The consequences of war and natural disasters globally and the impact that this has in supporting refugees and asylum seekers rightly having to be supported.
- The national and local emphasis on carbon reduction and climate adaptation.
- The risks on the capital side are largely caused by limited capital receipts forecast over the medium term, placing an additional emphasis on borrowing going forward, at a time when revenue headroom to afford borrowing is limited.
- The backlog of repair to highways, associated infrastructure and property remains a key risk identified in the capital strategy.

Adequacy of reserves

- 1.13 The importance of holding an appropriate level of reserves has been highlighted over the last few years with continued economic uncertainty testing the Council's financial resilience.
- 1.14 Cabinet reaffirmed in their budget planning framework for 2026/27 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 levels and use. It also included a commitment to preserving an appropriate level of annual budget contingency.
- 1.15 As can be seen from the table below the Council's reserves have been depleted as a consequence of the reserve usage needed to support the budget proposals and subsequent budget recovery action for 2022/23 and 2023/24. This follows a period through the pandemic where reserves were restored as a result of significant Welsh Government funding.
- 1.16 The decisions taken to draw on reserves were carefully considered as the consequence of not doing so would have led to very significant consequences for service delivery. Ultimately a balance had to be struck and given the extent of the inflationary and demand pressures faced as a result of the Cost of Living and Health crises.
- 1.17 The overall forecast level of revenue reserves is further impacted by the projected deficit in schools balances by the end of 2025/26 of £7.5m.



- 1.18 **Council Fund:** The level of the Council Fund reserve stood at £10.7 million at the start of 2025/26, excluding delegated school balances. This represented 5% cover as a proportion of the Council's 2025/26 net revenue budget.
- 1.19 The final revenue budget proposals for 2026/27 do not include any use of the Council Fund reserve to balance the budget which is in line with the budget planning framework agreed by Cabinet. If the current positive 2025/26 forecast outturn is maintained, this will present an opportunity to increase the Council Fund such that it is maintained at 5% of net revenue budget set for 2026/27.
- 1.20 The 2026/27 budget increases the budget risk contingency from £850,000 to £1 million. This amount will be held alongside the Council fund to help reduce overall budget risks, aligning with the commitments made in the medium-term financial strategy. The flooding events of late 2025 and the consequential financial impact on the Council demonstrate the need to maintain an appropriate level of budget headroom for unforeseen circumstances.
- 1.21 **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.
- 1.22 The decline in school balances from the healthy surplus at the beginning of 2022/23 of £6.95m to the latest forecast deficit of £7.5m by the end of 2025/26 remains of concern.
- 1.23 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 recurrent £1m

further investment in schools within this budget, the Council will need to take assessment of this financial risk within medium term financial planning.

- 1.24 **Earmarked reserves:** The final budget includes planned use of earmarked reserves in support of one-off revenue and capital expenditure of £1,145,000. Earmarked reserve use is only planned to meet one-off costs and in line with a specific reserve's intended purpose and use.
- 1.25 Set alongside this is a planned contribution to earmarked reserves of £735,000. The majority of this relates to Council tax premiums which has strict criteria over future use. Nevertheless, this results in maintaining overall reserve levels to aid in balance sheet strength and resilience.
- 1.26 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 and therefore requires the reserves policy to adapt such that revenue reserves are protected to provide cover for foreseen or unforeseen risks. Maintaining sound budget management and discipline going forward will be fundamental to achieving this, with the in-built budget contingency providing a mechanism to manage overall risk.
- 1.27 **Capital receipts:** Useable capital receipts are forecast to reduce to minimal levels by the end of 2029/30 based on usage modelled within the current capital and revenue MTFPs, alongside the forecast future receipts.
- 1.28 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 used this flexibility since 2019/20, and plans further use of £2.7 million for 2026/27, after which time it tapers to zero by the end of 2028/29.
- 1.29 Using capital receipts to cover the revenue costs of service reform has been vital in helping the Council move toward greater financial stability. However, relying on this method is not a long-term solution, and has the consequence of meaning that any new capital investment will need to be funded by prudential borrowing if no other external funding sources are available.
- 1.30 The level of capital receipts anticipated over the MTFP period has not been increased as the Council awaits the outcome of the replacement Local Development Plan.

Conclusion

- 1.31 The Final Settlement provides the Council with an additional £6.15 million of funding for 2026/27. Alongside savings from efficiencies and service reform this funding, alongside a necessary increase in Council Tax, aids in meeting the specific challenges in providing local services in a rural County such as Monmouthshire and goes a long way towards meeting the extra costs being faced by services.
- 1.32 The UK Government's spending review indicates that increases to public services spending over the medium term will tighten. The relative priority given to local government services in Wales will become clearer following the Senedd elections in May and that in itself presents its own level of risk and uncertainty.

- 1.33 This currently points towards the medium-term budget prognosis being more difficult, with the Council's programme of change remaining critical in ensuring that the Council can remain relevant and financially stable and sustainable in the longer-term.
- 1.34 The Council's operating model will have to change and services will have to adapt to remain affordable and sustainable. The role of collaboration, partnership, prevention, and a sustained focus on productivity and effectiveness are all key within this.
- 1.35 Taking all the above into account, the Section 151 Officer concludes that the assumptions and data used in the budget proposals for 2026/27 are adequately robust, but that a heightened level of risk remains. Based on the assessment of the Council's reserves, the overall level is adequate, but at a minimum acceptable level considering the wider funding challenges facing Local Government, and the likely scale of savings and service change facing the Council over the medium term.

Peter Davies

Deputy Chief Executive and Strategic Director Resources (S151 Officer)

Responsible Financial Officer