

# Public Document Pack



County Hall  
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Friday, 27 September 2024

## Notice of Reports Received following Publication of Agenda.

### Performance and Overview Scrutiny Committee

Monday, 7th October, 2024 at 10.00 am,  
Council Chamber, County Hall, The Rhadyr USK

Attached are reports that the committee will consider as part of the original agenda but were submitted to democratic services following publication of the agenda.

Item No	Item	Pages
4.	<b>Medium Term Financial Plan Update</b> To review the budgetary situation.	1 - 36
6.	<b>Investment and Commercial Portfolio Performance Update</b> To review the update on Commercial Investment and continue six monthly updates.	37 - 48

**Paul Matthews**  
Chief Executive

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<b>SUBJECT:</b>	<b>MEDIUM TERM FINANCIAL PLAN UPDATE AND BUDGET SETTING PROCESS FOR 2025/26</b>
<b>MEETING:</b>	<b>PERFORMANCE AND OVERVIEW SCRUTINY COMMITTEE</b>
<b>DATE:</b>	<b>7<sup>th</sup> October 2024</b>
<b>DIVISION/WARDS AFFECTED:</b>	<b>WHOLE AUTHORITY</b>

## 1. PURPOSE:

- 1.1. To provide the latest six-monthly update of the Council's medium term financial planning.
- 1.2. To set out an initial modelled budget shortfall for the financial year 2025/26 and to agree a budget setting process that will enable a balanced budget to be presented to Council in March 2025.

## RECOMMENDATIONS TO PERFORMANCE AND OVERVIEW SCRUTINY COMMITTEE

- i. That the Performance and Overview Scrutiny Committee scrutinise the six-monthly update of the Council's medium term financial planning, and the associated budget planning framework for the 2025/26 budget.

## 2. RECOMMENDATIONS (to Cabinet):

- 2.1. That Cabinet notes a modelled initial budget shortfall of £11.4 million to be addressed.
- 2.2. That Cabinet sets an expectation that the budget build for 2025/26 will recognise priorities set within the Community and Corporate Plan with reducing the impact of inequality on citizens and climate change on communities being central to all considerations.
- 2.3. That Cabinet adopts the budget planning framework and timetable outlined in **Appendix 1 and 2**.
- 2.4. That Cabinet note the current progress indicated against the Medium Term Financial Strategy delivery plan as outlined in Section 13 of **Appendix 1**.

## 3. KEY ISSUES:

### Summary

- 3.1. This report presents an update of the latest medium term financial planning framework and outlines the approach to developing a balanced budget for financial year 2025/26, together with a high-level indication of the financial outlook over the medium term.

- 3.2. The budget will be shaped by the priorities set in the approved Community and Corporate Plan. Central themes of reducing the impact of inequality on citizens and climate change on communities will hold primacy. Some things may need to be reprofiled into later years of the council term to ensure the organisation remains financially sustainable.
- 3.3. The initial budget model highlighting a shortfall of £11.4 million takes account of the impact of the current economic situation, service demand pressures and latest intelligence on key budget assumptions, including funding levels.
- 3.4. The 2025/26 budget will need to be set with minimal recourse to reserves. In-year spend will need to be met from in-year resources. This necessary discipline makes the challenge greater.

**4. Budget strategy**

- 4.1. The financial outlook over the near to medium term remains challenging, and the initial budget shortfall modelled for 2025/26 is large, representing 5.5% of the Council’s net budget. The Council will need to draw on its experience and track record of bringing forward significant saving proposals. Income generation, cost reduction, tax increase, application of grant, and service change will all need to play a part in achieving a balanced budget.
- 4.2. This is a challenge that the whole organisation will need to respond to positively with thoughtfulness and urgency. It is achievable but there will likely be unpalatable choices with the service offer in some areas reducing.
- 4.3. Budget modelling and underlying budget assumptions are based on accurate and up to date information. Amongst other things, they benefit from:
  - In year budget monitoring information;
  - Assessments of legislative changes that impact service delivery;
  - Independent advice and analysis;
  - Demand projections based on trend and data analysis.
- 4.4. The budget process is not to be considered a standalone exercise. When done well it is a mechanism to bring forward and deliver on Community and Corporate Plan priorities. The approach in any year, but particularly a financially challenging year, needs to demonstrate clear alignment between financial choices and service / policy impact.
- 4.5. Cabinet remains committed to the strategic budget principles as approved within the Medium Term Financial Strategy (MTFS) to guide this task.

<b>MTFS Strategic Budget Principles</b>	
1.	To maintain financial management arrangements that will be sufficiently robust to support the delivery of financial plans and mitigate corporate risks.
2.	A citizen facing budget focused on equality and climate change that mitigates any potential increase in inequality caused by the Councils actions.
3.	A balanced budget reflecting objectives, priorities and commitments set out in the Council's Community and Corporate Plan.

## MTFS Strategic Budget Principles

4. Council budgets to be continually reviewed to ensure resource allocations are delivering value money and continue to align to the delivery of priority outcomes.
5. Budgets set without budget shortfalls having general recourse to reserve funding. In year spending will be met by in year funding.
6. The Council Fund (general reserve) will be maintained at a minimum of 5% of Net Revenue Expenditure (excluding the Schools Delegated budget) over the period of the MTFS.
7. An affordable and acceptable level of council tax increase with qualifying households being encouraged to access all dispensations they are entitled to receive.
8. To increase existing fees and charges. As a minimum fees and charges will be increased to match cost inflation. The Council will review opportunities to introduce new fees as appropriate.
9. To manage, wherever possible, any necessary reduction in the workforce through turnover rather than through specific voluntary or compulsory redundancy programmes.
10. To optimise the use of specific grant funding across the Council, taking advantage of legitimate opportunity to offset existing core cost through direct charge to the funding stream.
11. To sustain services through the development of strategic partnering arrangements with other local authorities, public sector partners, town and community councils, and third sector organisations.
12. Informed estimates will be factored into the MTFP for cost pressures anticipated to result from inflation, demand increases, growth and investment.
13. To maintain a budget contingency budget of no less than £1m from 2025/26 with specific criteria for its use. No reduction in the budget is permissible unless there is a clear and realistic plan for reinstating the budget within the Medium Term.
14. To optimise the use of land and buildings and consider alternate uses or disposal where there is not a clear ongoing case for continued use.
15. To be open to using capital receipt balances to support one-off revenue expenditure associated with service reform and to reviewing existing capital programme commitments not yet entered into.
16. Capital investment decisions will support the Council's corporate priorities and mitigate any statutory risks taking account of the return on investment and robust business cases.
17. Prudential borrowing will only be used to support the capital programme where it is affordable and sustainable within the Council's overall borrowing limits and the revenue budget over the long term.
18. To act in accordance with council's risk appetite in determining the amount of risk that the council is willing to seek or accept in the pursuit of its objectives.

## MTFS Strategic Budget Principles

- 4.6. Equal rigor will be applied to new or recurrent pressures being proposed for inclusion in the budget process. It is often easier to avoid or mitigate a pressure than it is to find an equivalent saving. On-going efforts to identify savings will continue, whether through service efficiencies, change, reduction, or via limited scope for increases in fees and charges.
- 4.7. The business cases for both budget pressures and savings will be scrutinised at a number of stages during the process. The timetable shown in **Appendix 2** illustrates the extent of officer and member input into the process.
- 4.8. Business Cases that contain budget pressures will generally reflect current and anticipated future service demands, national and local policy changes, evidence-based pressures brought forward from the current financial year, and other risk related issues. However, business cases will need to be restricted to those that are absolutely essential, and as such are inescapable pressures.
- 4.9. The proposed milestone dates in developing the budgetary process for 2025/26 are as follows:

Refresh of budget modelling using updated assumptions & data	September 2024
Budget workshops – SLT/Cabinet/Groups/Officers	October 2024
High level pressure & saving mandates produced for Cabinet scrutiny	October 2024
Report on budget process and timetable - Cabinet	16th October 2024
Final pressure & saving mandates to be produced	December 2024
Budget assumptions, pressures and savings to undergo further Cabinet scrutiny	December 2024
Consideration of Welsh Government Provisional settlement	11th December 2024
Set Council tax base - ICMD	18th December 2024
Consideration of draft revenue & capital budget proposals - Cabinet	January 2025
Scrutiny of Proposals - Select Committees	January 23rd to 22nd February 2025
Public Consultation for 2025/26 budget	January 23rd to 22nd February 2025
Consideration of scrutiny, consultation, final pressures, savings & assumptions	25th February 2025
Consideration of Welsh Government Final settlement	25th February 2025
Final budget proposals - Cabinet	5th March 2025
Formal Council Tax Resolution & Budget Proposals - Council	6th March 2025

- 4.10. Welsh Government intends to publish the draft provisional funding settlement for local authorities on the 11th December 2024 which will allow the Council to understand whether any additional funding is likely to be received over and above current assumptions.
- 4.11. Ministers have been clear of the scale of the current funding challenge facing the public sector in Wales and that it is extremely unlikely that any significant additional funding will be forthcoming to Local Government based on current circumstances. The Chancellor's Autumn

budget statement on 30th October is therefore seen as critical in identifying whether public funding will see any further improvement.

- 4.12. Where necessary up-front engagement with key stakeholders will take place ahead of draft budget proposals being released for consultation.
- 4.13. Formal scrutiny of the draft budget proposals will take place through the normal scrutiny committee cycle in January and February, including if necessary one overall scrutiny meeting to consider the budget proposals as a whole.
- 4.14. Public consultation will also take place subsequent to the special Cabinet meeting in January 2025 and will run until the 22nd February 2025.
- 4.15. Final budget proposals will be presented back to Cabinet on 5th March after consideration of consultation feedback. The budget will then go to Council on the 6th March in order to meet the statutory requirement to set a Council Tax for the following year. This presents a challenge for setting next year's budget, as Welsh Government intends to only release final settlement information shortly before this date on 25th February 2025. This date may change, but where necessary may involve the final budget proposals containing potential options to mitigate the potential for any adverse final settlement revision.

## **5. EQUALITY AND FUTURE GENERATIONS EVALUATION (INCLUDES SOCIAL JUSTICE, SAFEGUARDING AND CORPORATE PARENTING):**

- 5.1. There is a requirement placed on Local Authorities to comply with the general equality duties set out in the Equality Act 2010 and the specific equality duties such as the statutory responsibilities to assess the equality impacts of their budgetary decisions. The Equality Act 2010 places a General Duty on Monmouthshire County Council to eliminate discrimination according to nine "protected characteristics" (age, belief and non-belief, disability, gender, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, and sexual orientation). Also we need to comply with the Welsh Language Act 1993 and the Welsh Language Measure 2011 through which the Welsh Language Commissioner has shaped the Welsh Standards in force from 30th March 2016.
- 5.2. The Wellbeing of Future Generations Act requires public bodies to improve social, economic, environmental and cultural wellbeing, by taking action in accordance with the sustainable development principle aimed at achieving the Wellbeing Goals. The authority was an early adopter of The Act and re-shaped its pre-decision evaluation tool to reflect the well-being goals and the principles which it sets out.
- 5.3. Whilst there are no significant impacts identified at this stage it is important to outline the process by which the Council intends to respond to these issues by building considerations of equality, diversity and sustainability into the planning and delivery of its budget process by:
  - Requiring Chief Officers to undertake a Future Generation evaluation (FGE) of all savings proposals that are offered for their service area to contribute towards the Council's overall savings target and for that process to start at the commencement of the budget process.
  - Producing an overall FGE assessment of the revenue budget proposals and publishing this as part of the revenue budget proposals for consultation.
  - Undertaking a FGE assessment of the capital budget proposals and publishing this as part of the capital budget proposals for consultation.

