

# Medium Term Financial Strategy

2024-2029



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# Medium Term Financial Strategy

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<b>Title</b>	<b>Medium Term Financial Strategy</b>
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Owner	Deputy Chief Executive Head of Finance
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# Medium Term Financial Strategy

## Contents

Cabinet Member Foreword .....	5
Executive Summary.....	7
Introduction .....	7
Purpose of the Financial Strategy .....	7
The Delivery Plan.....	9
Navigating the Financial Strategy .....	12
The Financial Position – “The Challenge” .....	14
National Strategic Context .....	14
Local Strategic Context .....	14
The Council’s priorities .....	14
About Monmouthshire .....	15
Local financial context .....	15
The Journey So Far .....	16
Future Outlook .....	17
Budget Assumptions .....	17
Scenario and Sensitivity Analysis.....	19
Risk Analysis.....	21
The Financial Strategy – “The Response” .....	25
Understanding the current financial position .....	25
The revenue budget .....	25
School budgets.....	26
Capital strategy .....	28
The capital budget.....	28
Useable reserves .....	30
Useable capital receipts .....	32
Income from fees and charges .....	32
Income from Council Tax .....	33
Cost drivers and long-term projections .....	37
A programme of change and improvement .....	38
Collaboration and commissioning .....	40
MTFS Principles.....	40
The Framework for the Future – “The Delivery” .....	44

# Medium Term Financial Strategy

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“The Delivery” – in summary .....	44
Sound Financial Management .....	44
Financial Resilience Assessment.....	45
Balance Sheet Management.....	45
Medium Term Financial Plan.....	46
Governance .....	46
Roles and responsibilities.....	48
Financial reporting commitments.....	49
Engagement and Communication.....	51
Performance and Evaluation Framework.....	53
Medium Term Financial Strategy – Delivery Plan.....	57



# Medium Term Financial Strategy

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## Cabinet Member Foreword

I am pleased to present the Council's Medium-Term Financial Strategy.

Monmouthshire County Council has, like many local authorities, had to endure a very tough set of financial circumstances over the past 14 years, whereby our spending power has been repeatedly eroded.

The Council 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.

However, I'm pleased to say that this 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.

This financial strategy sits alongside the Council's Community and Corporate plan, Taking Monmouthshire Forward, as part of our strategic framework. It sets out, and provides the context, for our current financial position. It details the risks, opportunities and cost drivers that will influence this over the next five years.

It explains how the Council will respond to the major challenges ahead, and the principles that will be adopted in managing and using financial resources.

Our plans for Monmouthshire are ambitious. The financial strategy is key to realising this ambition. This strategy will guide financial decision-making and support work to make Monmouthshire an even stronger, fairer and more sustainable county.

This is a financial strategy for the next five years. It's underpinned by a commitment to fiscal prudence, strategic investment, and sustainable growth.

The strategy sets the direction to address a modelled revenue budget shortfall over the medium term whilst managing pressures of service delivery.

It emphasizes the importance of service change and efficiency to meet the increasing demands on council services, while also considering the long-term financing implications and risks to the authority.

The Council's capital and treasury strategies will focus on a financially sustainable core capital program, balancing the need for capital investment with policy commitments and service needs.

The strategy is complemented by a robust risk management framework that prepares the Council to respond proactively in challenging times.

Central to the strategy is the commitment to the Community and Corporate Plan's overarching priorities to reduce the impact of inequality on citizens and address climate change. The Council will continue to engage with stakeholders, ensuring transparency and accountability in financial decision-making.



# Medium Term Financial Strategy

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**Councillor Ben Callard**  
Cabinet Member for Resources



# Medium Term Financial Strategy

## Executive Summary

### Introduction

This is the first medium-term financial strategy the Council has developed. The strategy sets out a path and approach for the Council to secure a sustainable financial future. One that allows the Council to deliver its policy aims and objectives as set out in the Community and Corporate plan.

Like many other local authorities across Wales and the UK the Council is operating in a challenging and constrained environment where the scale of challenge is significant, particularly over the last two years. The outlook over the medium term looks equally challenging.

The Council's focus has been on delivery of its stated priorities whilst looking to maintain quality and delivery of services. The Community and Corporate Plan, *Taking Monmouthshire Forward*, focuses on working together for a fairer, greener, more successful county while also supporting well-being, health and dignity for all.



The plan recognises that the challenges are great. Responding to climate and nature crises. Responding to inequalities, in so far as the provision of affordable housing and the growing needs of the elderly and most vulnerable. Ensuring that nobody is left behind.

The plan recognises the financial challenges faced and the fundamental changes that will be required in how services are delivered to remain sustainable. Leading to a focus on prevention and a need to work in partnership.

Notwithstanding the challenges over the last two years the Council has achieved many successes and outcomes and has already put many of the building blocks in place to allow the Council's policy aims to be delivered.

The approach sees a continuous adaptation of services in line with the needs and demands of residents, where the Council is entrepreneurial and innovative in its approach, acting in an agile and responsive way.

### Purpose of the Financial Strategy

# Medium Term Financial Strategy

In so far as the primary aim of the Council's financial strategy is to enable the delivery of the Council's Community and Corporate Plan, more specifically it seeks to ensure that the authority has the financial capacity and capability to achieve its strategic aims. It is about the long-term financial sustainability of the organisation.

Low levels of reserves and useable capital receipts provide the Council with little buffer to financial shocks and makes the challenge of smoothing the transition that the Council's finances and operating model need to take greater than otherwise would be the case. However, the strategy builds on good foundations with good and prudent financial management, evolving from the budget framework established last autumn and that guided both in-year budget recovery and the budget process for 2024/25. The strategy looks to strengthen further the arrangements to counter the challenges upon our financial sustainability over the medium term.

A significant amount of research has been undertaken in formulating this first financial strategy for the Council. That includes review of other Welsh and English local authority medium term financial strategies and plans, the Council's own financial and budgetary arrangements, and guidance material from CIPFA, the LGA and Audit Wales.

This strategy looks to create a line of separation between the medium-term financial strategy (MTFS) and a medium-term financial plan (MTFP), with the former there to inform the latter. Notwithstanding that the MTFS draws on the most up to date MTFP modelling available.

It provides an overview of the existing financial position and a forecast outlook over the medium term, detailing the cost drivers, risks, and opportunities that may impact the future financial position.

It acts as a framework within which financial decisions are made, budgets are planned and managed, and financial resources are used to support the delivery of strategic priorities.

The strategy sets out plans for developing and managing budgets, the core principles that will guide financial decision making, and the governance arrangements that will help ensure that value for money is achieved from every pound that is spent.

The MTFP process is an integral part of the Council's financial planning framework. It closely aligns with other key aspects of the financial planning process, including the Council's Capital Strategy. It will be regularly reviewed and formally reported twice a year, with the Council's Budget Report and as a separate Budget Update Report.

The MTFP supports both the Council's annual budget process and wider medium term financial planning.

The MTFP and ongoing financial management will be guided by the principles outlined in this strategy, with a strong focus on those areas identified as being key financial risks, cost drivers or opportunities.

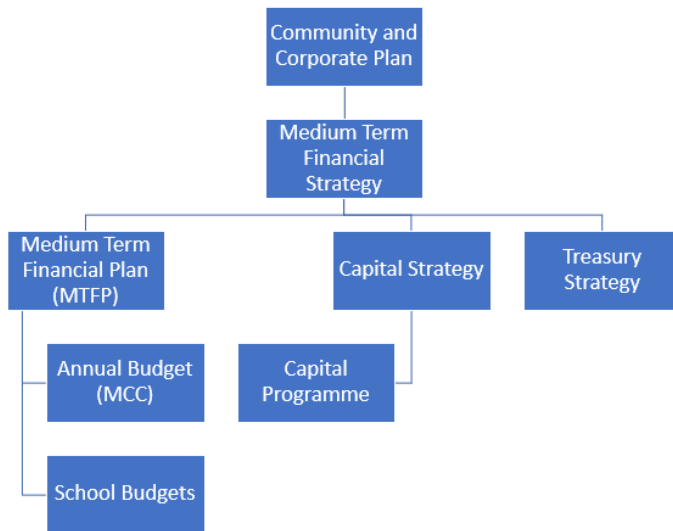
As illustrated below the financial strategy is directly informed by the Community and Corporate Plan. The financial strategy aligns with and informs the Council's capital



# Medium Term Financial Strategy

strategy and treasury strategies, as well as informing the medium-term financial plan and in turn the Council's revenue, capital and school budgets.

**Figure 1: Financial strategies and plans**



The financial strategy is one of a number of enabling strategies that will contribute to the delivery of the Community and Corporate Plan.

The enabling strategies will have complimentary activities and interdependencies. To successfully deliver the financial strategy and the Community and Corporate plan it will require the collective outcomes to be delivered from the procurement, asset management, digital and data strategy, people and customer strategies. Each contributing towards the Council being effective and efficient in its delivery of the outcomes and aims set out in the Community and Corporate Plan within the resources available to the Council.

It is therefore important that this strategy, and the associated delivery plan, is not seen in isolation but in conjunction with our full suite of enabling strategies.

## The Delivery Plan

The strategy is underpinned by a delivery plan and performance framework that includes:

- The approach to change and improvement that will allow the Council to deliver against its priorities and address the budget shortfalls over the medium term.
- A further strengthening of financial management arrangements including a full refresh and rollout of budget holder training, a formal exercise to assess the Council's arrangements against CIPFA's Financial Management Code, and an independent financial resilience review being undertaken.

# Medium Term Financial Strategy

- Six monthly update and formal reporting of the MTFP including a more sophisticated approach being taken to modelling of cost in the MTFP to determine areas of growth, demand and inflation.
- A reserves approach that allows for the Council to stabilize and then plan for a disciplined replenishment of reserves where circumstances allow.

A summary of the delivery plan is shown below and together with the performance framework is provided in full in the final section of the strategy, mapping out how the strategy will be delivered.

**Figure 2: The delivery plan (in summary)**

Change and Improvement plan to be developed and delivered
Refreshed budget holder training to be delivered across the Council
Self-assessment of compliance with CIPFA Financial Management Code
Commission independent financial resilience review
Enhance approach to modelling of cost and demand in the MTFP
Review of reserves and useable capital receipts
Financial risk register to be maintained and regularly updated
Maintain annual benchmarking and review of fees and charges
Dataset of cost drivers to be established and monitored
Balance sheet review to be undertaken
Review financial regulations and standing orders

## MTFS Budget Principles

The core aspect of the response to the financial challenge is the adoption of a clear set of financial principles that will be used across the medium term. These principles should help protect core funding sources, will allow for effective prioritisation of limited resources, will help maintain financial stability, will enable prudent management of risk, and will offer flexibility to respond to changes that may happen over the next four years.

These principles, grounded in prudent financial management and professional accountancy expertise and judgement, will guide financial decision making and underpin the approach to Medium Term Financial Planning and budget setting.

