

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

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1. Introduction

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

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

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

2. External context

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

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

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

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

3. Funding context

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

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

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

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

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

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

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

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

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

4. Current year budget

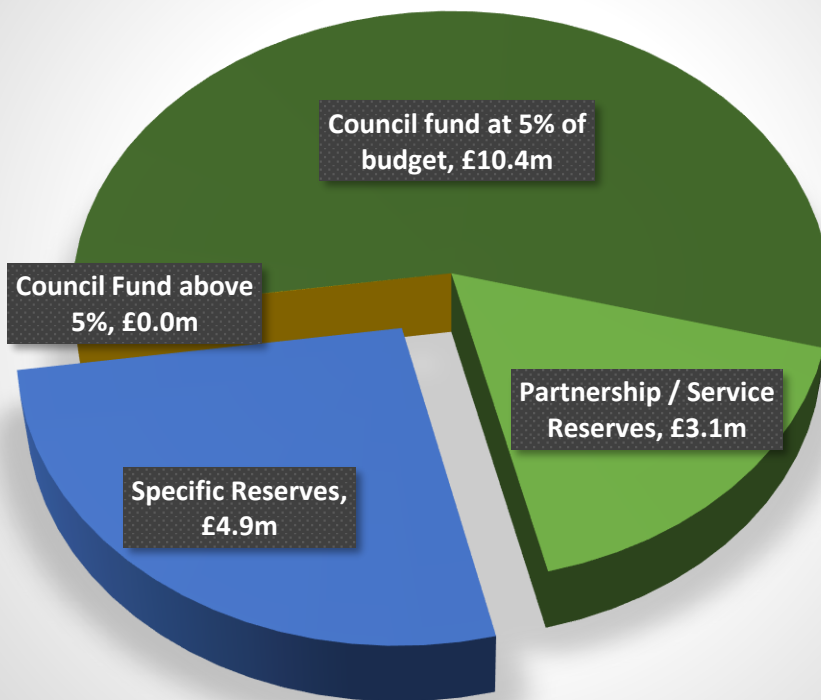
- 4.1. Both the national and funding context explained above are already having a significant impact on the Council's finances in the current financial year.

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

5. Reserves

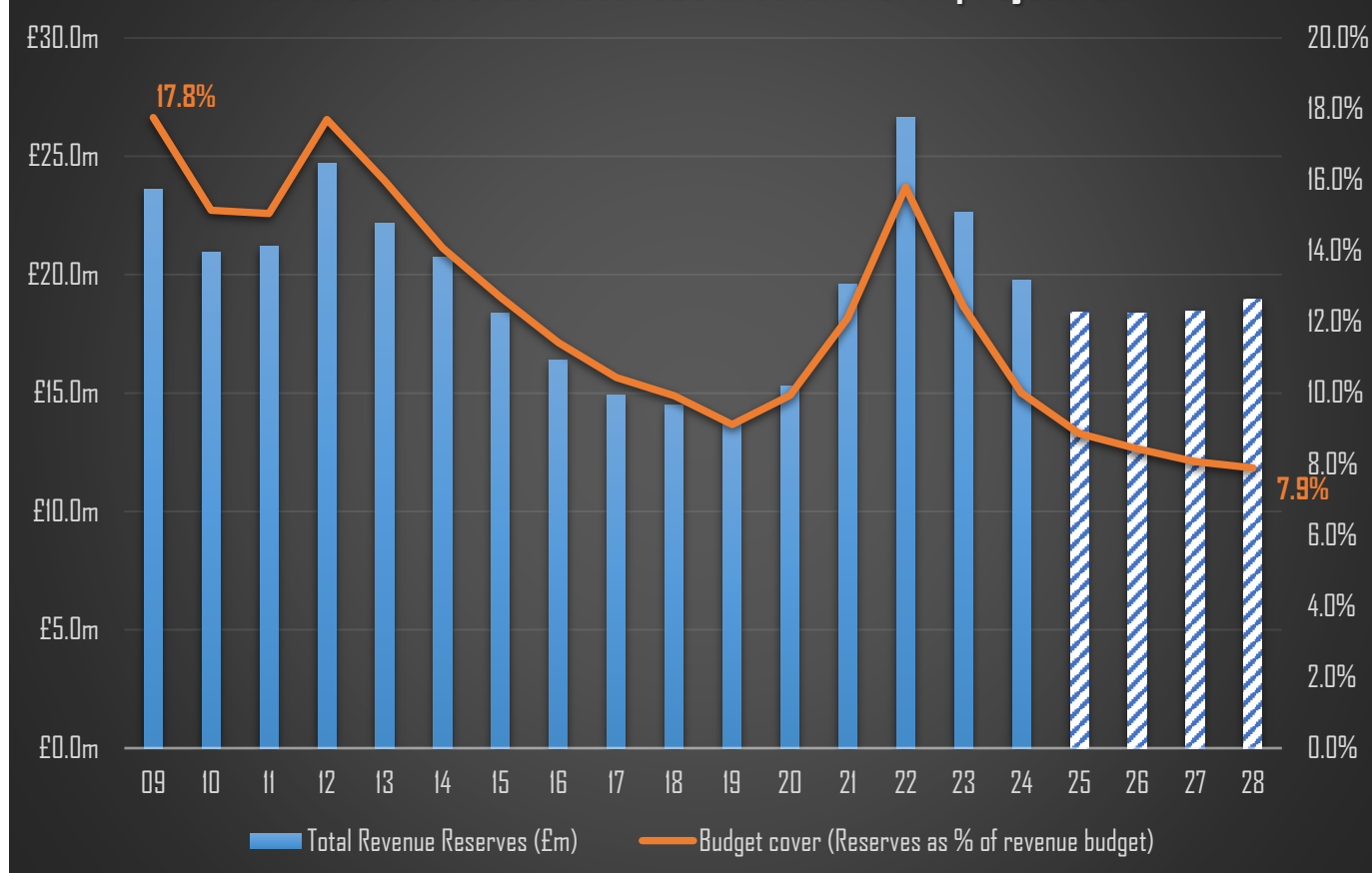
- 5.1. The Council's useable revenue reserves have been depleted as a consequence of the reserve cover needed to both support the budget proposals and resultant budget recovery action in 2022/23 and 2023/24. This follows a period through the pandemic where reserves were given a level of restoration as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