- Enabling the Council’s Cabinet Members to consider initial savings proposals with the benefit of the FGEs, and to make initial decisions based on this information.
  - Deciding that once the final shape of the budget is agreed by Council in March 2025, Council service areas carry out continued detailed work to mitigate and manage any equalities or Future Generation issues that have been identified.
  - Including the FGEs as part of both draft and final budget proposal reports and published on the Council’s website so that residents can understand the factors that went into the planning of the 2025/26 budget.
  - Ensuring that where proposals will be the subject of further reports it is expected that further FGEs will be undertaken at that time and where savings are being made from decisions already taken then those implementing those decisions should consider mitigating any negative impacts where necessary.
- 5.4. There is a continued intention to enhance the impact assessment process going forward with profiles of typical Monmouthshire residents being used to better anticipate the compounded effect of multiple proposals.

## **6. OPTIONS APPRAISAL**

- 6.1. This report provides an updates on the Council’s financial planning and provides an overview of the process for the 2025/26 budget setting process. When budget proposals are developed and brought forward for consultation an option appraisal will be completed for each substantive saving and pressure.

## **7. EVALUATION CRITERIA**

- 7.1. Whilst the nature of this report does not require any evaluation, the annual budget process is reviewed on an ongoing basis and based on feedback received from the public, members and officers. Cabinet and the Strategic Leadership Team review the process and feedback and recommendations for improvement.
- 7.2. The changes incorporated as a result of this year’s approach are referenced throughout the report.

## **8. REASONS:**

- 8.1. To provide the latest six-monthly update of the Council’s medium term financial planning.
- 8.2. To set out an initial modelled budget shortfall for the financial year 2025/26 and to agree a budget setting process that will enable a balanced budget to be presented to Council in March 2025.

## **9. RESOURCE IMPLICATIONS:**

- 9.1. There are no resource implications arising directly from this report. Resource implications will subsequently arise from the draft revenue and capital budget proposals considered by Cabinet at its meeting in January.



9.2. The budget process will see draft budget proposals developed and brought forward to Cabinet for consideration and ahead of release on consultation and to ensure that feedback is sought and appropriately reflected in final budget proposals considered by Cabinet in March 2025. Council tax and the final budget proposals will be approved by Council in March 2025.

**10. CONSULTEES:**

Strategic Leadership Team  
All Cabinet Members

**11. BACKGROUND PAPERS:**

*Appendix 1* – MTFP update and 2025/26 Budget planning framework

*Appendix 2* – 2025/26 Budget timetable

**12. AUTHORS:**

Jonathan S. Davies  
Head of Finance (Acting Section 151 Officer)

**13. CONTACT DETAILS:**

Tel: 01633 644114

E-mail: [jonathandavies2@monmouthshire.gov.uk](mailto:jonathandavies2@monmouthshire.gov.uk)

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## Medium term financial plan update and budget planning framework for 2025/26

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### 1. Introduction

- 1.1. The Council's Medium term financial strategy (MTFS) and plan (MTFP) are the link between its long-term policy objectives and its financial capacity. It seeks to ensure that the Council's strategic objectives can be achieved within the confines of the financial resources available.
- 1.2. The current budget modelling was most recently updated as part of the MTFS that was approved by full Council in July 2024. The MTFS, as approved, committed to a six-monthly update of the MTFP, including an update of progress against the performance framework and delivery plan.
- 1.3. The budget and medium-term financial planning process has had a consistent theme over recent years. The Council, like many local authorities across Wales and the United Kingdom, has had to endure a very tough set of financial circumstances over recent years and since the financial crisis in 2009. It has had to generate over £77m budget savings since 2010/11. In the last two years alone, it has had to absorb cost pressures of over £30m.
- 1.4. The Council has an excellent track record in delivering value for money from public funding and has so far successfully navigated the financial challenges of government austerity, economic recession and a global pandemic.
- 1.5. Looking forward to 2025/26, there continues to be significant change, both nationally and locally that has the potential to impact the Council's operating environment.
- 1.6. It is therefore appropriate that the budget assumptions, modelling and risks that underpin the MTFP are reviewed and updated to reflect the impact of the current economic

situation. This also needs to consider the revised demands and assumptions that this brings, together with aligning with the policy objectives of the Council.

- 1.7. Whilst the budget process adopted over time has had a medium-term focus and looked to promote financial sustainability, the funding context for the Council, the increased demands upon Council services, and the layers of service efficiency already generated, all provide a very challenging landscape for setting the 2025/26 budget. The Council's response therefore needs to be thoughtful, targeted, and promote longer-term reform that will ensure financial sustainability.

## **2. External context**

- 2.1. The MTFP is set within the context of the UK economic position and public expenditure plans, with the decisions made by the UK Government and the subsequent funding levels it passes onto Welsh Government having a direct impact upon the expenditure plans of the Council.
- 2.2. Since the 2024/25 budget was set, the UK economy has continued to emerge from the global events of the pandemic and the conflict in Ukraine. This has resulted in a period of declining inflation and stagnating output.
- 2.3. Whilst the CPI inflation measure has reduced from the highs experienced in recent years, to just over 2%, it is expected to rise by the end of the year as prior falls in energy prices drop out of the annual comparison and reveal the prevailing persistence of domestic inflationary pressures.
- 2.4. Whilst wage growth has also eased slightly from peak levels, it remains elevated, and services inflation remains high at 5.6%. The Council continues to experience workforce and skills shortages in some discrete areas of service delivery.
- 2.5. The MPC held Bank Rate at 5.0% in September, with further changes expected to be gradual until such time that services inflation reduces.
- 2.6. Although energy prices have fallen from peak levels, prices are still far higher than three years ago, and the market remains volatile.
- 2.7. The UK Government Spring Budget for 2024 allocated an additional £168m to Welsh Government for 2024/25 with the budget statement confirming the next Spending Review would take place after the general election.
- 2.8. Welsh Government confirmed that the additional funding allocation had already been factored into its spending plans and noted that the funding level received from UK Government was up to £700m lower in real terms than expected at the time of the 2021 Spending Review.
- 2.9. Subsequent to the UK general election result in July 2024, the UK Government announced that the Autumn Budget will take place on 30th October 2024, and this is expected to have a significant bearing on any changes to Welsh Government spending plans within the public sector. It will be imperative that the budget fully takes account of both the inflationary and

service pressures being faced by local government in the delivery of the wide range of local services to communities.

- 2.10. The context outlined above has significant implications for the Council's medium term financial planning. These implications are summarised below and are central to the update of the budget assumptions for 2025/26 and over the medium term.

<b>Factor</b>	<b>Planning Implications</b>
<b>Inflation</b>	Increased costs across supplies and services, contractual arrangements calculated via CPI/RPI, impact on pay awards.
<b>Supply chains</b>	Disruption to availability of materials, parts and supplies leading to increased costs for alternative/expedited solutions.
<b>Labour market</b>	Shortage of staff leading to increased costs for commissioned services and agency staff, real living wage implications.
<b>Energy Crisis</b>	Increasing energy costs across Schools, Leisure centres, Offices, and Street Lighting, increased fuel costs for Council vehicles and for contracted transport providers.
<b>Interest Rates</b>	Increased cost of borrowing and associated impact upon the affordability of the capital programme.
<b>Economic Growth</b>	Impact on future funding settlements for the public sector.

### 3. Funding context

- 3.1. 60.7% of the funding of the Council's revenue budget for 2024/25 came from the Welsh Government settlement, with the remaining 39.3% through council tax income. The assumptions for these funding elements are fundamental in developing robust medium term financial plans.
- 3.2. **Welsh Government settlement**
- 3.3. The public sector austerity measures that were enacted from 2010 onwards have impacted on the resources available to Welsh Government and consequently local government over a sustained period.

<b>Financial Year</b>	<b>Monmouthshire Settlement</b>	<b>All Wales Settlement</b>
2011/12	-1.7%	-1.4%
2012/13	-1.8%	0.2%
2013/14	6.5%	6.6%
2014/15	-4.4%	-3.4%
2015/16	-4.3%	-3.4%
2016/17	-3.0%	-1.3%
2017/18	0.0%	0.2%

2018/19	-0.5%	0.2%
2019/20	-0.3%	0.2%
2020/21	3.0%	4.3%
2021/22	3.9%	3.8%
2022/23	11.2%	9.4%
2023/24	9.3%	7.9%
2024/25	2.6%	3.3%

- 3.4. Over this period, local government in Wales has received negative settlements from Welsh Government in four of the fourteen financial years. In comparison, Monmouthshire has received negative settlements in seven of those years.
- 3.5. Whilst the past five financial years have seen positive settlements for Monmouthshire, critically this has reflected the key role local councils have had in supporting communities through the pandemic period, and in continuing to help address both its legacy impact and the resultant cost-of-living crisis.
- 3.6. As a consequence, when taking into account the additional demand and responsibilities placed upon the Council, these settlements have been below inflation, and therefore reflect real term reductions in funding.
- 3.7. Monmouthshire has received below average settlements in eleven of the fourteen years noted above. The reasons for this are complex and involve consideration of the Council's relative spending requirement when taking into account factors such as population numbers, demographics, sparsity and dispersion, and critically the Council's relative ability to raise income through local taxation.
- 3.8. It is important to note that in years where average Welsh Government settlement is lower than notional (all-Wales) Council tax increases, Monmouthshire tends to receive a below average settlement. It is currently anticipated that 2025/26 will see a recurrence of this situation, as was experienced in 2024/25.
- 3.9. Welsh Government has not provided an indication of future year financial settlements, with Councils therefore modelling potential scenarios for their medium term financial planning using the support of the Welsh Local Government Association (WLGA) and Wales Fiscal Analysis unit.
- 3.10. The newly elected UK Government announced on 29<sup>th</sup> July 2024, as part of the Chancellor's statement on public spending, that next year's departmental budgets will be confirmed in October and a multi-year spending review will be concluded in Spring 2025. This will be critical in provide funding certainty for Welsh local government for the over the medium term.
- 3.11. Local authorities continue to lobby Welsh Government directly and through the WLGA to ensure that there is a strong body of evidence to support the need for funding at a level that allows Council services to be sustained and at the level of increased demand being experienced.