The nineteen budget principles have been carefully designed and are summarised below:



# Medium Term Financial Strategy

Figure 3: MTFS Budget Principles

Maintain robust financial management arrangements	A citizen facing budget focused on equality and climate change	A balanced budget reflecting the Community and Corporate Plan
Ensuring value for money is being delivered and in line with priority outcomes	No general recourse to reserve funding in setting budgets or as part of any in year budget recovery action	Council Fund (general reserve) maintained at a minimum of 5% of Net Revenue Expenditure
An affordable and acceptable level of council tax increase	To increase existing fees and charges at least in line with inflation	Manage any necessary reduction in the workforce through turnover rather than redundancy where possible
Optimise use of specific grant funding to legitimately offset core costs	Sustain services through strategic partnering arrangements with key stakeholders	Include informed estimates in the MTFP for inflation, demand increases, growth and investment
Maintain a budget contingency budget of no less than £1m with specific criteria for its use	To optimise the use of land and buildings and consider alternate uses or disposal where there is a clear case to do so	To be open to using capital receipts to support one-off costs associated with service reform
Capital investment to focus on supporting the Council's corporate priorities and mitigate any statutory risks	Prudential borrowing will only be used where it is affordable and sustainable to do so	Risk in delivering MTFS objectives aligned with council's overall risk appetite
	A programme for change and improvement is developed to significantly address budget shortfalls over the medium term	



# Medium Term Financial Strategy

## Navigating the Financial Strategy

The financial strategy is set out in three distinct parts and as shown below:



### Where the organisation is now

1. Analysing the Council's current financial situation, including its main sources of income, its main financial commitments, and the level of reserves that it holds.

### Where it would like to be

2. Assessing how the Council envisages its financial capacity and capability to facilitate the achievement of its strategic aims.

This provides a longer-term financial 'vision' for the Council, which is consistent with its overall strategic vision.

### How it plans to get there

3. Actions designed to take the authority from where it currently stands, from a financial viewpoint, to where it would like to be.

These actions are clear, coherent and consistent with the delivery of the authority's overall strategy, with clear timescales to allow them to be integrated into the MTFP.

# The Financial Position

## The Challenge



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# Medium Term Financial Strategy

## The Financial Position – “The Challenge”

### National Strategic Context

Over the last decade the Council has faced significant challenges, years of austerity, the implications of Brexit, and more recently the Covid-19 pandemic, wars in Ukraine and the Middle East, persistently high inflation and the national economic situation.

These challenges have created significant financial pressures, albeit partially supported by positive Welsh Government (WG) grants and settlements.

These financial impacts are felt both in terms of:

- Price and wage inflation
- High demand for high-cost services (such as social care and homelessness)
- The impact on the cost of borrowing of increased interest rates

The economy has seen a squeeze on real incomes, a rise in interest rates, and a fall in house prices. Unemployment is predicted to rise and rising prices have eroded real wages and reduced living standards. All of which is impacting on Monmouthshire communities and in turn on council services.

Weak economic growth is resulting in a less favourable outlook for public sector spending with OBR forecasts and the Chancellor’s most recent budget announcements confirming a further tightening of public finances being needed.

The outlook remains challenging.

### Local Strategic Context

#### The Council’s priorities

In May 2023 the Community and Corporate Plan was approved by Full Council. The Community and Corporate Plan, *Taking Monmouthshire Forward*, focuses on working together for a fairer, greener, more successful county while also supporting well-being, health and dignity for all.

The plan recognises how Monmouthshire communities have shown resilience to adversity in recent years, showing kindness and neighbourliness and support for each other.

It also recognises that the challenges are great. Responding to climate and nature crises. Responding to inequalities, in so far as the provision of affordable housing and the growing needs of the elderly and most vulnerable.

The plan recognises the financial challenges faced and the fundamental changes that will be required in how services are delivered to remain sustainable. Leading to a focus on prevention and a need to work in partnership.



# Medium Term Financial Strategy

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Listening to ideas and concerns and working together will allow the Council to find the best way to address the challenges faced and to adapt to the uncertainty that the future brings and the changes that will inevitably need to be made to the services that the Council delivers.

## About Monmouthshire

Monmouthshire is generally a prosperous area in comparison to neighbours. It is strategically positioned as the economic gateway to South Wales.

A historical county, Monmouthshire is one of the strongest economies in Wales, with comparatively high skills and qualification levels with good and well-regarded schools.

The Monmouthshire economy is characterised by large and successful business enterprises that thrive in the context of an entrepreneurial culture in which smaller businesses emerge and flourish, providing the supply chains that consumers and larger businesses need.

Diversity is a distinguishing feature of the Monmouthshire economy where businesses large and small find their place; with strengths in manufacturing, construction, health and social care, agriculture and food, research and consultancy, professional services, tourism and hospitality, retail and arts and cultural activity.

Monmouthshire's diverse business eco-system includes major manufacturers at the frontiers of global technology. It is networked into universities known world-wide for their research, innovation and business connections.

The employment rate is significantly higher than the rest of Wales, with those working in county earning, on average, the third highest salary in Wales.

The large rural nature of the county presents challenges for accessibility of public services, with a higher-than-average proportion of older people in the county that is forecast to increase further by 2033, with the number of under 18s forecast to decline.

Monmouthshire has the highest house prices in Wales averaging £340k, more than 9 times average earnings. It also has an increasing number of households waiting for social housing in the county.

Life expectancy is well above the average for Wales.

Monmouthshire has the highest level of income inequality in Wales. Headline figures can mask pockets of deprivation sat alongside areas of wealth.

Carbon emissions per person are significantly above the UK average as a result of the rural nature of the county with car ownership and use continuing to dominate.

The county does however benefit from a wide range of community groups and the Council has a strong and active role in regional partnerships and collaborations.

## Local financial context



# Medium Term Financial Strategy

At a local level the inflationary drivers impacting pay and supplies and services have continued to far outstrip available resources:

- Demand led pressures continue to increase in the areas of homelessness, social care, children's additional learning needs, and transport.
- The Council continues to deal with a shortage of staff resources in a small number of areas due to ongoing labour market challenges.
- Supply chain issues continue which require more costly alternative or expedited arrangements.
- The cost of living crisis continues to have a significant impact on communities and in turn demand for services.
- Interest rates have risen sharply to combat inflation.

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

In response to the scale of the recent financial and budgetary challenges, the Council's reserves and useable capital receipts have been drawn upon in the last two years to respond.

Continued use of useable capital receipts to fund one-off costs associated with service reform reduces the availability of capital receipts to support the wider capital programme.

## The Journey So Far

The Council has managed the financial pressures of the past decade well and maintained a stable financial position.

Since 2010/11, core funding from Welsh Government has increased from £99m to £126m. A 26% increase in cash terms but a 15% reduction in real terms.

Reserves (in cash terms) have been consistently lower than most Welsh local authorities and, recent use of accumulated reserves to support the budget and budget recovery action has reduced useable reserves to minimum acceptable levels. Stabilising and replenishing reserves is an important forward consideration.

Over the same period demand for services has increased across social care, homelessness and children with additional learning needs.

Schools have tended to maintain a low level of reserves and overall were in a net deficit position going into the pandemic. Significant grant funding from Welsh Government to support schools to respond to the effects of the pandemic saw school balances increase significantly into surplus in 2021/22. However, this has masked the underlying pressures and structural deficits facing schools and current forecasts see school balances again forecast to go into deficit at the end of 2024/25.



# Medium Term Financial Strategy

The need to spend more, whilst receiving less in funding, has created significant budget gaps needing to be closed. The Council has done this through changing what it does and how it does it, focusing on core service delivery and making most efficient and effective use of resources, and through investing in preventative measures that help to manage future demand on high-cost services.

The capital programme significantly sees the development of a replacement 3-19 school in Abergavenny as well as having seen the completion of the new flagship Severn View Park residential care home in Caldicot.

Overall over £77m of savings have had to be delivered from the annual revenue budget since 2010/11.

## Future Outlook

A four-year forecast for the Medium-Term Financial Plan is shown below. It highlights £34.7m more savings to be delivered over the MTFP to ensure a balanced budget is achieved. This is a base case scenario with sensitivity and risks considered subsequently.

**Figure 4: Budget shortfall over the medium term**

	2025/26	2026/27	2027/28	2028/29
Remaining budget gap	£12.2m	£7.9m	£7.3m	£7.3m
Cumulative budget gap	£12.2m	£20.1m	£27.4m	£34.7m

The financial outlook is based on a number of key assumptions and judgements over how key risks will impact. These will change over time and so will be reviewed regularly throughout the MTFS period.

## Budget Assumptions

The Authority's MTFP model is continually updated. The brought forward modelling 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.

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.

This is further supported by the work that Welsh Local Authorities produce through the Welsh Local Government Association (WLGA), that allow the assumptions that are made throughout the budget and financial planning process to be validated and challenged.

# Medium Term Financial Strategy

The budget assumptions in the current MTFP along with the basis for calculation are shown below.

Pay award (non-teaching staff)	Sustained levels of high inflation have resulted in protracted pay negotiation processes and upward pressure on pay awards. Provision was made for 4.5% pay award for 2024/25 in line with other Welsh local authorities. Assumptions from 2025/26 have been reduced to a 2.3% increase, most notably driven by OBR forecasts.
Pay award (teaching staff)	<p>Pay awards for teaching staff have similarly seen increases in recent years with a 4.4% increase reflects the central case of WLGA estimates and is calculated using assumptions for both 2023/24 and 2024/25 Academic Years.</p> <p>In line with non-teaching pay awards it is forecast that pay awards will fall to 2.3% over the medium term in line with OBR forecasts.</p>
Superannuation rates	<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.</p> <p>The Teacher's Pension Scheme (TPS) is subject to its actuarial review which will take effect from 1st April 2024. The planning assumption is that any variation in contribution rates for teaching staff will be fully funded by Welsh Government, as was the case previously.</p>
Non-pay inflation	A non-pay inflation factor of 0% has been used for modelling purposes, in favour of including evidence-based pressures being brought forward from services. This approach will be reviewed as a more sophisticated approach is taken to account for future growth, demand, demographic and inflationary pressures.
Service pressures (non-pay)	<p>Provision is initially made in 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>This provision covers anticipated growth, demand and inflationary pressures unless separately identified in the MTFP model.</p>
Borrowing costs	A full review of the revenue cost of existing and planned capital expenditure is undertaken annually as part of the update to the MTFP.
Fire Authority levy	<p>The Council is required to pay a levy and annual contribution towards the South Wales Fire and Rescue Authority.</p> <p>A planning assumption of a 5.2% increase has now been modelled over the MTFP, reflective of the expected pressure on SWFRA budgets.</p>
Insurance costs	A 5% year-on-year increase is factored in over the MTFP period to reflect the pattern of increase seen in insurance premiums and most notably with motor and property related cover.