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



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

Useable revenue reserves medium term projection



6. Schools budgets and reserve balances

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

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

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

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

6.15. Given the funding context for schools outlined above, and the inherent budget deficits currently being carried, the level of further investment in schools will be a key consideration during the budget process.

6.16. The approach will need to be thoughtful, evidence based, and will need to be carefully balanced with overall funding landscape for the Council, with particular focus on the variability in some schools budgets positions, the size of the Council's overall budget gap, and the need to develop strategies to set a balanced budget.

7. Budget assumptions and the projected budget gap

7.1. The Authority's medium term budget modelling is reviewed regularly and reported into the Performance & Overview scrutiny committee and Cabinet on a six-monthly basis. The model contains the base budgets of the Authority overlaid with assumptions that are then updated in the light of updated data and information. This allows prudent changes to be made to the modelling to enable the gap between resources and expenditure to be highlighted.

7.2. External data from sources such as the Office for Budget Responsibility (OBR), and the Wales Fiscal Analysis unit support the budget assumptions applied within the modelling.

7.3. This is further supported by the work that Welsh Local Authorities produce through the Welsh Local Government Association (WLGA), that allows validation and challenge of the assumptions made throughout the budget process.

7.4. The latest budget planning assumptions are shown below which reflect the updated assumptions following new data and information coming forward:

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

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

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

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

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

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

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

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

8. Budgetary Risk

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

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

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

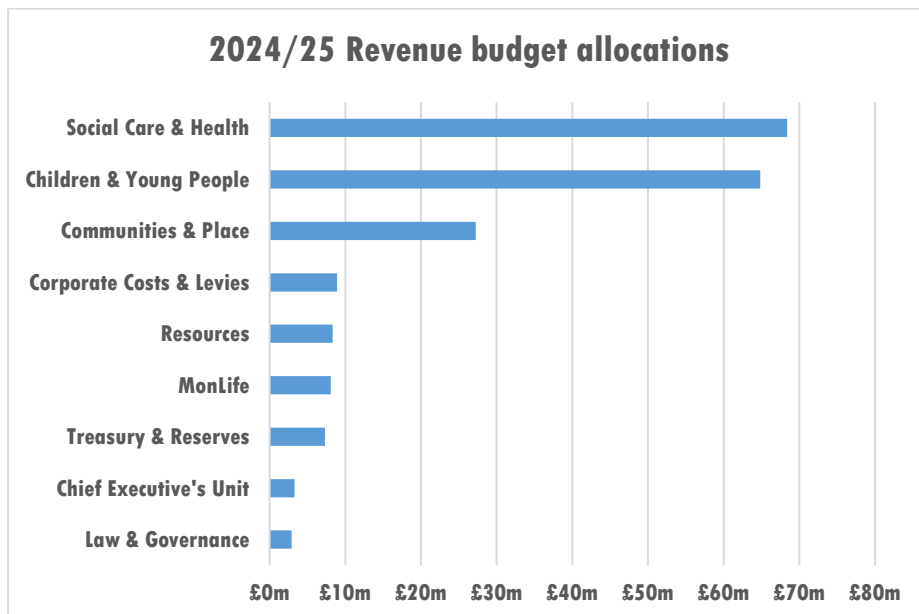
- 9.1. The medium term outlook remains very uncertain. Budget assumptions have been revised and based on the premise that inflation will remain under control, and that public spending by UK Government and the consequential impact on local government in Wales are in line with independent analysis. There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

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

10. Bridging the gap between expenditure and available resources

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

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



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

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

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

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

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

MTFS Strategic Budget Principles

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

MTFS Strategic Budget Principles

11. Capital programme

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

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

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

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

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

12. Budget Process and Timetable

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

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

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

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

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

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

13. Progress against the MTFS Delivery plan

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

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

Action No.	Action/Description	Outcome/Output	Milestones				Timescale for completion	Responsible Officer/Body	Progress update October 2024
			24/25	25/26	26/27	27/28			
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	Evolving with the development of the budget process and strategy for 2025/26
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)	
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		✓	✓	✓	✓	September 2024 and ongoing	Head of Finance	Work is progressing on developing more evidence based data metrics to support the budget process. Some of

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