- 3.12. The Wales Fiscal Analysis unit published their analysis in June 2024 on the implications on the Welsh Government budget of the 2024 General Election manifestos, recognising that there was limited information on how each of the two main parties' tax and spending plans would impact Wales.
- 3.13. The analysis concluded that both manifestos largely maintain the existing trajectory of UK Government spending plans and therefore, if implemented as intended by the manifestos, would mean the Welsh Government would face significant budgetary challenges.
- 3.14. It was projected that the Welsh Government budget for day-to-day spending would grow by an average of 0.9% per year in real terms (i.e. after accounting for inflation) between 2024/25 and 2028/29. If the Welsh Government decided to directly pass on consequentialia that would be triggered for the Welsh budget from additional health and education spending in England, this would mean:
- The NHS budget growing by 3.2% per year in real terms;
  - The Local Government resource settlement falling by an average of 1.1% per year in real terms;
  - All other spending areas falling by an average of 1.7% per year in real terms.
- 3.15. In respect of capital spending, the analysis concluded that both manifestos represented real term reductions in funding, ranging between 5% and 7.7% across 2024/25 and 2028/29, constraining the level of ongoing investment in infrastructure projects across Wales.
- 3.16. The newly elected government have indicated that they intend to maintain fiscal rules and not increase the rate of the main revenue raising taxes of income tax, national insurance and VAT, with their plans instead being dependent on a quicker return to economic growth. As such, it is anticipated that Welsh Government budget rounds over the medium term are likely to be no less difficult than they have been in previous years.
- 3.17. The Welsh Government provisional settlement is expected on 11th December 2024. Cabinet will therefore need to delay consideration of the draft budget proposals until January in order that the most up to date funding information can be included. Welsh Government's final local government settlement is due to be published on the 25th of February 2025, with Cabinet considering the final budget proposals on the 5th of March ahead of Council considering final budget approval a day later.
- 3.18. In addition to the settlement, Councils also receive specific grants which are accompanied by explicit terms and conditions as to how they can be used. As a general rule, these grants cannot be used to fund core expenditure. For 2024/25, £80m of specific grants have been budgeted for, however the final value of awards will likely be much higher.
- 3.19. Welsh Government have committed to reducing the administrative burden of specific grants on local authorities including exploring the option for any transfer into the overall settlement. Whilst the Council would generally welcome this approach, there would need to be careful consideration of whether the level of awards would be disproportionately affected by Monmouthshire's low relative share of overall settlement.
- 3.20. **Council Tax**

- 3.21. The updated Council Tax planning assumption is currently modelled at a 5% increase for 2025/26 and 3.95% a year thereafter.
- 3.22. Council tax income accounts for nearly 40% of the Council's overall income, which proportionately is the highest in Wales. The level of Council tax income will consequently always be an important consideration for the Council in being able to support local services.

Financial Year	Band D Council Tax £*	Increase over Previous Year	All Wales average
2015/16	1094.98	4.95%	4.36%
2016/17	1138.23	3.95%	3.63%
2017/18	1183.19	3.95%	3.04%
2018/19	1241.76	4.95%	4.94%
2019/20	1315.64	5.95%	6.16%
2020/21	1380.76	4.95%	4.62%
2021/22	1434.47	3.89%	3.58%
2022/23	1476.79	2.95%	2.20%
2023/24	1564.66	5.95%	5.52%
2024/25	1686.70	7.80%	7.82%

\* Council only charge - excludes the Police and Crime Commissioner for South Wales, and Community Council Precepts

- 3.23. Consideration of any increase in 2025/26 will need to be given to local context, such as the affordability for communities, balanced against the ongoing need to meet increasing demand and cost pressures of essential services.
- 3.24. The increased modelling assumption for 2025/26 at the current planning stage is reflective of the current budget gap driven by the pressures being seen on Council services, balanced alongside the expected funding from other income streams for the Council, including Welsh Government settlement.
- 3.25. Cabinet have not yet considered the level at which Council Tax will be set for 2025/26, and the rate of increase used is for illustrative purposes only at this stage.
- 3.26. **Fees & Charges for services**
- 3.27. Fees and charges make a significant contribution to the Council's budget, with £24m budgeted to be received in 2024/25. Any proposed changes to fees and charges will be presented for consideration as part of the draft budget papers, and ultimately approved by Council at final budget setting stage.

#### 4. Current year budget

- 4.1. Both the national and funding context explained above are already having a significant impact on the Council's finances in the current financial year.

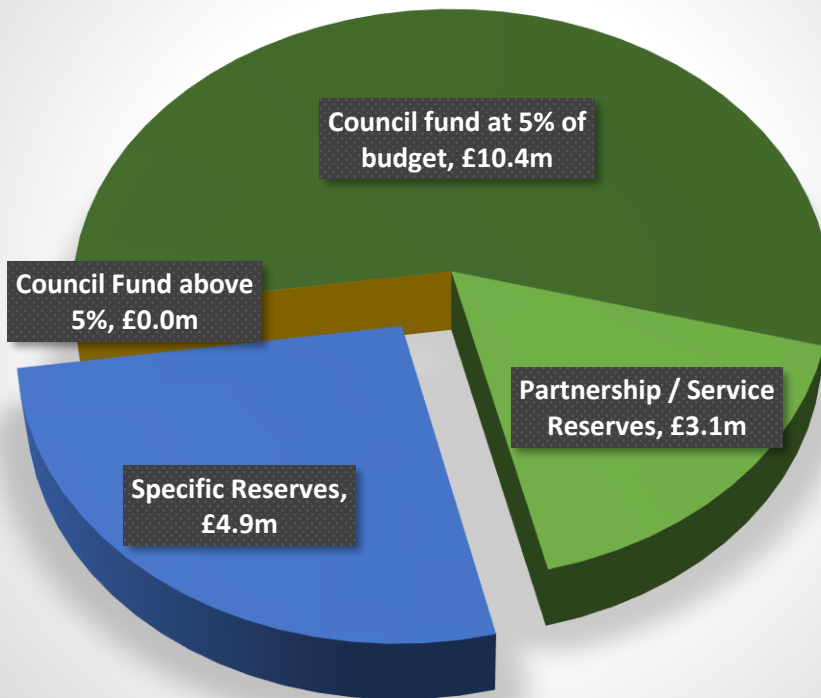


- 4.2. The first full financial update for 2024/25 that is reported alongside this report contains indications of gross budget pressures totalling £5m, offset by £1.5m of non-recurrent savings. These pressures have arisen as a consequence of demand pressures, cost inflation, income shortfalls and a delay in progressing some areas of service change that are driving savings targets.
- 4.3. In keeping with recent years, there has been a need to instigate immediate budget recovery action to ensure the Council addresses these cost pressures, and ends the year in a financially sustainable position, and without the need to further call on severely low levels of reserves.
- 4.4. Importantly, the budget for 2024/25 continues to be supported by £3m of capital receipts under Welsh Government's flexible use of capital receipts directive. Reliance on this mitigation when first utilised in 2019/20 was intended to be a short-term measure only to support investment in wider service redesign view a view to reducing the level of overall service cost in the medium term. However, given the continued level of service change required to be generated by services in order to reduce cost over the past five years, this measure has been needed to continue.
- 4.5. The inherent pressures noted above will need to be assessed for their impact upon the 2025/26 budget and over the medium term unless suitably mitigated through service changes, additional funding or alternative recurrent service savings.

## **5. Reserves**

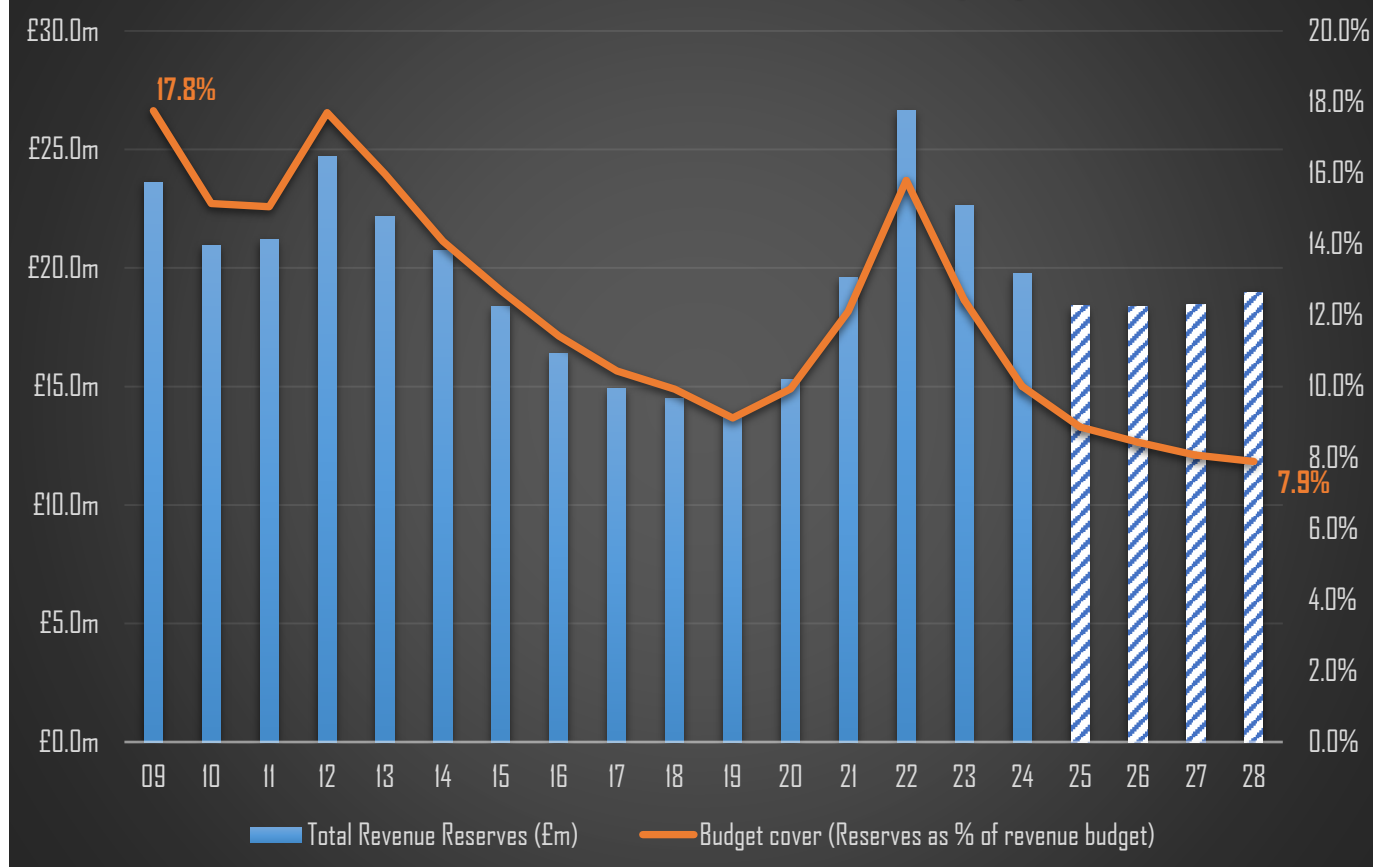
- 5.1. The Council's useable revenue reserves have been depleted as a consequence of the reserve cover needed to both support the budget proposals and resultant budget recovery action in 2022/23 and 2023/24. This follows a period through the pandemic where reserves were given a level of restoration as a result of significant Welsh Government funding.
- 5.2. The decisions taken to draw on reserves had been carefully considered as the consequence of not doing so would have led to very significant and immediate consequences for service delivery. Ultimately a balance had to be struck given the extent of the inflationary and demand pressures faced as a result of the cost of living and health crises.
- 5.3. The depletion of useable revenue reserves has been further exacerbated by the significant draw on schools reserve balances during 2023/24 of £5.16m, taking cumulative school balances into deficit by £0.9m. A further draw of £4.93m is currently forecast for 2024/25 which would significantly increase the cumulative deficit that is being carried on the Council's balance sheet. This consequently impacts upon the Council's overall financial resilience and increases its risk exposure by reducing available balance sheet resources.
- 5.4. The balance of the Council's overall useable revenue reserves forecast as at 31st March 2025 are shown below.