# Medium Term Financial Strategy

Staff Vacancy Factor (non-schools)	<p>Services have been experiencing a challenging labour market in the post-Covid period with a shortage of available staff leading to pressure on existing staff structures, and increased costs for commissioned services and agency staff.</p> <p>The vacancy factor is currently set at 3% over the MTFP period but will be reviewed to ensure it reflects staff turnover and vacancy data.</p>
Fees and charges	<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.</p>
Welsh Government Settlement (AEF)	<p>The assumptions for core funding received from Welsh Government are modelled over the medium term based on the latest projections produced by the Wales Fiscal Analysis team in Cardiff University and which themselves draw on latest UK Treasury forecasts.</p> <p>0.7% cash increases in core funding have been modelled over the MTFP period at this time. These will be regularly monitored and updated by way of formal updates to the MTFP.</p> <p>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>The lack of rolling multi-year settlements from Welsh Government introduces uncertainty and impacts on accurate financial planning over the medium-term.</p>
Council Tax	<p>Council tax increases in the MTFP are solely for modelling purposes. Council tax is set annually each year as part of the budget process and is approved by full Council. In proposing any final level of increase 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 modelling assumption across the MTFP at this stage is 3.95% and is reflective of the pressures being seen on Council services, balanced alongside the expected funding from other income streams for the Council.</p>

## Scenario and Sensitivity Analysis

### Scenarios Considered

In testing the MTFP for plausible alternative scenarios, a total of five alternative scenarios are modelled. The scenarios reflect reasonable outcomes and look to avoid applying extreme variables that reflect unlikely collective outcomes. This follows CIPFA FM code recommendations to avoid the use of 'best' and 'worst' case as the only considered options.



# Medium Term Financial Strategy

Demand is modelled in line with historic experience in line with low, mid and high cases. These look to recognise that whilst external economic circumstances may influence demand, there is also the possibility for demand to be impacted significantly by local context.

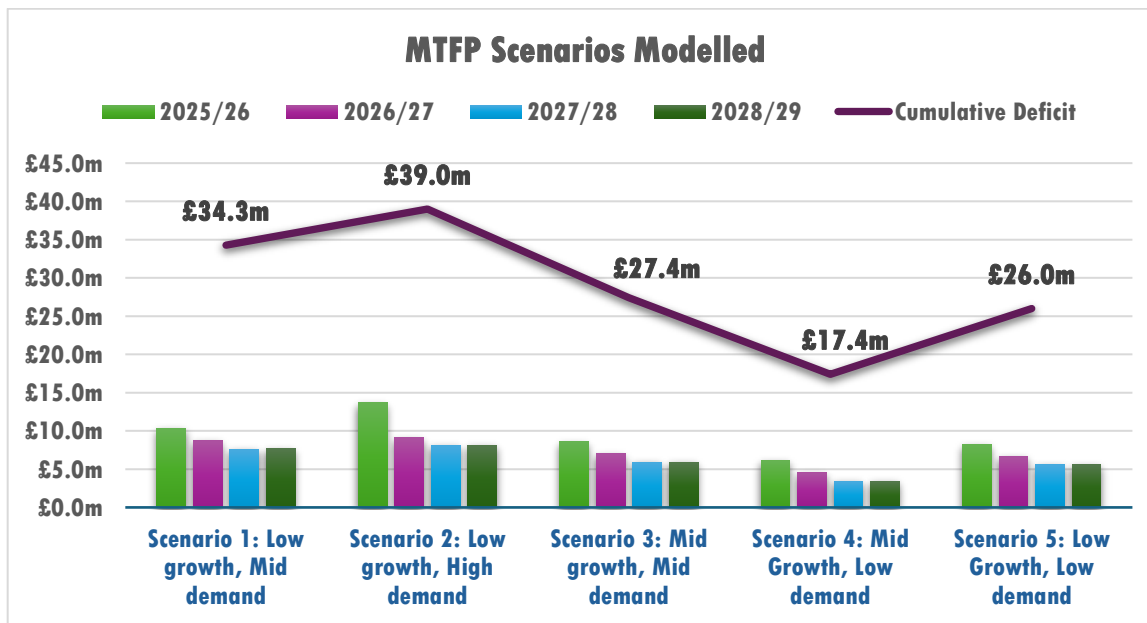
The wider economic context including pay levels, inflation, interest rates and funding levels are modelled in line with independent analysis.

The most extreme scenarios for the Council would be low economic growth/recession coupled with high inflation/demand as experienced during the 2022/23 and 2023/24 financial years. This reflects more prolonged inflationary cost pressure combined with a recession (or weak economic growth) that potentially has an adverse impact upon funding levels and increases demand for Council services.

By comparison, a "High growth and low demand/inflation" scenario would represent the other extreme and assumes that a stronger economy may allow higher funding settlements, coupled with low inflation, and low demand for Council services as household incomes increase.

The table below summarises the various scenarios that have most recently been modelled as part of the ongoing MTFP update:

Figure 5: MTFP modelling scenarios



- The scenarios are shown in order of probability of developing based on current external advice and historic experience. Scenario 1 is considered the most likely scenario at the current time and broadly follows the circumstances being experienced at the current time. Scenario 5 being the least likely scenario.
- The average budget gap across all scenarios was £28.8m

# Medium Term Financial Strategy

- Whilst it is anticipated that scenario's 4 and 5 have a lower probability of occurring, these are not completely implausible.
- Scenario 4 reflects a combination of faster than expected economic growth resulting in higher funding settlements, coupled with lower demand as post pandemic pressures ease.
- Scenario 5 reflects a combination of continued low economic growth that results in flatline funding settlements, coupled with lower demand. This is considered the least likely scenario given the impact that continued low economic growth would continue to have on households, and consequently the increased demand for Council services.

## Sensitivity Analysis

The scenarios above have examined the relationship between key variables within the financial modelling. The table below summarises the impact of a 1% change in key areas.

It demonstrates that whilst a key area of sensitivity for the Council is funding settlements (AEF), with each 1% of AEF equivalent to £1.26m, this can easily be more than outweighed by changes in the Council's cost drivers. Whilst this circumstance isn't unique to Monmouthshire, it is significantly more acute given the Monmouthshire's greater reliance upon Council tax income as a proportion of funding, and lesser reliance upon AEF.

**Figure 6: Effect of 1% change on MTFP of modelling assumptions**

Assumption	£000's
WG core funding (AEF)	1,260
Teachers Pay Award	385
NJC (non-teaching) Pay Award	1,026
Non-pay inflation	1,601

## Risk Analysis

The council's strategic risk management policy and guidance helps ensure strategic risks are identified and assessed robustly, risk controls are put in place that are appropriate and proportionate, and risks are supported by effective mitigations to ensure, as far as possible, risk reduction/risk management.

There will be occasions in delivering the financial strategy that Council may be willing to accept a degree of risk in order for a benefit to be gained, for example when introducing new opportunities or adopting innovative approaches. Where circumstances involve exposure to risks, they will be assessed in line with the Council's risk appetite statement.

The Council maintains a register of all significant risks that bear down on the Council's finances. The register is maintained and reported as part of updates to the medium-term financial plan. Mitigating action is factored into budgetary planning and where possible. High and medium level strategic financial risks are also escalated to the strategic risk register. The following are seen as the key financial risks facing the Council at this time:



# Medium Term Financial Strategy

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## Funding

- Local Government settlements – risk of these being worse than predicted, as well as uncertainty resulting from lack of rolling multi-year settlements.
- Risk of specific grant reductions, in particular where grants support core activity.
- Adequacy of specific grant funding over the medium term where the detail of associated Welsh Government initiatives is still emerging.
- The impact of Welsh Government’s intended reform of council tax in Wales will need to be kept under review in terms of its impact, albeit the delay in implementation until 2028.

## Economic

- Inflation - cost and pay award pressures
- Interest Rates - increases resulting from tackling inflation could impact the cost of borrowing and impact the affordability of the capital programme
- Economic Growth – weak growth / recession may restrict growth in public spending resulting in reduced Local Government Settlements.

## Demand

- Difficulty in modelling complexity of demand, including in Adult and Children’s Services and Additional Learning Needs

## Financial resilience

- Medium term savings requirements at significant levels – scope for significant savings has been eroded over time leading to the need for radical changes in the way and to the extent services can be delivered
- Delivery of budget saving proposals – whilst the Council has a good track record for delivering savings any non-delivery directly impacts on the MTFP and instigates the need for budget recovery action
- The shape of the Council’s budget – with just under 67% now accounted for by Social Services and Schools.
- Minimum acceptable level of reserves and limited useable capital receipts inhibit their ability to be used to support the budget other than to support change and service reform.
- The cost-of-living crisis impacting communities has a significant impact on household disposable incomes and consequently on service demand, income generating services and debt recovery more generally



# Medium Term Financial Strategy

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- Significant and increasing capital maintenance backlogs present an increasing risk of asset failure

## **Other**

- Levels of senior pay are not competitive leading to both risks of retention and recruitment of senior talent needed
- Pressure on the Council's pay spine due to the erosion of pay differential particularly at the bottom end of the spine.
- The capacity to deliver further service change at scale at a time when demand for services is high and capacity is under strain



# The Financial Strategy

The Response



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# Medium Term Financial Strategy

## The Financial Strategy – “The Response”

### Understanding the current financial position

The first step in responding to the challenge is to understand the current financial position, both in terms of spend and sources of income.

The Council has Revenue budgets for day-to-day spending and income, Capital budgets for large scale investment and asset purchases, and delegated funding for Schools.

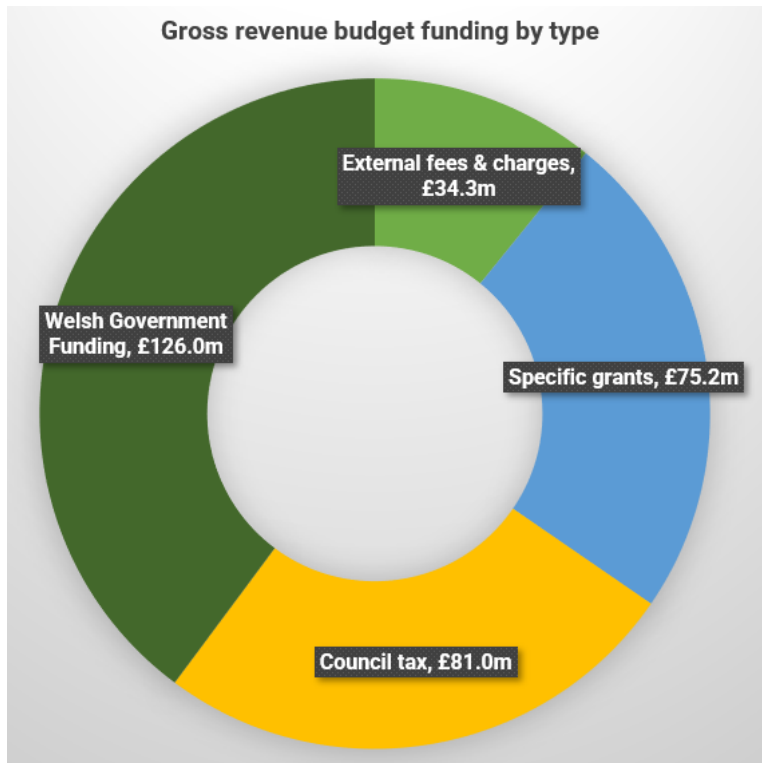
On the Balance Sheet financial reserves are held that are earmarked to fund specified activities in future and general reserves that provide a contingency against future risks or unforeseen events.

These reserves are crucial to maintaining financial stability and in affording protection against future financial risks or economic shocks.

### The revenue budget

The Council’s annual revenue budget is funded by Government grants, Council Tax, Business Rates and fees and charges.