## Revenue Reserves projected at the end of 2024/25 (excluding school reserves)



- 5.5. The level of the Council Fund remains at 5% of net revenue budget and is considered to be at a prudent level. This is considered to be sufficient to manage unavoidable financial risks in the near term, however overall useable reserves are very low compared to other Welsh local authorities.
- 5.6. When excluding balances relating to specific service provision, partnership arrangements, or reserves held to accommodate timing differences, specific reserve balances are expected to sit at only £4.9m at the end of 2024/25.
- 5.7. A budget planning framework was introduced to oversee the 2024/25 budget setting process. The framework confirmed that there was a need to progress the Council on a path towards financial sustainability including conserving an appropriate and prudent level of reserves.
- 5.8. The framework established the principles for general and earmarked reserve use and that included having no recourse to revenue reserve funding to balance the budget.
- 5.9. The reserves policy will continue to adapt such that revenue reserves are both protected and replenished over the medium term to provide cover for foreseen or unforeseen risks that might result. The latest medium term projection based on these guiding principles is shown below:

## Useable revenue reserves medium term projection



### 6. Schools budgets and reserve balances

- 6.1. Council's distribute funding to schools in the form of an annual delegated budget (Individual Schools Budget or ISB) which a board of governors is directly responsible for. The Council maintains a key responsibility for monitoring the overall financial performance of schools.
- 6.2. The total ISB delegated to schools for 2024/25 amounts to £53.3m and represents a significant proportion of the Council's net budget, at 26%.
- 6.3. The majority of a school's income comes from the Council. Council's receive funding for pre-16 education provision from the Welsh Government through the local government revenue settlement and through local taxation. Funding for post-16 provision in schools is allocated by specific grant from the Welsh Government. Schools can also raise additional funds through streams such as voluntary contributions, donations and rental of premises to local bodies.
- 6.4. Schools will hold reserve balances at the beginning of any financial year, representing accumulated surpluses or deficits on prior year budgets.
- 6.5. The trend in school reserve balances are shown below.

Year	Net level of School Balances
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	<b>(Surplus) / Deficit in £000's</b>
2015/16	(1,156)
2016/17	(269)
2017/18	(175)
2018/19	232
2019/20	435
2020/21	(3,418)
2021/22	(6,956)
2022/23	(4,257)
2023/24	904
2024/25 (forecast)	5,832

- 6.6. The 2023/24 budget outturn demonstrated a significant adverse variance and call on school balances, moving from a £4.26m surplus to a £0.9m deficit by 31st March 2024, and with 13 (of 33) schools now in deficit.
- 6.7. There is a fluctuating trend in school balances with some schools showing a continued reduction in their balances which is of concern.
- 6.8. The grants awarded to schools to manage the impact of the pandemic on education resulted in a large increase in overall school balances, which somewhat masked the inherent budget deficits being carried across some schools.
- 6.9. Over the past ten financial years ISB funding has tended to increase at a level above the Council's own settlement from Welsh Government.
- 6.10. However during, and in the direct aftermath of the pandemic, this has not been the case and coincided with the period where schools received the significant amounts of grant funding noted above.
- 6.11. The legacy impact of the pandemic continues within the school environment, particularly in respect of attendance, behaviours, wellbeing and increased additional learning needs. This has required increased staff and specialist resources to tackle the issues presenting and increased overall costs of provision.
- 6.12. At the same time, the post pandemic period has seen a period of sustained inflation which has impacted on, and subsequently resulted in higher levels of pay awards being agreed for both teaching and non-teaching staff which have not always been fully funded for schools.
- 6.13. There has also been an expectation that schools would continue to make a positive contribution toward balancing the Councils significant budgetary gaps during successive challenging budget rounds.
- 6.14. Sitting alongside this is the requirement for schools to deliver the Welsh Government long-term programme of education reform across Wales that includes, most notably, implementation of the Curriculum for Wales, closing the attainment gap and reducing

absenteeism, along with the outcomes of the Additional Learning Needs and Education Tribunal Act.

- 6.15. Given the funding context for schools outlined above, and the inherent budget deficits currently being carried, the level of further investment in schools will be a key consideration during the budget process.
- 6.16. The approach will need to be thoughtful, evidence based, and will need to be carefully balanced with overall funding landscape for the Council, with particular focus on the variability in some schools budgets positions, the size of the Council's overall budget gap, and the need to develop strategies to set a balanced budget.

## 7. Budget assumptions and the projected budget gap

- 7.1. The Authority's medium term budget modelling is reviewed regularly and reported into the Performance & Overview scrutiny committee and Cabinet on a six-monthly basis. The model contains the base budgets of the Authority overlaid with assumptions that are then updated in the light of updated data and information. This allows prudent changes to be made to the modelling to enable the gap between resources and expenditure to be highlighted.
- 7.2. External data from sources such as the Office for Budget Responsibility (OBR), and the Wales Fiscal Analysis unit support the budget assumptions applied within the modelling.
- 7.3. This is further supported by the work that Welsh Local Authorities produce through the Welsh Local Government Association (WLGA), that allows validation and challenge of the assumptions made throughout the budget process.
- 7.4. The latest budget planning assumptions are shown below which reflect the updated assumptions following new data and information coming forward:

Budget assumptions 2025/26	Previous assumption	Updated Assumption
<b>Expenditure:</b>		
Pay award (non-teaching staff)	2.30%	3.10%
Pay award (teaching staff)	2.30%	3.46%
Superannuation rates	24.90%	24.90%
Non-pay inflation	0.00%	2.00%
Service pressures (non-schools)	£7.5m	£5.1m
Service pressures (schools)	£0.0m	£1.0m
Borrowing cost pressures	£1.1m	£1.1m
Fire levy	3.95%	3.95%
<b>Income and Efficiencies:</b>		
Staff vacancy factor (non-schools)	3.00%	3.00%
Fees and charges	2.00%	2.00%
<b>Funding:</b>		

Welsh Government Settlement (AEF)	-0.80%	0.00%
Council Tax (MCC) - Band D increase	3.95%	5.00%

7.5. The updated review of the assumptions contained in the modelling suggested a number of prudent proposed changes:

<b>Pay award (non-teaching staff)</b>	<p><b>Increase from 2.3% to 3.1%.</b></p> <p>Assumptions had previously been based on forecast movements in inflation in line with the Bank of England target of 2% over the medium term, recognising that there is often a lag effect within pay negotiations.</p> <p>Given the already agreed wider public sector pay awards for 2024/25 indicating higher than anticipated awards, and indications that inflation may increase slightly from its current level towards the end of 2024/25, it is felt prudent to revise this assumption upward.</p>
<b>Pay award (teaching staff)</b>	<p><b>Increase from 2.3% to 3.46%.</b></p> <p>The pay award for the 2024/25 academic year has been agreed at 5.5%. Consequently 5/12ths of this award will fall into the 2024/25 financial year and is therefore certain. The projection for the 2025/26 academic year is in line with BOE inflation targets of 2%.</p>
<b>Superannuation rates</b>	<p><b>Maintain existing assumption</b></p> <p>The Council's Local Government Pension Scheme valuation review in 2022 has resulted in revision to the Councils contribution rate, with a stepped increase to 25.3% over 2023-26. This change is reflected in the Councils existing budget planning.</p> <p>The Teacher's Pension Scheme (TPS) was subject to its actuarial review which has increased contributions with effect from 1st April 2024. The modelling assumes that any variation in contribution rates for teaching staff is fully funded by Welsh Government, as was the case previously.</p>
<b>Non-pay inflation</b>	<p><b>Increase from 0% to 2.0%.</b></p> <p>Over recent years a non-pay inflation factor of 0% has been used for modelling purposes, in favour of relying on more evidence-based pressures being brought forward from services.</p> <p>However, reflecting upon previous budget rounds and the significant impact that inflation has had on final cost pressures experienced by services, it is felt that an allowance of 2% at this stage of the process is</p>

	<p>prudent. This assumption will be further considered as better information becomes available.</p>
<p><b>Service pressures (non-schools)</b></p>	<p><b>Reduce from £7.5m to £5.1m.</b></p> <p>Provision was initially made in the budget modelling for “unidentified pressures” of £7.5m in each of the 4 years of the medium-term financial plan and based on the level of pressures that have historically presented themselves and been accommodated as part of the budget process.</p> <p>The most recent 2024/25 budget forecast has indicated forecast gross (non-pay) cost pressures of £5.1m and where immediate budget recovery action is now being taken. An initial review of whether all of these are recurrent pressures impacting 2025/26 will be made in the early stage of the budget process and will be the subject to rigorous review and challenge with the aim of reducing and mitigating their impact.</p>
<p><b>Service pressures (schools)</b></p>	<p><b>Increase from £0.0m to £1.0m</b></p> <p>Given the funding context as outlined in Section 6 above, the level of further investment in schools over and above meeting new pay and non-pay pressures, will be a key consideration during the budget process.</p> <p>This will need to be carefully balanced with overall funding landscape for the Council and the need to set a balanced budget.</p>
<p><b>Borrowing cost pressures</b></p>	<p><b>Maintain at £1.1m.</b></p> <p>A full review of the revenue cost of existing and planned capital expenditure will be undertaken during the budget process. At this early stage, as a net borrower, the prevailing interest rate environment is expected to create further cost pressure of £1.1m in 2025/26.</p>
<p><b>Staff vacancy factor (non-schools)</b></p>	<p><b>Maintain at 3%</b></p> <p>Services have consistently experienced a challenging labour market in the post-Covid period with a shortage of available staff in some discrete service areas which has led to pressure on existing staff structures, and increased costs for commissioned services and agency staff.</p> <p>A vacancy freeze initiated as part of the budget recovery action during 2023/24 and 2024/25 is expected to maintain a degree of vacancy throughout staffing structures leading into 2025/26.</p>
<p><b>Fees and charges</b></p>	<p><b>Maintain at 2%</b></p>

	<p>As a general rule, the council's policy is based on full cost recovery with inflationary uplifts considered annually to ensure that the Council recovers its costs for the services it provides. Whilst a blanket uplift is not applied, an increase in line with inflation is expected unless there is a clear evidence base to do otherwise. With inflation potentially tracking upwards towards the end of the 2024/25 financial year, this assumption will be kept under constant review.</p>
<p><b>Welsh Government Settlement (AEF)</b></p>	<p><b>Change from a reduction of 0.8% to 0%</b></p> <p>Welsh Government have not provided an indication of future year financial settlements, with Councils therefore modelling potential scenarios for their medium term financial planning using the support of the Welsh Local Government Association (WLGA) and Wales Fiscal Analysis unit.</p> <p>The most up to date information available indicates a potential increase in funding of between 0% and 1%. However in periods of comparatively low funding settlements, Monmouthshire has historically received a below Wales average increase due to the factors that influence individual Authority settlements.</p>
<p><b>Council Tax increase</b></p>	<p><b>Increase from 3.95% to 5.0%</b></p> <p>The assumption of council tax increases are solely for modelling purposes and Cabinet have not yet considered the level at which Council Tax will be set for 2025/26.</p> <p>With Council tax income accounting for nearly 40% of the Council's overall income, which proportionately is the highest in Wales, this is clearly an important consideration.</p> <p>Consideration will need to be given to local context, such as the affordability for communities, balanced against the ongoing need to meet increasing demand and cost pressures of essential local services.</p> <p>The increased assumption at this stage is reflective of the pressures being seen on Council services, balanced alongside the expected funding from other income streams for the Council.</p>
<p><b>Fire levy</b></p>	<p><b>Maintain at 3.95%</b></p> <p>The Council is required to pay a levy and annual contribution towards the South Wales Fire and Rescue Authority. A planning assumption of a 3.95% increase has now been modelled ahead of the process of consultation and engagement with constituent Councils. This increase is reflective of the expected pressure on SWFRA budgets.</p>



<b>Energy</b>	The Council purchases its energy via a purchasing consortium and receives regular updates on market conditions and data to assist in budget preparation. As the budget process develops, the impact of revised energy prices will be assessed across the estate, street lighting and the Council's solar farm. Given external influences, the situation will remain a dynamic one, and will require regular monitoring to allow for mitigating actions including a review of our decarbonisation work and reduction in overall energy usage.
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- 7.6. The effect of these revised assumptions and pressures being incorporated into the updated modelling is shown below for 2025/26, indicating a projected budget deficit of £11.5m.
- 7.7. Whilst the budget process is always a dynamic one, and all figures will be revised during the process, the funding outlook for local government remains challenging and the projected budget gap a very real one.

2025/26 Budget	(£000's)	
<b>2024/25 Balanced Budget</b>		<b>0</b>
<b><u>Pay</u></b>		
Superannuation rate	251	
Pay inflation - non-teaching	3,179	
Pay inflation - teaching	1,330	
		<b>4,760</b>
<b><u>Non-Pay</u></b>		
Non-pay inflation	2,256	
Fire Levy	227	
Service pressures (non-schools)	4,992	
Service pressures (schools)	1,000	
Budgeted 2025/26 Savings	-140	
Treasury, Corporate & Reserves	2,493	
		<b>10,828</b>
<b><u>Income</u></b>		
Council tax increase	-3,630	
WG settlement increase	0	
Fees & Charges	-517	
		<b>-4,147</b>
<b>Budget Gap</b>		<b>11,441</b>

## 8. Budgetary Risk

8.1. In planning the Council's 2025/26 budget, the Council faces a number of financial uncertainties due to the lack of information available, and the volatile wider economic environment that continues to impact public services. As a result there is a need to ensure there is an effective risk management framework that allows consideration and management of risks appropriately and for mitigation measures to be put into place wherever possible. The main risks impacting the current financial planning are summarised as follows:

<b>Service pressures</b>	Lack of detailed knowledge about the recurrent budget pressures from 2024/25 and new pressures that will be forthcoming from services for 2025/26
<b>National living wage / Real living wage</b>	<p>The local government staff pay increase, at the lower end of the scale, is directly impacted by the increase in the National Living Wage. At the start of any financial year, the lowest paid scale must increase to meet at least the minimum wage expected in the following April. There are no forecasts for the April 2026 rate, however even in periods of very low inflation NLW has increased by at least 4%, with the exception of 2021.</p> <p>It is also the case that there is little headroom at the lower end of the scale, potentially leading to the Council needing to reassess its pay grades.</p> <p>Further to this, the Council is a Real living wage (RLW) employer with its staff and apprentices all paid at this level or above, and with RLW being directly linked to NLW levels.</p> <p>The impact of the National Living Wage and also has impacts on commissioned care through social services and where Welsh Government have set an expectation upon local authorities to fund care workers in line with the National Living Wage.</p>
<b>Economic factors</b>	The impact of inflation and interest rates on the cost of goods and services and the Council's borrowing costs.
<b>Delivery of budget saving proposals</b>	Services are currently forecasting to deliver 81.2% of the £10.9m in-year budget saving proposals for 2024/25, which is in line with historic experience. This points to a risk in fully delivering on any agreed level of budget saving proposals for 2025/26.
<b>Variations to settlement Assumptions</b>	Each 1% increment in WG settlement funding accounts for around £1.2m and has a significant impact upon planning for service delivery.
<b>Income</b>	The cost-of-living crisis impacting communities has a significant impact on household disposable incomes and consequently the demand upon income generating Council services.
<b>Debt recovery</b>	Similarly, the cost-of-living crisis has an impact on debt recovery levels in respect of Council tax and chargeable services.

<b>Capacity for service change delivery</b>	The level of staff vacancy being experienced across Council services could impact on the ability to deliver a strategic approach to delivery of service change.
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## 9. Medium term outlook

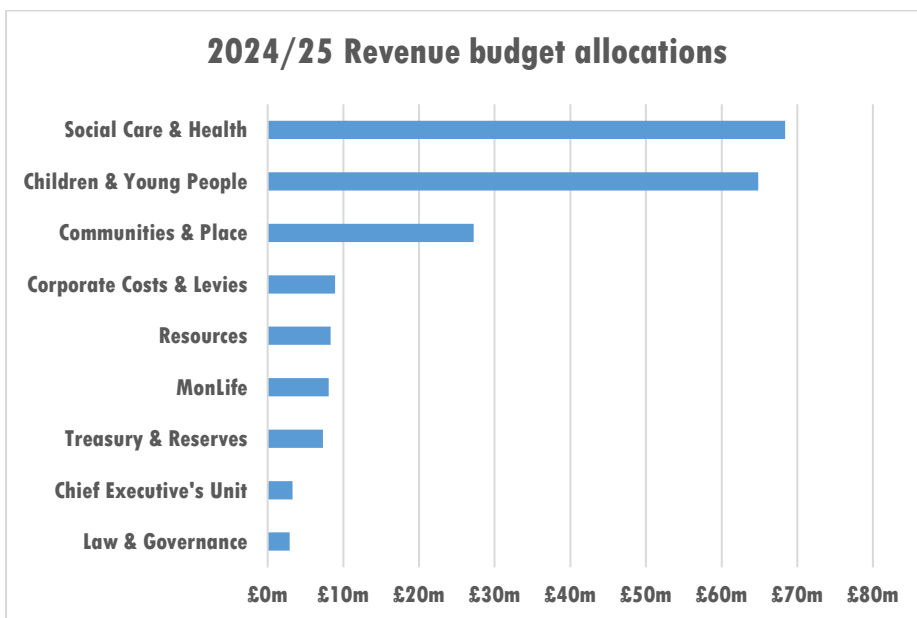
- 9.1. The medium term outlook remains very uncertain. Budget assumptions have been revised and based on the premise that inflation will remain under control, and that public spending by UK Government and the consequential impact on local government in Wales are in line with independent analysis. There are a lot of downside risks that could still play out and that could adversely impact further the budget shortfalls modelled over the medium term.
- 9.2. The most up to date modelling indicates significant budget gaps over the medium term:

<b>Budget shortfall</b>	<b>In Year (£m)</b>	<b>Cumulative (£m)</b>
2025/26	11.4	11.4
2026/27	7.8	19.2
2027/28	8.1	27.3
2028/29	7.4	34.7

## 10. Bridging the gap between expenditure and available resources

- 10.1. The Council's budget process for 2024/25 began with a projected budget deficit of £14.4m and concluded with a balanced budget being set in February 2024. In doing so, the Council needed to instigate £10.9m of service efficiency, change and reduction, alongside increasing charges for its services.
- 10.2. The year-on-year budget pressures that have developed over recent years, funding settlements not keeping pace with inflation or demand, and new responsibilities not being fully funded, had led to a reliance on revenue reserves and capital receipts to support the budget.
- 10.3. With reserve balances at low levels, and the layers of efficiency being driven from services over time, the current Council's financial challenge over the next 4 years remains extremely challenging. The Council's response therefore needs to be thoughtful, targeted, and promote longer-term reform that will ensure financial sustainability.
- 10.4. Whilst efforts as part of the 2023/24 and 2024/25 budget processes looked to promote budget savings over the more medium term, it is clear the scale of approach did not go far enough in meeting the financial challenge now facing the Council.
- 10.5. Given the above, and based on the premise that funding levels over the medium term remain as modelled, the progressing of the programme of more radical change of some areas of service delivery models will be required over the next few years in order to place the Council back on a financially sustainable footing.

- 10.6. **2025/26 Budget strategy** – In approaching the 2025/26 budget and looking forward over the medium-term Cabinet needs to consider the extent to which cost savings can be achieved through either service efficiencies or reductions, notwithstanding potential mitigation of budget shortfalls through additional funding or income.
- 10.7. The period of financial austerity since 2010 has already seen budget shortfalls managed to a significant degree through service efficiencies, leading to some service areas now already delivering essential and often statutory functions at their bare minimum. Given the scale of the potential shortfall for 2025/26 and over the medium term, a thoughtful and evidence-based approach will be taken to managing notable real term and nominal reductions.
- 10.8. Of the current £207m budget allocated to services, 77% of the budget sits with the Council’s three main services, Social Care, Education, and Communities & Place (including Waste, Housing, Planning, Highways, and Transport). It will not be possible to balance the budget without those three main services areas absorbing a significant proportion of the budget shortfall facing the Council.



- 10.9. Cabinet has therefore tasked officers with developing options for meeting the budget gap for 2025/26, ensuring that these take into consideration the key strategic aims outlined in the Community & Corporate plan. Cabinet have been extremely clear that the budget build for 2025/26 will continue to recognise priorities set within the Community and Corporate Plan with reducing the impact of inequality on citizens and climate change on communities being central to all considerations.
- 10.10. The Council’s programme of change, supported by robust financial governance, will work to assess the opportunities for service change and cost reduction, whilst ensuring appropriate service resilience is maintained. Whilst not an exhaustive list, the following are areas of consideration that will feature:

The role of commissioning of services, in-sourcing, out-sourcing, collaboration, and partnerships.
The role of AI, RPA and data analytics, alongside wider process and service redesign, in reshaping services and the way the Council interacts with residents and customers.
Getting beyond the artificial distinction between statutory and discretionary services and in ascertaining the 'real value' being derived from services in their current form.
Identifying the scope for further income generation.
A sustained focus on productivity and efficiency.
Ensuring the Council has a lean but fit for purpose leadership and management structure, and organisational capacity to affect change and improvement whilst keeping the business safe.
Developing a whole authority approach to promoting community wellbeing, early help and prevention.
Workforce – the workforce is the Council's most valuable asset. Any review will focus on reviewing workforce requirements, informed by service self-evaluation and service delivery planning arrangements.
Exploring asset rationalisation opportunities with a focus on reducing running costs and backlog maintenance, alongside reducing the Council's carbon footprint through an on-going programme of investment in decarbonisation measures.
Service Reductions – reducing service levels will always be a last resort but remains a consideration after all other options available to the Council to balance its budget have been explored. A focus on mitigation of the impact on the most vulnerable residents will hold primacy.