Figure 7: Gross revenue budget funding by type



The core grant from Welsh Government (WG), that comprises revenue support grant and a redistribution of business rates from WG’s non-domestic rates pool, has increased in

# Medium Term Financial Strategy

cash terms from £99m in 2010/11 to £126m in 2024/25. Whilst representing a 26% increase in cash terms, in real terms and after adjusting for inflation this represents a 15% reduction.

Council Tax is determined by the size of the tax base (that represents the number of council tax payers in the county), the anticipated collection rate, and the level the tax is set at.

The revenue budget is used to deliver activities across a wide range of service areas, to meet statutory requirements and to fulfil local political commitments, as well as the resources required to operate effectively.

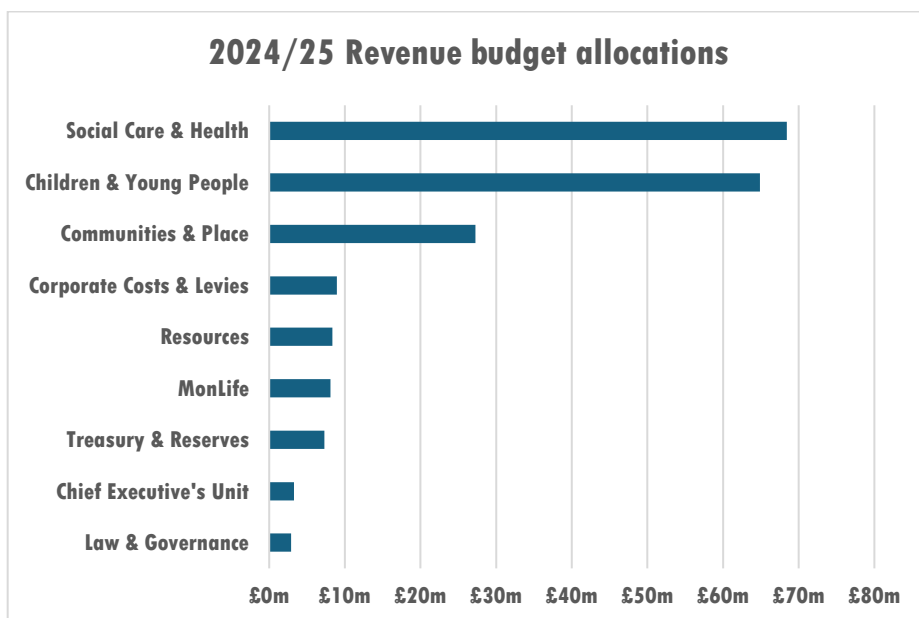
Just under 67% of the revenue budget is spent on social services and education. Furthermore, other areas of the budget are fixed, for example capital financing costs, or essential in ensuring the Council is well run.

A small percentage increase in demand for support in these service areas can therefore have a disproportionately large impact on the overall remaining service budgets.

This has resulted in budget growth in these service areas in recent years and this trend continues moving forward.

The illustration below shows the relative size of the budget broken down across the main service blocks of the Council's budget for 2024/25.

Figure 8: 2024/25 Revenue Budget breakdown



## School budgets

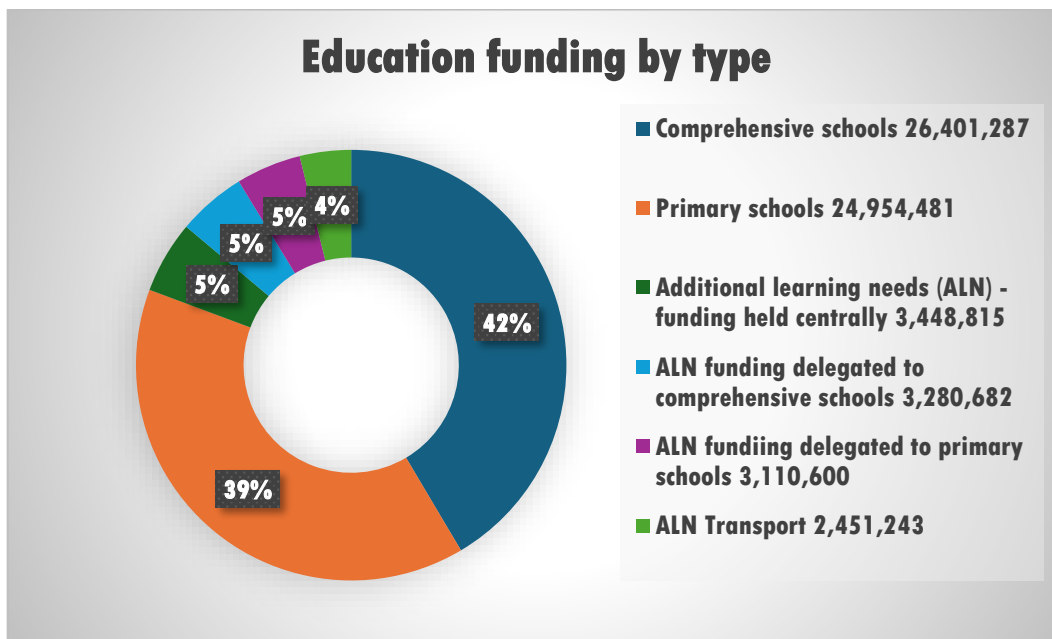
# Medium Term Financial Strategy

A Board of Governors who are responsible for managing the school's finances directly governs each of the Authority's Schools. However, the Authority also holds a key responsibility for monitoring the overall financial performance of schools.

The increasing average age of the population in Monmouthshire is resulting in comparatively lower pupil numbers when taken on an all-Wales basis. This has a consequential negative impact upon the Councils funding, which, when set alongside increasing demand for additional learning needs support, has placed pressure upon schools budgets.

The core budgets for schools and education are illustrated below and highlight the costs involved in supporting pupils, including those with additional learning needs.

Figure 9: Education budgets 2024/25



The balance on the Council Fund as at 31st March 2023 included £4.26m in respect of underspent (or overspent) budgets which have been delegated to schools. These balances are at the disposal of the respective schools and represent an earmarked reserve which is not available for the Authority to use generally.

The 2023/24 budget outturn has demonstrated a significant adverse variance and call on these 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.

There is a fluctuating trend in school balances with some schools showing a continued reduction in their balances which is of concern.

Grants awarded to schools to manage the impact of the pandemic on education resulted in a large increase in overall school balances, which has somewhat masked inherent structural budget deficits across some schools.

# Medium Term Financial Strategy

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. Higher than budgeted pay awards have also impacted upon budgets.

All schools that do register a deficit balance at the end of a financial year are required to bring forward budget recovery plans. These recovery plans will be confirmed with both the Local Education Authority and each School's Governing Body. Once finalised the schools with significant deficits will be monitored by the Cabinet member for both Children and Young People and Resources on a termly basis.

## Capital strategy

The Capital Strategy is a document that 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.

The Authority's capital plans are linked with its treasury management activities, which involve borrowing and financing costs for the debt-funded capital expenditure.

The Authority 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.

The Authority also allocates yearly investment for property and highways maintenance, and uses estate rationalisation, asset disposal and transfers, and other capital projects to reduce the backlog of maintenance issues.

## The capital budget

The Council has a capital programme of £35m for 2024/25. Subsequent to the new 3-19 King Henry VIII school being completed the core capital programme reduces over the medium term.

Figure 10: MTFP capital expenditure profile

	2024/25 £'000	Indicative 2025/26 £'000	Indicative 2026/27 £'000	Indicative 2027/28 £'000
Capital Programme	35,242	15,507	11,355	11,355

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



# Medium Term Financial Strategy

facing the Council. This will continue to have varying levels of risk associated with it and will have to be managed and mitigated.

The main sources of capital funding are capital receipts (from selling assets), capital grants (significantly from Welsh Government), developer contributions (s106), and external borrowing.

Resources available over the next four years to fund the capital programme are shown in the table below:

**Figure 11: MTFP capital financing profile**

Funding	£'000	£'000	£'000	£'000
Supported Borrowing	(2,436)	(2,436)	(2,436)	(2,436)
Unsupported Borrowing	(10,554)	(4,285)	(3,847)	(3,847)
Grants & Contributions	(16,352)	(6,216)	(2,502)	(2,502)
Reserve Funded	(253)	(103)	(103)	(103)
Capital Receipts	(4,148)	(968)	(968)	(968)
Vehicle Lease Financing	(1,500)	(1,500)	(1,500)	(1,500)
<b>Total Funding</b>	<b>(35,242)</b>	<b>(15,507)</b>	<b>(11,355)</b>	<b>(11,355)</b>

The cost of borrowing is funded by the revenue budget and comprises two main elements. The interest charged by the lender and minimum revenue provision (MRP) payments required under Local Authority accounting regulations.

MRP is a charge made annually to the revenue account to put aside monies for the repayment of loan principal to lenders. In other words, the repayment of the principal amount is funded by the revenue budget over the length of the loan rather than in one large payment in one year only. This helps smooth the impact of funding capital investment and avoids large scale year on year changes in the revenue budget.

Budgets are held of £6.08m for net interest payable and £6.21m for MRP. The average interest cost on long term borrowing is 3.20% and on overall borrowing 3.47%. Any increase in the capital programme needs to be considered in light of the revenue budget impact of financing the additional investment, and how market conditions may change the costs associated with external borrowing.

The current estimate of the Councils cost of borrowing compared to the overall revenue budget is shown below. This indicates that borrowing costs remain broadly stable over the medium term based on the current profile of capital expenditure and the anticipated further use of borrowing.

**Figure 12: - Proportion of capital financing costs to the overall net revenue budget**

	2024/25 Estimate £m's	2025/26 Estimate £m's	2026/27 Estimate £m's	2027/28 Estimate £m's
Net Interest payable	6.1	6.9	7.1	7.1
MRP	6.2	6.7	7.0	6.7
<b>Total Financing costs</b>	<b>12.3</b>	<b>13.6</b>	<b>14.1</b>	<b>13.8</b>

# Medium Term Financial Strategy

Net Revenue Stream	199.3	204.0	208.9	214.0
<b>Proportion of net revenue stream %</b>	<b>6.2%</b>	<b>6.6%</b>	<b>6.7%</b>	<b>6.4%</b>

## Useable reserves

The Council holds various types of reserve funding either to fund future specified commitments (Earmarked Reserves) or to provide a contingency against future financial risks and economic shocks (the Council Fund).

When combined with the Capital receipts reserve and Schools reserves, these form the useable reserve balances available to the Council.

Useable reserves provide an important mitigation against risk in uncertain times and maintaining general reserves at an appropriate level is a fundamental requirement for good financial management.

The Council's useable reserves have been depleted as a consequence of the reserve cover needed to both support budget proposals and resultant budget recovery action in 2022/23 and 2023/24. This follows a period through the pandemic where reserves were restored as a result of significant Welsh Government funding.