10.11. It should be recognised and even at this early stage of the budget process that careful consideration will need to be given to the extent to which the Council will now be able to meet all of its commitments and as outlined in the plan. Clearly every effort will be made to mitigate the impact of commitments either not being delivered or delivered to a lesser extent.

10.12. The budget framework will be underpinned by the set of strategic budget principles approved as part of the MTFS in July 2024:

<b>MTFS Strategic Budget Principles</b>	
1.	To maintain financial management arrangements that will be sufficiently robust to support the delivery of financial plans and mitigate corporate risks.
2.	A citizen facing budget focused on equality and climate change that mitigates any potential increase in inequality caused by the Councils actions.
3.	A balanced budget reflecting objectives, priorities and commitments set out in the Council's Community and Corporate Plan.

## MTFS Strategic Budget Principles

4. Council budgets to be continually reviewed to ensure resource allocations are delivering value money and continue to align to the delivery of priority outcomes.
5. Budgets set without budget shortfalls having general recourse to reserve funding. In year spending will be met by in year funding.
6. The Council Fund (general reserve) will be maintained at a minimum of 5% of Net Revenue Expenditure (excluding the Schools Delegated budget) over the period of the MTFS.
7. An affordable and acceptable level of council tax increase with qualifying households being encouraged to access all dispensations they are entitled to receive.
8. To increase existing fees and charges. As a minimum fees and charges will be increased to match cost inflation. The Council will review opportunities to introduce new fees as appropriate.
9. To manage, wherever possible, any necessary reduction in the workforce through turnover rather than through specific voluntary or compulsory redundancy programmes.
10. To optimise the use of specific grant funding across the Council, taking advantage of legitimate opportunity to offset existing core cost through direct charge to the funding stream.
11. To sustain services through the development of strategic partnering arrangements with other local authorities, public sector partners, town and community councils, and third sector organisations.
12. Informed estimates will be factored into the MTFP for cost pressures anticipated to result from inflation, demand increases, growth and investment.
13. To maintain a budget contingency budget of no less than £1m from 2025/26 with specific criteria for its use. No reduction in the budget is permissible unless there is a clear and realistic plan for reinstating the budget within the Medium Term.
14. To optimise the use of land and buildings and consider alternate uses or disposal where there is not a clear ongoing case for continued use.
15. To be open to using capital receipt balances to support one-off revenue expenditure associated with service reform and to reviewing existing capital programme commitments not yet entered into.
16. Capital investment decisions will support the Council's corporate priorities and mitigate any statutory risks taking account of the return on investment and robust business cases.
17. Prudential borrowing will only be used to support the capital programme where it is affordable and sustainable within the Council's overall borrowing limits and the revenue budget over the long term.
18. To act in accordance with council's risk appetite in determining the amount of risk that the council is willing to seek or accept in the pursuit of its objectives.

## MTFS Strategic Budget Principles

### 11. Capital programme

- 11.1. The Council's Capital Strategy outlines how the Authority makes and manages capital investment decisions that support its corporate objectives. It also provides a framework that the Council can rely on to develop a clear, consistent, and informed process to make investment decisions.
- 11.2. The Council faces more demand for capital spending than it can afford, and therefore it has to prioritise projects, leverage other sources of funding, work with partners, and keep capital investment within affordable limits.
- 11.3. The Capital strategy will be refreshed and brought alongside final budget proposals to Council in March 2025.
- 11.4. The Capital Programme for 2025-2029 will be reviewed and reconsidered during the budgetary process to ensure that the revenue implications of capital expenditure are accurately reflected in the revenue budget and that the capital expenditure plans of the Council remain affordable, prudent and sustainable. The provisional Capital programme is outlined below and remains a significant commitment for the Council.

Capital Budget	2024/25	2025/26	2026/27	2027/28	2028/29
	£000's	£000's	£000's	£000's	£000's
Asset Management Schemes	2,630	2,230	2,230	2,230	2,230
School Development Schemes	19,457	4,152	0	0	0
Infrastructure & Transport Schemes	6,145	4,205	4,205	4,205	4,205
Regeneration Schemes	150	730	730	730	730
Inclusion Schemes	1,150	1,200	1,200	1,200	1,200
ICT Schemes	303	413	413	413	413
Vehicle replacement	1,500	1,500	1,500	1,500	1,500
Flexible use of capital receipts	3,358	3,358	2,358	1,358	350
Other Schemes	550	570	570	570	570
<b>Total Expenditure</b>	<b>35,242</b>	<b>18,357</b>	<b>13,205</b>	<b>12,205</b>	<b>11,197</b>

- 11.5. Whilst the core capital programme is being sustained, and sees planned investment in the Council's infrastructure, there still remains a considerable number of backlog pressures that sit outside the core capital programme given the affordability and funding constraints facing the Council. This will continue to have varying levels of risk associated with it and will have to be managed and mitigated.
- 11.6. Schemes already included in the indicative programme will be reviewed in respect of timing and their continued alignment to strategic objectives. Schemes that are not time critical may

be deferred to focus capacity on the delivery of priority schemes, or to allow capital receipts to be released to aid in meeting wider Council service redesign.

- 11.7. Construction and material inflation impacts the capital programme in terms of managing and maintaining the Council's assets. These include cost increases on goods/services which are yet to be approved or delivered, contractors willingness to tender for works, their lack of capacity, and the pricing of risk into contracts. Funding may not keep up with such increases, so the risk of affordability is significant unless costs are reduced elsewhere, or the number of projects undertaken is reduced.
- 11.8. Borrowing that supports capital projects that have already completed is at fixed rates. However, given a significant future borrowing requirement to fund the indicative programme, there remains a significant risk of increased costs from heightened interest rates. Whilst the market view is that rates may fall back as inflation subsides, it is not expected to return to previous historically low levels.

## 12. Budget Process and Timetable

12.1. In the context of all the above, setting a balanced budget for 2025/26 will be significantly challenging and will involve difficult decisions that will allow Cabinet to align and deliver the aims and aspirations set out in its revised Corporate and Community plan, and within the confines of available funding. The work required needs to involve Members and Monmouthshire communities as early in the process as possible.

12.2. The proposed milestone dates in developing the budgetary process for 2025/26 is as follows:

Refresh of budget modelling using updated assumptions & data	September 2024
Budget workshops – SLT/Cabinet/Groups/Officers	October 2024
High level pressure & saving mandates produced for Cabinet scrutiny	October 2024
MTFP update report including budget process and timetable - Cabinet	16th October 2024
Final pressure & saving mandates to be produced	December 2024
Budget assumptions, pressures and savings to undergo further Cabinet scrutiny	December 2024
Consideration of Welsh Government Provisional settlement	11th December 2024
Set Council tax base - ICMD	18th December 2024
Consideration of draft revenue & capital budget proposals - Cabinet	January 2025
Scrutiny of Proposals - Select Committees	January 23rd to 22nd February 2025
Public Consultation for 2025/26 budget	January 23rd to 22nd February 2025
Consideration of scrutiny, consultation, final pressures, savings & assumptions	25th February 2025
Consideration of Welsh Government Final settlement	25th February 2025
Final budget proposals - Cabinet	5th March 2025
Formal Council Tax Resolution & Budget Proposals - Council	6th March 2025

12.3. **Appendix 2** identifies the detailed timetable that covers the complete process. The process is supported by appropriate senior finance officers providing the necessary input to support



the proper production of the business cases, including equality impact assessments where appropriate, and to facilitate robust review and scrutiny throughout the process.

- 12.4. Welsh Government intends to publish the draft provisional funding settlement for local authorities on the 11th of December 2024. This will allow the Council to understand whether any additional funding is likely to be received over and above current assumptions.
- 12.5. Where necessary up-front engagement with key stakeholders will take place ahead of draft budget proposals being released for consultation.
- 12.6. Formal scrutiny of the draft budget proposals will take place through the normal scrutiny committee cycle in January and February 2025, including if necessary one overall scrutiny meeting to consider the budget proposals as a whole.
- 12.7. Public consultation will also take place subsequent to the special Cabinet meeting in January 2025 and will run until the 22nd February 2025.
- 12.8. Final budget proposals will be presented back to Cabinet on 5th March 2025 after consideration of consultation feedback. The budget will then go to Council on the 6th March in order to meet the statutory requirement to set a Council Tax for the following year. This presents a challenge for setting next year's budget, as Welsh Government intends to only release final settlement information shortly before this date on 25th February 2025. This date may change, but where necessary may involve the final budget proposals containing potential options to mitigate the potential for any adverse final settlement revision.
- 12.9. The scale of the financial challenge facing the Council is considerable. Whilst the Council will do all that it can to protect its workforce, given the significant percentage of the Council's gross expenditure is on employee costs, the need to reduce costs on such a significant scale will inevitably affect employee budgets and the shape of the workforce.
- 12.10. Through the Council's Joint Advisory Group with trade unions and separate Trade Union partnership meetings, trade unions will be briefed on the scale of the 2025/26 budget gap and will continue to be consulted in advance of wider public consultation on any budget proposals and their likely impact on employees, particularly where posts are at risk of redundancy. Under the law relating to unfair dismissal, all proposals to make redundancies must involve reasonable consultation with the affected employees and their trade unions. Given the size of the budget gap, it is likely that there will be redundancies within the Council's workforce in the lead up to, and during the financial year commencing 1st April 2025, notwithstanding every effort being made to avoid them.
- 12.11. Where the number of employees likely to be made redundant exceeds certain thresholds, the law specifically sets out a minimum length of time and minimum content for the consultation with the trade unions, including ways of avoiding, reducing or mitigating the consequences of the numbers of employees being made redundant. As the Head of Paid Service, the Chief Executive is responsible for all staffing matters and has the authority to implement all necessary consultation in relation to proposed redundancies (statutory or otherwise) and make associated staffing decisions.

### 13. Progress against the MTFS Delivery plan

13.1. The medium term financial strategy (MTFS) approved by Council in July 2024 outlined the delivery plan that will convert the MTFS into practice. The plan contains the actions proposed in accordance with the strategy document. These align to the strategy's key aims and objectives.