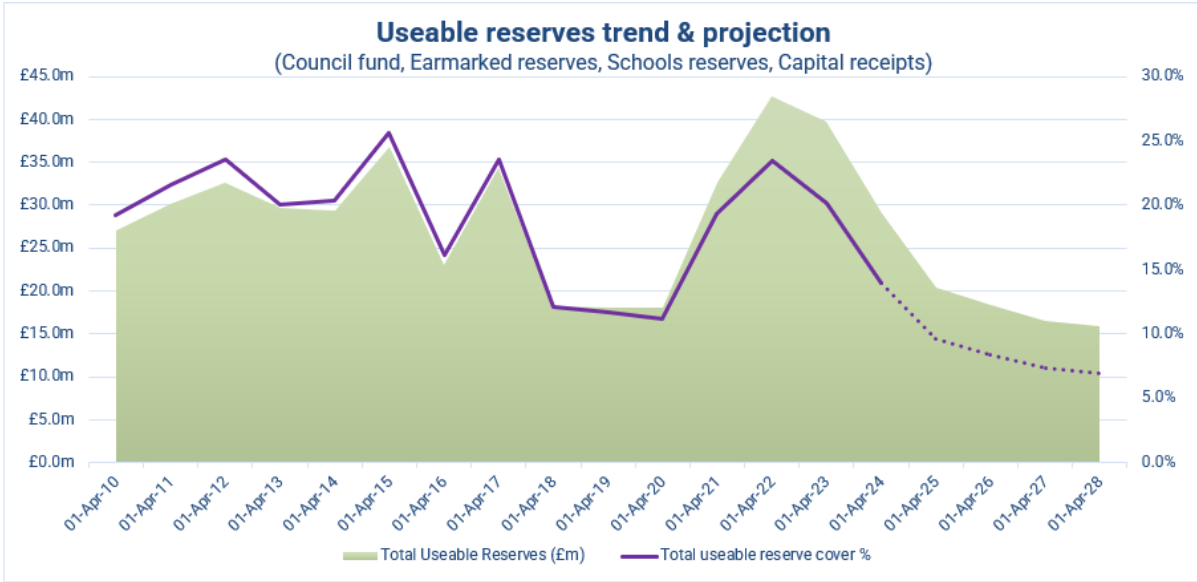
The decisions taken to draw on reserves had been carefully considered as the consequence of not doing so would have led to very significant and immediate consequences for service delivery. Ultimately a balance had to be struck and given the extent of the inflationary and demand pressures faced as a result of the Cost of Living and Health crises.

The depletion of useable reserves has been further exacerbated by the significant draw on Schools balances during 2023/24 of £5.16m, taking cumulative school balances into deficit by £0.9m.

**Figure 13: Useable reserves trend and projection**



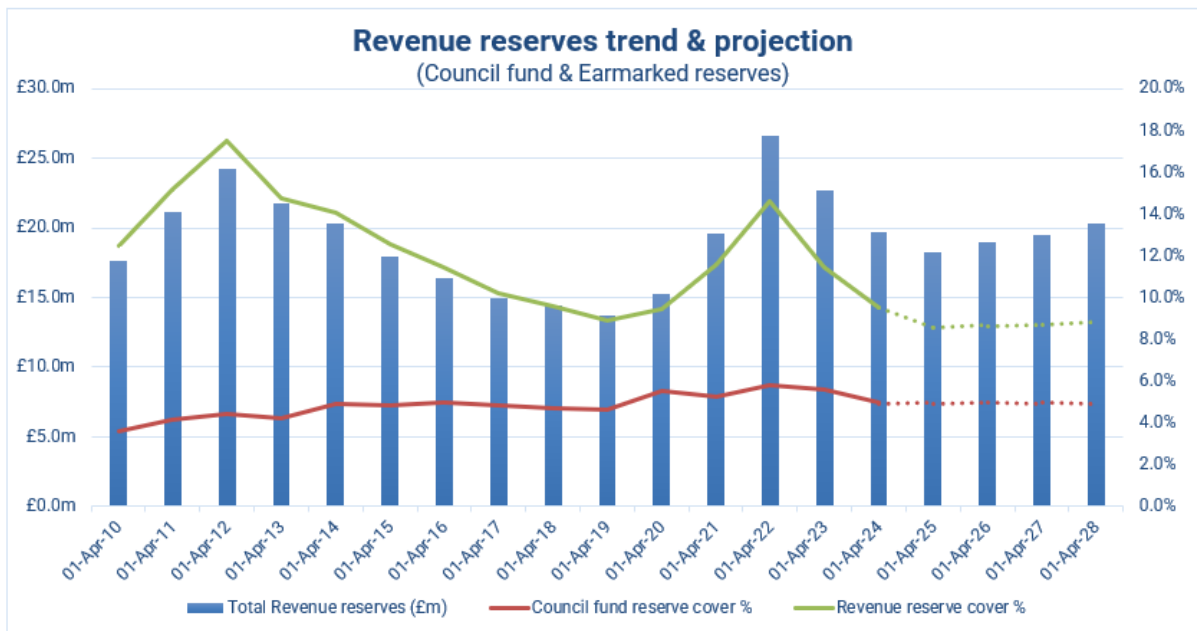
# Medium Term Financial Strategy



## Council fund and Earmarked reserves (Revenue reserves)

The level of the Council Fund reserve stood at £11.1m at the start of 2023/24, excluding delegated school balances. The budget for 2023/24, as updated for the in-year budget recovery action needed, included a £1.13m call on the Council Fund reserve. The final budget outturn position reduced this call to £0.716m, leaving a balance as at 31<sup>st</sup> March 2024 of £10.39m.

Figure 14: Revenue reserves trend and projection



The level of the Council Fund remains in the advised range of 4-6%, at 5% of net revenue budget and is considered to be at a prudent level. This is considered to be sufficient to

# Medium Term Financial Strategy

manage unavoidable financial risks, but overall useable reserves are very low compared to other Welsh local authorities.

Earmarked reserve use is only planned to meet one-off costs and in line with a specific reserve's intended purpose and use. As a result of the reserve use to support revenue and capital budgets, earmarked reserves as at 31st March 2024 totalled £9.36m. When excluding balances relating to specific service provision or partnerships, this reduces to £6.26m.

This means we have less capacity to absorb unforeseen costs or to mitigate an increase in financial risk compared to those Councils with greater levels of reserves. As a result our risk appetite for financial decisions is likely to be lower, given we need a greater level of certainty that our budget plans can be delivered as expected.

Being able to maintain a steady level of reserves indicates that the Council is managing financial risk well, anticipating and managing financial pressures within its overall budgets.

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.

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.

The reserves policy will now 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. Improved budget management and discipline going forward will need to ensure that in-year over spends are quickly identified and to the extent they cannot be mitigated for in-year savings to be found.

## Useable capital receipts

Useable capital receipts also provide a limited one-off resource to support financing of the capital programme. In recent years the Council has made use of Welsh Government's guidance allowing flexible use of capital receipts to meet one-off costs associated with service reform. The Council has made use of this flexibility since 2019/20.

Useable capital receipts are forecast to reduce to £4.97m by the end of 2027/28 based on the capital MTFP. The continued use of capital receipts for this purpose is recognised as a necessary approach to support the Council to transition itself on to a more sustainable financial footing. However, this is not a sustainable approach in itself and has the added consequence of requiring the Council to fund any further and future capital investment through prudential borrowing where it cannot be met from other sources.

## Income from fees and charges

Reducing cost and managing activities will help manage financial pressures, but maintaining or even increasing income to the Council can help balance the budget gap





# Medium Term Financial Strategy

too. Close attention will be paid to income sources as part of the response to the challenge and income generation will be proactively sought as part of long-term financial planning.

£34m is generated in income from a number of different service areas through fees and charges and in making assets available. Some fees and charges are statutory charges and are either set externally or based on statutory guidance, whilst others are discretionary and subject to local decision making only. The income generated through fees and charges is included in the revenue budget where it is used to help offset the costs of services.

The Council increases most fees and charges in line with inflation each year. Where a service is provided on a discretionary basis the aim will generally be for the cost of delivering the service to be covered by the income generated by fees and charges. This helps protect statutory service areas by reducing the need to subsidise non-statutory services from the Council's overall revenue budget.

A subsidisation or concession scheme may also be offered if by doing so it tackles one or more corporate plan priorities.

Part of the strategy for meeting the financial challenge of the next few years is to manage income and any risks to the level of income that can be generated. In the same way cost pressures are managed. Inflationary increases to fees and charges will continue to be applied to ensure income generation keeps pace with increases in the costs of delivering the service. An annual review of all fees and charges will be undertaken and to identify opportunities for change or amendments to concession policies.

Income is reported as part of financial reporting and monitoring, and any changes in activity that may impact the level of income generated will be monitored alongside the financial impact to help inform decisions about how to manage charges for services going forward.

An annual review of fees and charges will be undertaken as part of developing an annual MTFP, and any changes that are proposed in addition to inflationary changes will be presented to Council for decision as part of the annual budget process.

Charging for discretionary services enables us to prioritise core funding to support those who most need help and means a wide range of services can be offered that otherwise would simply be unaffordable if offered free at the point of delivery.

These services are not only valued by Monmouthshire residents but can help contribute towards meeting the Council's objectives through influencing behaviours and habits of those who live and work in the borough.

It is recognised that charges need to be proportionate and fair, but also that they are a part of the solution to protecting vital frontline services whilst meeting the financial challenge.

## Income from Council Tax

Just under 38% of the revenue budget funding for 2024/25 is generated from Council Tax receipts. The level of income from Council Tax is determined by the number and type of

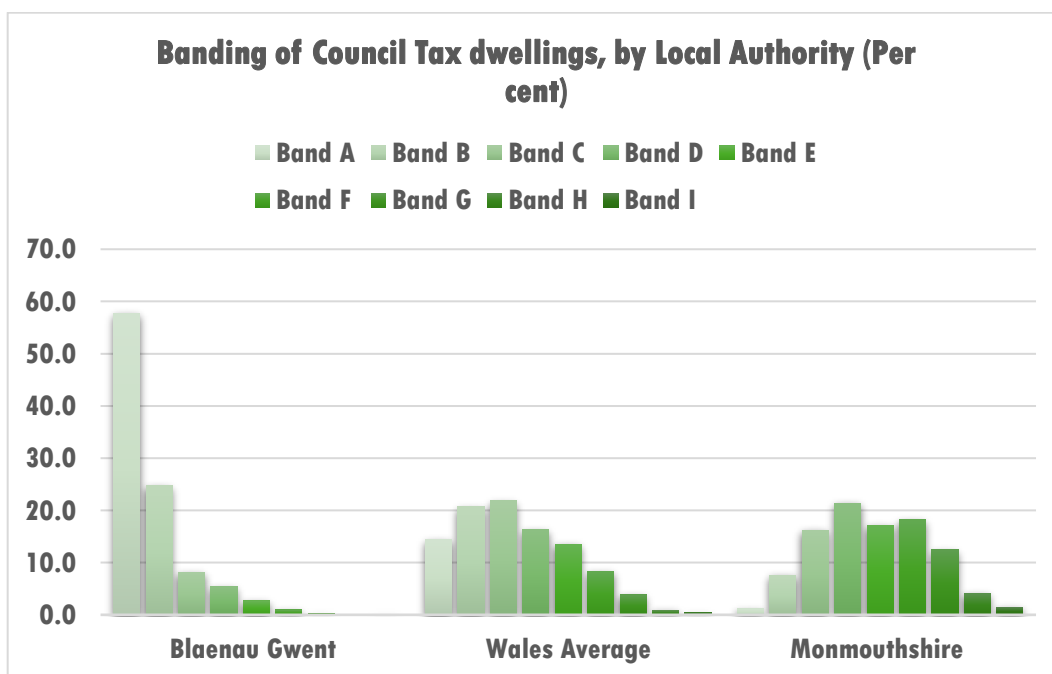


# Medium Term Financial Strategy

properties for which Council Tax is due (the 'taxbase'), the level the tax is set at, the success at collecting tax due (the 'collection rate') and the level of take up of the Council Tax Reduction Scheme.

The illustration below shows the distribution of properties by band compared with the Welsh average. Monmouthshire has a greater proportion of higher banded properties than the Welsh average. Blaenau Gwent is shown as a Council who has a greater proportion of properties that are in lower bands. It is for this reason that Monmouthshire generates a higher proportion of its funding from council tax compared to other Welsh local authorities.

Figure 15: Average Band D Council Tax across Wales



This gives the Council some degree of control over how much income is generated. Given the heavy reliance on Council Tax as the major funding source, management of this income will be an important part of the response strategy.

The current MTFP assumes a 3.95% council tax increase for each year (for modelling purposes only) and a 99% collection rate, and together with the taxbase will undergo ongoing review.

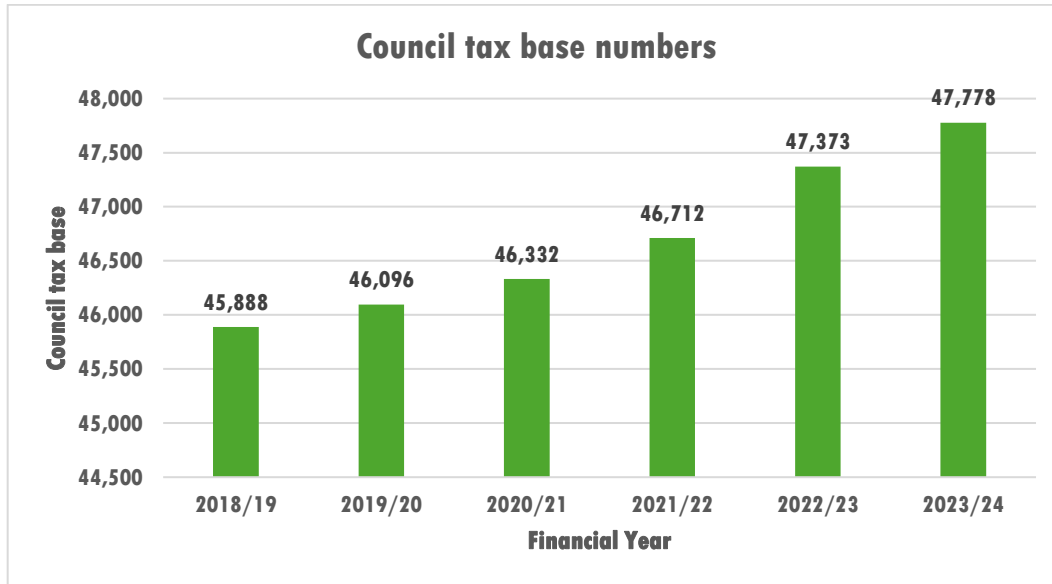
Actions will be taken to protect, and grow, the taxbase to ensure a sustainable long-term source of income is in place for the future. This will mean facilitating the development of a mixture of housing options across Monmouthshire, both to support residents to access high quality affordable homes, and to ensure a sustainable taxbase is in place to pay for services in future.

The taxbase has grown by 4.1% since 2018/19 as shown below. The means of factoring anticipated future growth into the medium-term financial plan will be explored and

# Medium Term Financial Strategy

beyond the annual budget setting cycle. If further growth can be created over and above this, an increase in future funding will be seen that helps close the budget gap in future.

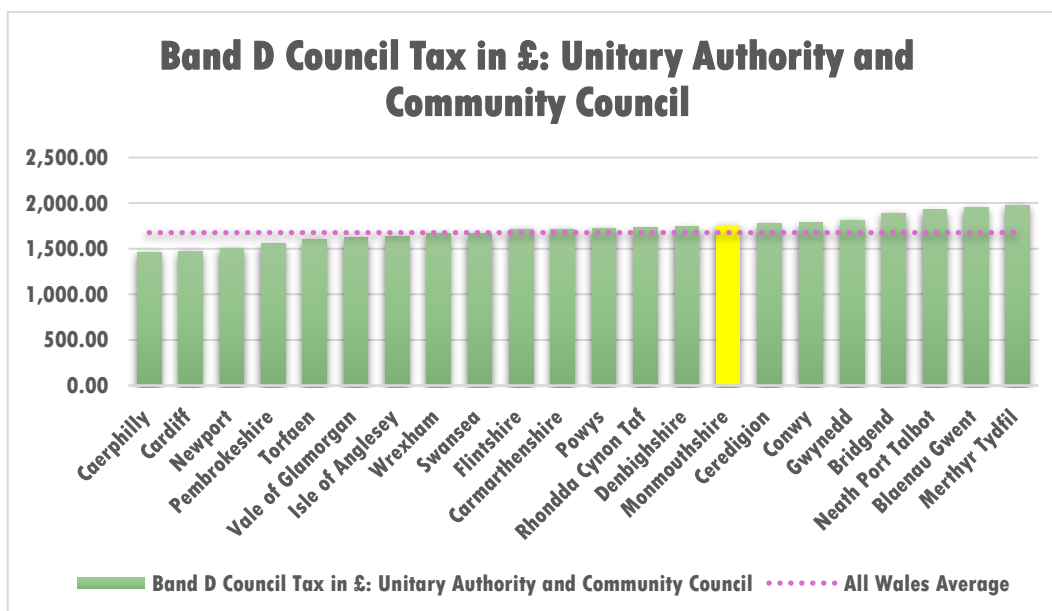
Figure 16: Council tax base trend over recent years



There is local discretion to increase the level of the tax annually, save for consideration of any restrictions that are set out as part of Local Government funding settlements. Increasing Council Tax is not an easy decision to take - careful consideration will always be given to how the financial impact of higher bills for taxpayers is balanced against the need to provide statutory services to all.

The table below shows that the average band D Council Tax in Monmouthshire is slightly ahead of the Welsh average.

Figure 17: Average Band D Council Tax across Wales

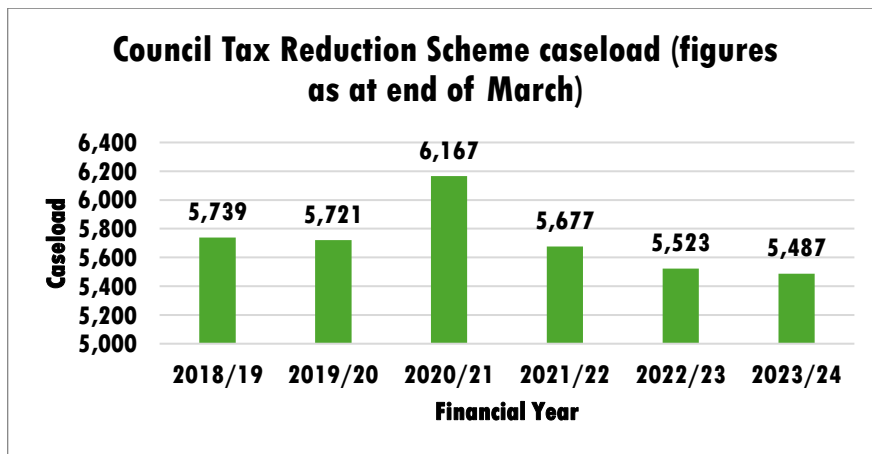


# Medium Term Financial Strategy

The Council is very successful at maintaining high levels of collection for Council Tax. It is believed that this is due to the collaborative approach taken to working together with residents to enable people to manage their personal finances, offering support and advice to those who are struggling and using wider assistance to help those in need to avoid getting into longer term debt. Effective and empathetic debt collection will continue to be used as part of the financial strategy.

The Council Tax Reduction Scheme (CTRS) offers discounts and exemptions on Council Tax for some residents. Single person households are also eligible for a 25% reduction on council tax. This helps support those who may otherwise struggle to manage the financial burden and allows us to tailor the approach to local taxation to meet local needs.

Figure 18: CTRS caseload and trend since 2018/19

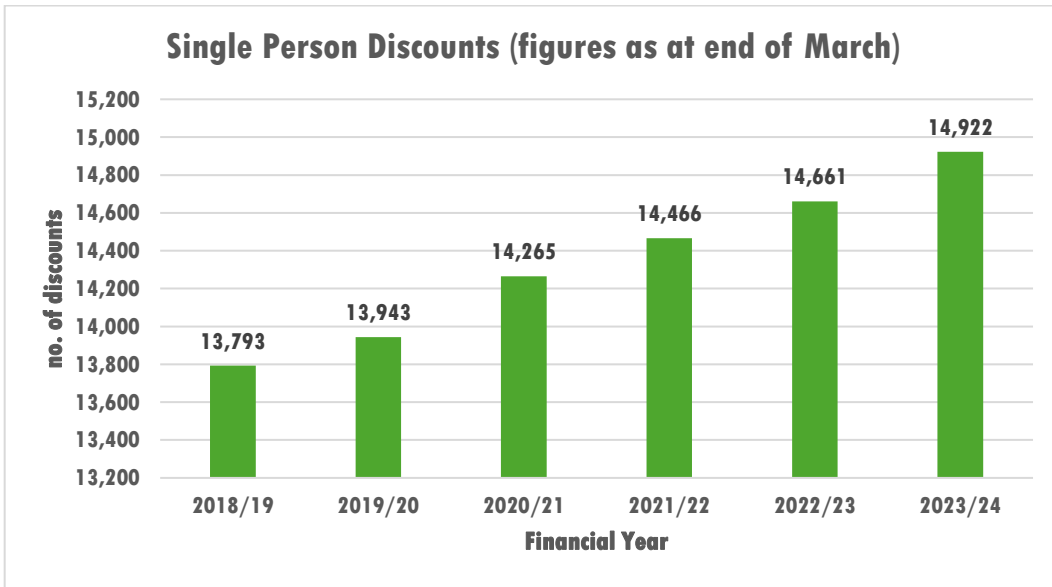


There are currently 5,506 (12.8%) of council taxpayers benefitting from the council tax reduction scheme, and 14,891 (34.7%) in receipt of single person discount. The table above illustrates the change in the number of council tax payers benefitting from the CTRS, with a significant increase seen during the first year of the pandemic in particular.

The table below shows the increasing trend since 2018/19 of the number of households claiming single person discount. Work will continue to be undertaken to review eligibility of those claiming the discount.

Figure 19: Council tax payers claiming single person discount

# Medium Term Financial Strategy



As part of the response a CTRS will be maintained that continues to support residents and if changes to the scheme are proposed in future, the Council will receive details of all financial implications arising from the proposals.

## Cost drivers and long-term projections

The next step in responding to the challenge, is to understand better what factors determine spending requirements - in other words, what causes us to change the level of spending?

A detailed knowledge and understanding of what drives spending will continue to be developed and how changes in these factors may impact spending in future.