13.2. There was a commitment made to provide a six-monthly update on progress against the delivery plan to monitor progress of the plan against the core objectives. The latest update of progress is outlined below:

Action No.	Action/Description	Outcome/Output	Milestones				Timescale for completion	Responsible Officer/Body	Progress update October 2024
			24/25	25/26	26/27	27/28			
-Page 32 2	Develop a Change and Improvement plan to enable delivery of required savings over the medium term	Programme of work developed with overarching governance to enable delivery to be co-ordinated	✓	✓	✓	✓	September 2024	Cabinet/SLT	Evolving with the development of the budget process and strategy for 2025/26
	Delivery of budget holder training	Refresh and rollout of training to all budget holders	✓	✓	✓	✓	March 2025 and ongoing	Head of Finance	
	Self-assessment of compliance with CIPFA Financial Management Code	Self-assessment to identify further actions to improve the Council's financial management	✓				March 2025	Deputy Chief Executive (S151 officer)	
	Independent financial resilience review to be undertaken	Independent review to highlight and further areas for improvement		✓			March 2026	Deputy Chief Executive (S151 officer)	
	Enhance approach to modelling future growth, demand, demographic and		✓	✓	✓	✓	September 2024 and ongoing	Head of Finance	Work is progressing on developing more evidence based data metrics to support the budget process. Some of

	inflationary pressures in the MTFP								this has already been embedded within the updated assumptions in this plan update
6	Revenue reserves (including school balances) and useable capital receipt review to be undertaken in line with the revised reserves policy	Rationalisation of revenue reserves	✓		✓		September 2024	Deputy Chief Executive; Head of Finance	Work has started on review of trend and identifying risk / investment needs. To be further progressed throughout the budget process
7	Financial risk register to be maintained and regularly updated	To ensure that suitable mitigations are in place against key financial risks	✓	✓	✓	✓	September 2024 and ongoing	Financial Management Board	Risks have currently been identified and updated as part of this plan update. Will continue to be assessed and updated on a regular basis
Page 33	Annual review of fees and charges	To benchmark and assess fees and charges to ascertain scope for further income potential	✓	✓	✓	✓	December 2024 and annually	Head of Finance	

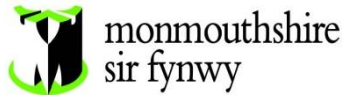
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**Appendix 2 - 2025/26 Budget timetable**

<b>Week</b>	<b>Task</b>	<b>Responsibility</b>	<b>Milestone</b>
	<b><i>Draft Revenue budget</i></b>		
1	Collection of base data to update budget assumptions - Independent data, In year forecasts, economic indicators	Finance teams	6-Sep-24
3	SLT/Cabinet Away Days - Budget	SLT/Cabinet	16-Sep-24
4	Budget shortfall and approach to savings proposals agreed	SLT	24-Sep-24
6	High level pressure/saving proposals produced	DMT's	9-Oct-24
7	Six monthly MTFP update report to Cabinet including budget process and timetable	Section 151 officer	16-Oct-24
8	Consideration of high level pressure/saving proposals by informal Cabinet	Informal Cabinet	22-Oct-24
9	Update of full-cost corporate, appropriations and financing budgets	Finance teams	29-Oct-24
9	Changes to Fees & charges to be included in savings/pressures proposals	Finance teams	29-Oct-24
9	Detailed pressure/savings proposals to be produced and presented to SLT	DMT's	29-Oct-24
9	Chancellor's Autumn statement	External	30-Oct-24
10	Consideration of detailed pressure/saving proposals by informal Cabinet	Informal Cabinet	5-Nov-24
13	Budget shortfall to be assessed and further options to be identified if required	SLT	26-Nov-24
TBC	Budget workshop - All members seminar	Section 151 / Cabinet member for resources	TBC
TBC	Budget workshop - Labour group	Section 151 / Cabinet member for resources	TBC
15	Final pressure and saving proposals to be produced and presented to SLT	DMT's	3-Dec-24
15	Consideration of final pressure/saving proposals by informal Cabinet	Informal Cabinet	10-Dec-24
15	Provisional settlement received and impact considered	Section 151 officer	11-Dec-24
19	Draft revenue & capital budget proposals - release on formal consultation	Section 151 officer	7-Jan-25
20	Draft revenue & capital budget proposals - agenda despatch	Section 151 officer	14-Jan-25
21	Draft revenue & capital budget proposals	Section 151 officer	22-Jan-25
16-20	Scrutiny of Proposals by Select Committees - during 4 week consultation period	Select Committees	Jan 23rd to 22nd Feb 25
16-20	Public Consultation for budget	Section 151 officer	Jan 23rd to 22nd Feb 25
	<b><i>Final Revenue budget</i></b>		
25	Final pressures, savings & assumptions for 2024/25 budget	SLT /Cabinet	18-Feb-25
TBC	Final settlement received and reviewed	Section 151 officer	25-Feb-25
27	Final budget proposals - Cabinet	Section 151 officer	5-Mar-25
27	Formal Council Tax Resolution & Capital Budget Proposals - Council	Section 151 officer	6-Mar-25

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**SUBJECT: Investment & Commercial Portfolio  
Performance Update**

**MEETING: Performance & Overview Committee**

**DATE: October 2024**

**DIVISION/WARDS AFFECTED: All**

**1. PURPOSE:**

For Performance & Overview Committee to receive a performance update on the Council's commercial and investment property portfolio.

**2. RECOMMENDATIONS:**

- 2.1 That the performance of the commercial and investment property portfolio is noted.

**3. KEY ISSUES:**

**Background**

- 3.1 This report provides an update on the current performance of the council's commercial and investment property portfolio, including Castlegate Business Park and Newport Leisure Park investments, MCC's County Farms portfolio, and retail and industrial portfolio.
- 3.2 MCC benefits from a diverse land and property portfolio that has delivered a commercial return over a number of years. The portfolio is managed in accordance with the strategic principles and objectives set out in the Council's approved 2023-2027 Asset Management Strategy. The asset register consists of a range of different land and property which have come into MCC ownership over many years through a mixture of acquisition, donation, or council/government reorganisation. These include:
- Acquired investments of Castlegate Business Park and Newport Leisure Park
  - Industrial units
  - Retail units

- Office accommodation
  - County Farms and Bryngwyn Livestock Market
  - Oak Grove Solar Farm
- 3.3 Ongoing management and monitoring of the commercial and investment portfolio is undertaken by officers within MCC's Estates, Finance and Legal departments. Acquired investment assets are supported as part of the wider functions and responsibilities of Landlord Services, and departments are in regular contact with the appointed managing agents for the respective sites. The cost of managing agents is incurred by tenants of the respective properties, recovered via service charge payments.
- 3.4 The combined gross income for all investment and commercial assets, inclusive of acquired investments, for 23-24 was £3.628m.

Since acquisition, both acquired investments have generated a combined net income of £2,042,074. This position will improve as a consequence of the net surplus forecast for 24-25, as outlined in the subsequent sections of the report.

### **Acquired Investment Portfolio**

- 3.5 The investments of Castlegate Business Park and Newport Leisure Park were acquired via the Council's Asset Investment Policy. The Asset Investment Policy facilitated acquisition of assets to meet the strategic aim of generating commercial returns, thereby helping to offset wider budget pressures facing the Council. The policy also established the criteria for evaluation of commercial and property investments, measured against the return on investment (ROI) or net income return, over and above the borrowing repayment cost.
- 3.6 At the time of acquisition, prudential borrowing was used to acquire or invest in property, with the cost of borrowing serviced by the resulting rental streams. As a result of the Council's risk appetite and the ongoing strain on its financial standing, any further investment will only be considered in order to support the core policy objectives contained within the Council's latest Community & Corporate Plan and where deemed prudent, sustainable and affordable. The Performance & Overview Scrutiny Committee now receives 6 monthly updates on the performance of the Council's property investment portfolio.
- 3.7 Figure 1 shows a summary of financial performance and occupancy rates of the respective portfolios. Further detail on activity associated with each portfolio is outlined in the subsequent section:



	Castlegate Business Park	Newport Leisure Park	
ROI as of 23/24 (March 2024)	-3.74%	0.15%	
ROI as of 24/25 (Sept 2024)	-2.08%	1.41%	
Forecast for 25/26	-0.95%	1.78%	
Occupancy rates as of 23/24 (March 2024)	85.6%	97%	
Occupancy rates as of 24/25 (Sept 2024)	87.9%	94.6%	
Net income to MCC 24/25	-£128,405	£279,067	£150,662
Net income to MCC since acquisition	£353,436	£1,689,638	£2,043,074

3.8 Since acquisition, both assets have generated a total income of £2,043,074 above borrowing repayments. Whilst both assets currently perform below the original 2% above borrowing investment criteria, officers would recommend to members that they continue to hold these assets to retain as strategic employment and income generating assets.

3.9 Castlegate Business Park continues to recover well following exposure to known risks associated with the surrender of the anchor tenant at point of acquisition. Newport Leisure Park, whilst carrying risk associated with the future of the Cineworld Group, continues to generate a net return to MCC. Continuing to let vacant space will materially improve the financial performance of both assets, reducing MCC's exposure to business rates, service charge and utilities and increasing its net return.

3.10 The 25/26 forecast presumes no further lettings (or surrenders) will be realised, but there continues to be a reasonable prospect of securing new tenants and improving the forecasted ROI. Letting 20% of the vacant floor space will return Castlegate BP to a positive net return. Newport Leisure Park will exceed the 2% ROI target if the only remaining void is filled. It should also be noted that any sale is likely to also result in a depreciated capital value due to the reduced rent roll and limited investment activity in the sector at this time.

### **Castlegate Business Park**

3.11 Castlegate Business Park was acquired in June 2018 for £7million together with a service charge loan of £900k and associated acquisition costs. The asset consists of mixed office and production/warehouse space amount to circa 217,000 sqft situated in 18 acres of land adjoining the Caldicot settlement.

3.12 The property at the time of acquisition was 95% occupied, the majority to Mitel who were the original owners of the site. Following surrender of 60% of the property by Mitel in March 2022, MCC Estates have worked to reduce this void through securing new tenants and expansion of existing businesses. As of September 2024, the occupancy rates are at 87.9%.

3.13 Details of letting activity since January 2024 are set out below:

#### *Office & MonSpace*

3.14 MCC Estates 'MonSpace' initiative, which makes available 9 smaller office suites on more flexible terms than might otherwise be accommodated by the sector, continues to return strong occupancy levels. This has reduced vacant space in the property that may otherwise have been more challenging to let. It has also enabled several local businesses to be retained in the area.



3.15 As of September 2024, 6 of the suites are occupied, with 2 tenants having occupied and vacated since launching MonSpace in November 2023. Another suite is under offer and scheduled to be occupied in November. Flexible terms have assisted support different businesses in a range of circumstances, for example Caldicot Town Council occupied one of the suites during their building refurbishment, enabling them to continue to operate unaffected by the works. The letting of MonSpace has generated a total rental to MCC of over £25,000.

3.16 Following a short period of occupation at MonSpace, two tenants have elected to enter long term leases for the property. This has further reduced MCC's service charge, business rates and utilities liability.

3.17 Two rent reviews have been exercised with existing tenants, resulting in significant rental increases. We have also secured lease extensions and expansions with three existing tenants on site, further increasing the rent roll and reducing MCC's service charge and business rates liability.

#### *Cafe*

3.18 As a consequence of the pandemic, the onsite canteen was closed however a new cafe operator (Castell Coffi) has been identified and are operating successfully from the property. The cafe is supporting trade from existing tenants as well as the surrounding Severn Bridge Industrial Estate. Discussions are ongoing to secure a long-term lease agreement to retain the operator on site.