A focus will be maintained on those areas of the budget that are most volatile, demand led or most at risk, and identify key factors, or 'Cost Drivers', for these budgets to monitor and use as an evidence base to inform future financial planning.

In simple terms, a cost driver triggers a change in the cost of an activity or service. Examples include the number of vulnerable adults supported in care home placements, the number of children looked after by the Council or the number of people in emergency or temporary accommodation as a result of homelessness.

As part of the response, a baseline data set of cost drivers will be created that is monitored and tracked alongside financial data over the medium term. This will help us better understand how cost drivers impact spending and better use activity data to drive more accurate financial forecasting to give early insight into growing risks or pressures.

Through better managing the key cost drivers future spending will be better controlled and managed. Interventions or preventative activities will be designed that impact on these cost drivers, helping to avoid increasing demand for support and cost increases in future.

# Medium Term Financial Strategy

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By influencing how cost drivers increase in future, the resulting costs that will need to be funded can be influenced, helping to mitigate future budget pressure.

## A programme of change and improvement

Change and improvement of services will be a key part of the strategy in responding to the financial challenge. The Council's operating model will have to radically change and services will have to adapt to remain affordable and sustainable.

The core purpose of such a plan is to bring a coherent, joined-up approach to this change, aligning the council's priorities with the delivery of financial targets and savings. The focus of the plan will ultimately be to deliver financial, efficiency and customer/resident benefits.

The Council will develop a refreshed programme of Change and Improvement for 2024-2028, which will be the overall framework for delivering major change programmes that both enables delivery of the priorities of the community and corporate plan and secures the Council's financial sustainability over the medium term.

The programme of change will be assessed in line with the Council's risk appetite. This will assess if programmes are within the amount and type of risk that the council is willing to take in order to meet its strategic objectives.

**Figure 20: An approach to change and improvement**



# Medium Term Financial Strategy



The programme of change will need to be informed by a thorough analysis of evidence and data.

Whilst not an exhaustive list the following are areas that would most likely feature in a plan and programme of work:

- The role that commissioning of services, in-sourcing, outsourcing, collaboration, partnership has to play.
- The role of AI, automation and data analytics, alongside wider process and service redesign, in reshaping services and the way the Council interacts with 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.
- Quantity and quality – taking informed decisions around where this can be safely affected
- Identifying scope for further income generation

# Medium Term Financial Strategy

- A sustained focus on productivity
- 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

## Collaboration and commissioning

The Council has a good track record of working in partnership and in collaboration with other public sector, third sector organisations and communities, making evidence-based decisions about the services provided and how they are provided.

The Council is not unique in the financial challenges it faces. These challenges are faced by public sector and third sector partners alike. The future is likely to see a ‘mixed Economy’ of service delivery models that includes in-house delivery, partnerships, shared services and outsourcing.

The Council will need to take careful and considered thought about the optimal means of delivering services in the future, and to explore arrangements that allow the Council to in-build greater resilience and sustainability for services whilst delivering savings and good outcomes.

## MTFS Principles

The final strand of the response to the financial challenge is to adopt a clear set of financial principles that will be used across the medium term. These principles should help protect core funding sources, will allow for effective prioritisation of limited resources, will help maintain financial stability, will enable prudent management of risk, and will offer flexibility to respond to changes that may happen over the next four years.

These principles, grounded in prudent financial management and professional accountancy expertise and judgement, will guide financial decision making and underpin the approach to Medium Term Financial Planning and budget setting.

**Figure 21: Medium Term Financial Strategy Principles**

<b>MTFS 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.
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.





# Medium Term Financial Strategy

## MTFS Budget Principles

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.

# Medium Term Financial Strategy

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# The Framework for the Future

## The Delivery



monmouthshire  
sir fynwy



# Medium Term Financial Strategy

## The Framework for the Future – “The Delivery”

### “The Delivery” – in summary

The MTFS will provide the overarching strategic framework within which annual financial plans are produced and managed, and if delivered successfully, it should enable the Council to direct financial resources towards successful realisation of Monmouthshire’s Community and Corporate Plan.

Delivery of the MTFS will be guided by the governance, roles and responsibilities, and processes for updating and reporting the strategy going forwards.

Delivery of the MTFS will also be underpinned by sound financial management, and a series of targeted reviews that look to identify areas that require further focus or strengthening.

The MTFS will be accompanied by a delivery plan, allowing for oversight to be maintained on the discrete actions that allows for the strategy to be successfully delivered.

### Sound Financial Management

The response to the challenge needs to be grounded in sound financial management of day-to-day budgets, alongside delivery of large change activities and savings programmes.

Sound Financial Management helps us deliver high quality services to Monmouthshire residents that are value for money and effective at making a difference.

Council officers and management are expected to consider the financial impact their day-to-day decisions have on public funds and to integrate financial considerations into all formal decision-making processes.

Effective financial management will help to identify what service changes could be made to reduce costs, and enable efficiencies to be delivered that realise savings, both of which will be needed given the scale of the challenge faced.

Every budget manager will be offered training and support to effectively fulfil their financial management responsibilities and understand the impact their decisions have on the financial position of the Council and its key stakeholders.

Managers will be held to account for financial performance against budget targets and will report publicly progress in delivering the budget.

The Strategic Leadership Team and Cabinet reviews financial performance reports throughout the year, using the information from budget managers to identify opportunities for making service efficiencies and risks that may need management action to mitigate. This regular review helps us prioritise financial resources to corporate priorities and be responsive to changes in the financial outlook.



# Medium Term Financial Strategy

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Financial implications will be considered before taking any policy decisions and detailed commentary will be provided on the financial aspects of decisions in all Committee reports. Similarly, decisions taken by officers under delegation from Councillors are also required to have financial aspects appropriately investigated and understood before a commitment is made.

In 2024/25 a self-assessment of the Council's compliance with the CIPFA Financial Management Code will be undertaken and the assessment and an action plan for further improving the approach to financial management will be published.

Follow-up assessments will be conducted as part of the MTFP development to ensure high levels of compliance continue to be achieved with this statutory guide to how Local Authorities should manage their finances.

The culture of financial responsibility and proactive financial management promoted helps ensure the Council is well run and where it is constantly challenged to maximise value achieved from the resources available.

A focus on day-to-day efficiency and effectiveness in how resources are used plays an important role in responding to the challenge and keeping the Council on track to deliver its financial plans.

## Financial Resilience Assessment

CIPFA's Financial Management Code highlights that an Authority should periodically undertake an assessment of its financial resilience in order to test and demonstrate its financial sustainability. The Council will commit to undertaking this assessment in 2024/25 and report its findings.

The assessment will look to review whether the Council is:

- Showing signs of financial stress
- Getting routine financial management right
- Planning and managing capital resources well
- Using performance information effectively
- Having clear plans for delivering savings
- Managing reserves well

The assessment, alongside the wider self-assessment against CIPFA's FM Code, is seen as a positive step in identifying any other areas of development needed.

## Balance Sheet Management

The Council will also look to strengthen its existing arrangements and undertake a wider review of its balance sheet, and to identify the elements of its balance sheet that are most critical to its financial sustainability.



# Medium Term Financial Strategy

Aspects of the balance sheet that naturally draw attention and carry inherent risk are commercial investments, debtors, provisions and reserves.

The authority will put in place suitable mechanisms to monitor the risk associated with these critical elements of its balance sheet, taking action to mitigate these risks.

Monitoring and reporting of balance sheet risks will be integrated into the Council's financial reporting processes to ensure ongoing transparency and oversight.

## Medium Term Financial Plan

The medium-term financial plan is a translation of the authority's financial strategy into the near future. It is also the critical link between the authority's financial strategy and its plans for service delivery.

The medium-term financial plan breaks down the Council's financial strategy into key actions to be taken in the next few years, so that the Council is able to plan its activity over this period in more detail. It also contains income and expenditure projections and sets out how the delivery of services will be funded sustainably.

The medium-term financial plan covers a four-year period. The medium-term plan will be rolled forward every year to ensure that it still projects a multi-year planning horizon. When the plan is rolled forward, any deviations from the current plan will be identified, understood and integrated in the planning for future periods.

An update of the medium-term financial plan will be reported twice a year to inform both the budget setting process and ongoing medium-term financial planning and delivery.

The authority's medium-term financial plan will:

- Be integrated with the authority's budget planning and its capital strategy
- Respond to uncertainty in the authority's funding regime, albeit the challenges resulting from a lack of rolling multi-year funding settlements
- Re developed in a robust manner, taking into account a credible baseline of activity
- Integrate suitable drivers of demand and cost
- Be subjected to sensitivity and scenario analysis to allow any vulnerabilities to be identified.

## Governance

The MTFs is subject to approval by Full Council and will be considered at its meeting in July 2024. It will be live for a five-year period, during which no major revisions or re-writes will be undertaken. However, there will be regular reviews of progress on delivering the Strategy via six-monthly update of the MTFP.

The Strategy is compliant with the Council's Financial Regulations set out in the Council Constitution. All financial decisions will be taken in accordance with the delegated

# Medium Term Financial Strategy

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authorities set out in the Financial Regulations, based on the principles set out in this Strategy. The financial regulations will be subject to ongoing periodic review.

Cabinet will receive Medium Term Financial Plan updates twice a year that incorporates detailed budget proposals for a rolling four-year period based on the MTFs. This will be undertaken prior to the mid-point of the financial year and at the annual budget meeting in February or March each year.

In year financial reporting to Performance & Overview Scrutiny Committee will enable effective scrutiny of financial performance against the budget, MTFP and delivery of the MTFs.

The Capital Working Group will maintain oversight of the delivery of the Capital Strategy and will naturally inform Medium-Term Financial Plan updates

The Strategic Leadership team (SLT) will maintain ongoing update to Cabinet to allow it to fulfil its role around financial stewardship. The SLT will be supported by the Financial Management Board and who will make recommendations to SLT as needed around any corrective action or intervention proposed that looks to respond to emerging issues.

Audit Wales will present their external audit report (ISA260 report) to the Governance & Audit Committee, and provide an opinion on the financial statements, to support the Audit & Governance Committee to scrutinise the Council's financial performance and financial governance arrangements.

The Annual Accounts will be open for public inspection during the external audit and once finalised, will be published on the Council's website and fully accessible to all stakeholders.



# Medium Term Financial Strategy

## Roles and responsibilities

Who has a role to play in delivering the MTFS?	
Who?	What?
The Council	<p>Approves MTFS for adoption and approves every 4 years</p> <p>Approves annual budget &amp; Council Tax</p> <p>Approves Council Constitution including Financial Regulations</p>
Cabinet	<p>Considers annual budget for recommendation to Full Council</p> <p>Approves six-monthly MTFP updates</p> <p>Receives in-year budget monitoring reports</p>
Governance & Audit Committee	<p>Receives regular reports from the External Auditor including the Auditors Annual Report and Opinion on the Financial Statements</p> <p>Approves annual Financial Statements and Annual Governance Statement</p> <p>Scrutinises performance and risk management</p> <p>Scrutinises the Section 151 officer's annual statement on the robustness of the budget process and adequacy of reserves</p> <p>Holds officers accountable for delivery of appropriate governance and financial control arrangements</p>
Performance & Overview Scrutiny Committee	<p>Scrutinises in-year budget monitoring reports</p> <p>Scrutinises draft budget proposals and six-monthly updates to the MTFP</p> <p>Detailed consideration of any key financial risks or areas of concern for Councillors</p>
The Section 151 Officer	<p>Statutory Responsibility for maintaining effective financial governance and control arrangements</p> <p>Statutory Responsibility to produce balanced budget and Council Tax proposals annually</p> <p>Provide professional expertise and guidance to officers, leadership (officer and political) and Councillors to ensure Council finances are stable, secure, and value for money is achieved</p>



# Medium Term Financial Strategy

## Who has a role to play in delivering the MTFS?

Who?	What?
The Strategic Leadership Team	<p>Responsible for developing budget proposals in line with the principles of the MTFS for consideration by Cabinet</p> <p>Responsible for management and delivery of both the MTFS and the MTFP</p> <p>Responsible for delivery of the Community and Corporate Plan and the change and improvement plan sitting alongside with and the MTFS</p> <p>Responsible for implementing agreed plans and policies that support delivery of the MTFS</p>
Financial Management Board	<p>Responsible for maintaining oversight of delivery of the MTFS</p> <p>Responsible for coordinating updates to the MTFP</p> <p>Responsible for oversight and scrutiny of budget setting and budget monitoring, including budget recovery action needed</p> <p>Responsible for reporting into the Strategic Leadership and in proposing any interventions needed to address emerging issues</p>
External Audit	<p>Statutory review and opinion on the Financial Statements and value for money arrangements at the Council</p> <p>Provide professional advice, guidance and information to the Governance &amp; Audit Committee</p> <p>Responsible for providing assurance to all stakeholders on the adequacy and effectiveness of Financial Governance and Controls at the Council, including assessments of financial sustainability</p>

## Financial reporting commitments

### Financial Reporting Commitments

Who?	When?	Information Provided
Full Council	Every 4-5 years	Medium Term Financial Strategy Community and Corporate Plan

# Medium Term Financial Strategy

Financial Reporting Commitments		
Who?	When?	Information Provided
	Annually (Feb/March)	Annual Budget and Council Tax Determination
Cabinet	Every 4-5 years	Medium Term Financial Strategy Corporate Plan
	Annually	Annual Budget Financial Management Code compliance assessment
	Six-monthly (July/Sept; Feb/March)	Medium Term Financial Plan update
	Periodically in line with budget monitoring reporting periods	Capital and Revenue budget monitoring reports
Performance and Overview Scrutiny Committee	Annually	Scrutiny of draft annual budget budget proposals
	Six monthly	Medium Term Financial Plan update
Audit & Governance Committee	Annually	Statement of Accounts External Auditors Report and Opinion on the Accounts Annual Governance Statement RFO statement on robustness of budget process and adequacy of reserves
	Six-monthly	Treasury Management update Strategic Risk Register update
	As needed	External Auditor updates

# Medium Term Financial Strategy

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## Engagement and Communication

In developing the Community and Corporate Plan, the Council consulted widely and valued the expertise and knowledge of those who contributed. The plan did not shy away from what matters to local communities and the big challenges facing the Council as it looks to sustain services that look to meet the needs of residents. It was also informed by an extensive engagement process that had run across Gwent to inform priorities for public services beyond the Council.

In delivering change the Council will work with residents and key stakeholders, identifying the need and sharing the reasoning, opportunities and options. The decisions that are made now will affect not only current but future generations.

The Community and Corporate Plan will need to adapt over time and to respond to the challenges faced over the medium term. The Council will continue to listen to ideas and concerns, as the plan is rolled out, working together to find the best way to address the challenges faced. Where new and better thinking comes to the fore, it will be adopted. All need to feel their rights are protected and they have a voice. Only through collaboration and mutual respect can challenges be met.

The primary aim of the Council's financial strategy is to enable the delivery of the Council's Community and Corporate Plan. It acts as a framework within which financial decisions are made, budgets are planned and managed, and financial resources are used to support the delivery of strategic priorities.

The Community and Corporate plan and the programme of change and improvement will inform the Medium-Term Financial Plan and in turn the budget process each year. The Council is required to consult with residents, business and key stakeholders on its budget proposals for the following year. The Council has made positive strides in the last couple of years to purposefully reach out to communities, business and key stakeholders to ensure that their views are taken on board when finalising the budget proposals.

Councillors are engaged throughout the budget process and will receive updates via member seminars as well as having the opportunity to scrutinise the budget proposals via scrutiny committees and as the budget is considered for release on consultation and subsequently for approval at Full Council.

Staff will be engaged in the wider programme of change and improvement and in allowing ideas to be brought forward and worked on. As well as being kept well informed through wider staff communications and through management and team meetings.



# Medium Term Financial Strategy

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# Medium Term Financial Strategy

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## Performance and Evaluation Framework

### Performance Indicators

In order to determine the success of the Medium-Term Financial Strategy and its proposed purpose, it's critical to establish the key performance indicators and framework within which good performance will be assessed.

Financial performance metrics and the way data will be held will assist data analysis and better inform strategic decisions.

It is necessary that a long-term approach is taken to the realisation of benefits and outcomes from the successful implementation of the strategy. A mix of short, medium and long-term indicators have been applied, such to assess the ongoing performance of the strategy and its delivery plan.

The performance framework will fall under the direct responsibility of the Financial Management Board for ongoing monitoring, review and corrective action as needed. The performance indicators will as a minimum be reviewed formally on a six-monthly basis and reported in updates to the Medium Term Financial Plan.

The performance indicators will be the subject of ongoing review and will be updated as needed. Such circumstances may be as a result of the planned reviews in relation to CIPFA's financial management code compliance, financial sustainability review, balance sheet review etc.

The capital and treasury strategies have their own performance and evaluation frameworks and are separately reported and scrutinised during the year.



# Medium Term Financial Strategy

Indicators/Milestones	Current	Target	Comments
<b>Qualitative measures</b>			
Set a legal and balanced budget within the statutory deadline every year	February 29 <sup>th</sup> 2024	Before 11 <sup>th</sup> March	Target same for each year of MTFS period
Draft MCC annual accounts presented to Audit Wales by statutory deadline	19 <sup>th</sup> July 2023	30 <sup>th</sup> June	Target same for each year of MTFS period
Audited annual accounts approved and signed by statutory deadline	22 <sup>nd</sup> February 2024 (deadline missed)	30 <sup>th</sup> November	2024-25 – certification by 31 October 2025 2025-26 – certification by 30 September 2026
Medium-term financial plan update provided on a six-monthly basis	Annually	Six-monthly	Updates to be provided to Cabinet in July/Sept and Jan/Feb
<b>Quantitative indicators</b>			
Revenue budget outturn, subject to any agreed budget recovery plan	£1.65m under spend	Balanced	Target same for each year of MTFS period  Any resultant under spend offers opportunity to replenish reserves
Use of one-off revenues reserves to meet recurrent costs	£nil	£nil	Excludes earmarked reserves use to meet one-off costs, or in relation to specific service provision or partnership reserves
Council Fund balance at or above 5% of net revenue expenditure budget	5.00% (31 <sup>st</sup> March 2024)	≥5.00%	Target same for each year of MTFS period
Minimum useable capital receipts reserve balance	£10.2m	£2m	
% of capital financing costs to net revenue budget	5.9%	<7%	

# Medium Term Financial Strategy

Net asset ratio (current assets: current liabilities)	0.9	>1	A higher ratio indicates an increased ability to mitigate short term variances in current liabilities such as borrowing and creditors.
Cumulative school balances	£905k deficit	>£nil	
Number of schools in deficit	13	nil	
Delivery of planned revenue budget savings	83%	>90%	Annually across MTFS period
Income generated from discretionary fees and charges, rentals and commercial income	TBC	TBC	Baseline and target to be included as part of future MTFP update (March 2025)
% net return on commercial property investments	1.06%	2.0%	Target to apply annually across MTFS period.  Commercial property investments are NLP, Castlegate and Oak Grove solar farm.
In-year council tax collection rate	96.6%	97.0%	Amount recovered as at 31 <sup>st</sup> March
Long term council tax collection rate	TBC	99.0%	
Percentage of sundry debt over 30 days	40%	<=35%	This is a rolling target to maintain strong debt recoverability.
Average number of days sundry debt is outstanding	26 days	<=30 days	

# Medium Term Financial Strategy

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## Overall Impact Assessments and the budget

The Medium Term Financial Plan updates will in turn inform the budget setting process annually. Budget proposals that could alter a service or the way it is delivered need to be evaluated for their potential impact on various aspects of well-being, equality, diversity, sustainability and the Welsh language.

The overall impact assessment is integrated into the planning and delivery of its budget process, such as requiring officers to assess individual savings proposals, producing an overall assessment for the budget consultation, and updating the assessment after the consultation.

Given the financial challenges faced some budget proposals may have adverse effects on some groups. The impact assessment helps the council to find ways to reduce the potential harm of its proposals on vulnerable people and households, as well as to emphasise the benefits of increasing expenditure on certain groups.

Once the Council approves the final budget in March, service areas will carry out work to mitigate, manage and monitor any impacts identified. Further impact assessment will be undertaken when subsequent decisions are made on the budget proposals.

## Medium Term Financial Strategy Review Date

The MTFS will be reviewed on an ongoing basis and any changes will be captured as part of six-monthly updates to the Medium-Term Financial plan. Whilst the context, circumstances and the specific nature of the financial challenges will evolve over the next few years the financial strategy should provide the strategic framework to allow the MTFP to adapt accordingly. The MTFS will next undergo a full review in 2027-28.





# Medium Term Financial Strategy

## Medium Term Financial Strategy – Delivery Plan

The delivery plan converts the Asset Management Strategy into practice. It is the associated delivery plan for the duration of the Medium- Term Financial Strategy. The plan contains the actions proposed in accordance with the strategy document. These align to the strategy’s key aims and objectives.

The delivery plan and its action list will be updated annually to monitor progress of the plan against these core objectives, giving details such as timescales for action, outcomes and responsibilities:

Action No.	Action/Description	Outcome/Output	Milestones				Timescale for completion	Responsible Officer/Body
			24/25	25/26	26/27	27/28		
1	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
2	Delivery of budget holder training	Refresh and rollout of training to all budget holders	✓	✓	✓	✓	March 2025 and ongoing	Head of Finance
3	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)

# Medium Term Financial Strategy

4	Independent financial resilience review to be undertaken	Independent review to highlight and further areas for improvement		✓			March 2026	Deputy Chief Executive (S151 officer)
5	Enhance approach to modelling future growth, demand, demographic and inflationary pressures in the MTFP		✓	✓	✓	✓	September 2024 and ongoing	Head of Finance
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
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
8	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

# Medium Term Financial Strategy

9	Dataset of cost drivers to be established and monitored	To develop detailed knowledge and understanding of what drives spending to inform future decision making	✓				March 2025	Financial Management Board
10	Balance sheet review to be undertaken	To ensure robust mechanisms are in place to manage balance sheet risks		✓			September 2025	Head of Finance
11	Review financial regulations and standing orders	To ensure financial procedures rules are kept up to date and in line with the broader constitution and other financial procedures and arrangements		✓			March 2026	Deputy Chief Executive; Head of Finance; Chief Internal Auditor