### *Miscellaneous*

- 3.19 Through March-August the property was being utilised by a film company as a 'base' whilst filming in and around Monmouthshire. This included storage, office and set design. Expectation Comedy are a TV and film company based in London who work with several TV channels, including Channel 4. The units at Castlegate have been considered attractive for their purposes, as they offer privacy, office space for staff and ample onsite parking. The 13-week licence has generated a strong commercial return for MCC.
- 3.20 The Castlegate Business Park car park continues to be hired to facilitate a number of local events, including charity events with Portskewett Football Club and events at Caldicot Castle. The large car park is also being hired by local businesses within the Severn Bridge Industrial Estate for additional parking, further generating a rental for MCC.
- 3.21 There is one tenant at Castlegate Business Park in arrears and discussions are ongoing regarding payment plans to address short-term cash flow pressures.
- 3.22 As of September 2024, Castlegate Business Park is projected to generate a commercial loss of £128,405. Whilst a continued financial pressure, this is a £101,650 improvement on the 23-24 position, and we continue to secure new tenants to return the asset to a net positive position.

### **Newport Leisure Park**

- 3.23 Newport Leisure Park was acquired in March 2019 at a cost of £22.5million. It is situated on the Newport/Monmouthshire border and comprises of a mix of six restaurants, two retail units and three leisure units within an 11 acre site. At the time of acquisition, all of the units were let on the basis of long leaseholds with no rental or service charge arrears.
- 3.24 Since acquisition, the park was subject to significant closures as a consequence of the Covid pandemic. Four units have been made vacant via surrender or eviction, creating voids which required re-letting. Despite this, the asset has continued to generate a total net return to MCC of 1.41%. New tenants have been secured following the lettings of Unit 7 (Starbucks) and Unit 2 (Innoflate). Both tenants are trading and paying rental and service charge contributions.
- 3.25 Details of letting and management activity from January 2024 are set out below:
- 3.26 In January 2024, MCC elected to exercise forfeiture on the lease of Unit 9B Tiffins. This followed an extended period of rental arrears and inability of the tenant to address the debt. The property has been marketed since for an alternative occupier. Expressions of interest have been received and we

continue to consider offers, including the potential to partition the unit into two smaller units to increase the attractiveness to smaller leisure offerings.

- 3.27 Unit 6, the former Pizza Hut unit and only other remaining vacancy, is under offer and at the time of writing is finalising a lease for a new occupier. Fit out is scheduled to commence in October 2024, with trading commencing later in the Autumn. Letting of the unit is on competitive terms and consistent with pre-pandemic rental levels.
- 3.28 Unit 1, let to Cineworld, has been subject to national attention as a consequence of a company restructure being executed by the Cineworld Group. On the 26th of July, Cineworld Group shared their intentions to close multiple cinemas across the UK.
- 3.29 Under the restructuring plan, existing lease agreements for UK Cineworld cinemas have been classified as either Class A, B, C1, C2, D1, D2 or D3 creditors. 38 sites have been classified as Class A. 33 sites in Class B. 16 sites in Class C. 9 sites in Class D. Class C and D sites have been identified as sites subject to closure (of which 6 closures have been announced) or significant rental reductions including nil rental.
- 3.30 The proposed restructure classified Cineworld Newport Leisure Park as a 'Class B Creditor'. As a Class B creditor, Cineworld have determined that the cinema should remain open but is subject to a rental reduction to achieve their desired annual turnover. MCC will be subject to a rental reduction for a period of 3 years, commencing 3 months after the restructure is carried out.
- 3.31 Cineworld will seek to reduce the rental to align with an estimated rental value (ERV) or market rent. ERV reductions have resulted in Class B Creditors experiencing rental reductions of up to 87%. Under the terms of the restructure, it is proposed MCC's reduction will be more favourable than others, reflecting the strength of the operation at Newport Leisure Park. Whilst the final reduced rental figure is under review and subject to scrutiny, the ERV reduction is reflected in the 24/25 and 25/26 forecasting within this report.
- 3.32 The courts sanctioned a Creditor Vote on the restructuring plan on the 18<sup>th</sup> September and the restructure was authorized on the 30<sup>th</sup> September. MCC's rental from Cineworld will be unaffected for an initial period of 3 months, and a further payment is projected 12 months post-restructure which intends to address any shortfall in rental through year 1 of the restructure.
- 3.33 Engagement with the local management team at Cineworld has reaffirmed the strategic importance of the asset given its location, limited local competition, free car parking and footfall. Despite this, Estates continue to monitor the restructuring plan closely and prepare an exit strategy should the position change. Independent advice has been sought regarding interest in the property should the restructure be unsuccessful or the cinema close, and it is recommended that supporting the restructure best protects MCC's interests and projected net revenue position.

- 3.34 Rent reviews have been exercised on existing tenants, resulting in an uplift in rental returns to MCC.
- 3.35 MCC have been in advanced discussions with an electrical vehicle charger operator for the installation of new chargers at the property. Any agreement would be subject to grid connection and planning consent. The EV chargers would generate an annual rental for MCC.
- 3.36 There are no tenants in arrears at Newport Leisure Park.

### **Commercial Portfolio**

- 3.37 The Council's industrial portfolio comprises of 40 units ranging in size from 365ft<sup>2</sup> to 2,850ft<sup>2</sup> located within Caldicot and Raglan. Currently the portfolio is 100% let and there are aged rental arrears in the region of £15k. This equates to 7.3% of the rent roll. Several lease renewals have been executed or are under negotiation which is anticipated to increase rental returns. A recent review of Castleway Industrial Estate has made it possible for some of the existing tenants to expand their business and commit their future to the location.
- 3.38 The retail portfolio is made up of 23 secondary neighbourhood units, which are a combination of freehold and long leasehold tenures. The portfolio is 96% let. The ground floor of Hanbury House in Chepstow is now fully let with a range of tenants inclusive of medical, gym and retail offerings. The Estates Department, in partnership with Regeneration colleagues in MCC, are developing a temporary 'pop-up shop' within the ground floor former One Stop Shop space at Monmouth Market Hall and, subject to planning, an exhibition space on the first floor former Planning offices. These uses will generate a rental for MCC and offset ongoing revenue costs for the property.
- 3.39 Innovation House, Magor is categorised as an investment asset with an income target of £156,000. The second-floor smaller wing is occupied and generating a rental return. The remaining vacant space continues to be marketed. Interest has been received from a large-scale flexible office provider and terms are being negotiated. In the interim and to prove concept, it is intended to launch a 'MonSpaces' opportunity on the ground floor. Usk County Hall has also secured the letting of the ground floor of 'J-Block' to the Shared Resources Service (SRS), generating a commercial return and reducing MCC's operating costs.
- 3.40 There are 24 farm holdings in the Council's ownership generating an improving commercial return. There are £24k of arrears for County farms, primarily relating to one farm in Leechpool. This represents 8.8% of the total rent roll. Site visits have been held to discuss options with the tenant. Significant rental uplifts have been achieved across multiple recent farm lettings. Another county farm has been recently vacated, with re-marketing scheduled to commence in October. MCC also continue to receive rental payments from the Bryngwyn Livestock Market, which makes rental payments

based on a combination of turnover and base rent. Bryngwyn Livestock Market has generated a rental return of over £929,611 since 2013.

3.41 Income from the Council's solar farm is currently forecasting a £100,000 overspend at M4 due to a number of grid outages on site this year plus adverse weather conditions which is affecting the income return. Subject to weather, it is anticipated the performance will increase through to year end. Since 2017, the solar farm has generated a gross income for MCC of £4,517,289.

#### 4. OPTIONS APPRAISAL:

The report is not a decision-making report. The report represents a performance review of the commercial and investment portfolios, as required under the governance changes outlined in the Asset Management Strategy. Therefore, no option appraisal is required.

#### 5. REASONS:

The Asset Management Strategy requires a 6-month performance review of the Council's commercial and investment portfolios.

#### 6. RESOURCE IMPLICATIONS:

This report outlines a £351,649 improvement in the performance of the investment portfolio from 23/24 projections. The 24/25 projections have been adjusted to reflect the changes and risk associated with Cineworld's occupation. Despite these changes, both Castlegate Business Park and Newport Leisure Park are projected to generate a significant improvement since 23/24 and Newport Leisure Park a net surplus, after borrowing repayments, in 24/25.

£30.7m of the £50,000,000 prudential borrowing fund had been spent on these two investments.

	Castlegate			NLP			Combined		
	Budget	Forecast	Variance	Budget	Forecast	Variance	Budget	Forecast	Variance
Expenditure	781,353	883,105	101,752	1,013,517	1,017,405	3,888	1,794,870	1,900,510	105,640
Income	-682,400	-754,700	-72,300	-1,359,825	-1,296,472	63,353	-2,042,225	-2,051,172	-8,947
Net Return	98,953	128,405	29,452	-346,308	-279,067	67,241	-247,355	-150,662	96,693

As a result of the investments, budgeted income targets have been introduced. The latest Month 6 projections estimate a net surplus on NLP of £279,067 and a deficit of £128,405 on Castlegate, a combined surplus on both investments of £150,662 resulting in an in-year forecast budget pressure of £96,693.

As a strategic asset within the county, information has been sought on the number of jobs created at Castlegate Business Park since the last performance update. Since January 2024, 33 new skilled jobs have been created or appointed to at Castlegate Business Park. Future Performance & Overview Committee performance updates will continue to report any movements in job and skill creation.

The capital values of both assets continue to be impacted by the respective sectors however an improving rent roll is resulting in capital appreciation. As of March 2024, the asset valuations for Castlegate Business Park and Newport Leisure Park were £6.1m and £19.5m respectively.

Income targets for the commercial portfolio, exclusive of acquired investments, have been increased by £100,000 in 24-25. Acquired Investments are projecting to generate a net income of £2247,355 in 24-25.

**7. EQUALITY AND FUTURE GENERATIONS EVALUATION (INCLUDES SOCIAL JUSTICE, SAFEGUARDING AND CORPORATE PARENTING)**

There are no equality and Future Generations implications arising from the purpose of this report. This report provides a performance review of the commercial and investment portfolios.

**8. CONSULTEES:**

Stacey Jones – Finance and Resources Manager  
Joanne Chase – Head of Commercial Law  
Paige Moseley – Solicitor, Commercial Law

**9. BACKGROUND PAPERS:**

Appendix 1 – Performance Dashboard

**10. AUTHOR(S):**

Nicholas Keyse – Acting Head of Landlord Services

**11. CONTACT DETAILS:**

Tel: 01633 644773

Email: [nicholaskeyse@monmouthshire.gov.uk](mailto:nicholaskeyse@monmouthshire.gov.uk)



## Appendix 1 – Performance Dashboard

Performance Indicators			
Measures/Milestones	23/24	Target	24/25
<b>Total Gross income target for investment and commercial portfolio</b>	<b>£3,628,877</b>	<b>£3,756,652*</b>	<b>£3,641,133</b>
Industrial Unit Gross Income	£203,129	£223,275*	£209,451
County Farm Gross Income	£269,317	£284,120*	£270,294
Solar Farm Gross Income	£916,274	£727,032	£627,535
Retail and Office Gross Income	£359,075	£480,000*	£482,681
% of rental arrears from commercial portfolio total income	6.4%	2%	2.4%
Castlegate Business Park Occupancy Rates	85.6%	100%	87.9%
Newport Leisure Park Occupancy Rates	97%	100%	94.6%
Net income from acquired investments	£2,043,074	n/a	£2,193,736
Castlegate Business Park – Job creation from lettings or existing tenants	n/a	n/a	33 new roles created (Aug 2024)

\*income target increased by £100,000 from 23/24.

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