

**SUBJECT: MEDIUM TERM FINANCIAL PLAN UPDATE – JULY 2025**

**MEETING: CABINET**

**DATE: 16<sup>th</sup> July 2025**

**DIVISION/WARDS AFFECTED: WHOLE AUTHORITY**

**1. PURPOSE:**

- 1.1. To provide the latest six-monthly update of the Council's Medium Term Financial Plan (MTFP), reflecting updated assumptions, risks, and strategic context. The report outlines the projected budget gap for 2026/27 and the medium term, and outlines the context for developing a balanced budget.

**2. RECOMMENDATIONS:**

- 2.1. Note the updated projected revenue budget shortfall of **£13.6 million** for 2026/27 and a cumulative shortfall of **£38.0 million** over the medium term.
- 2.2. Note the outline budget setting timetable as outlined in Appendix 1.
- 2.3. Note the progress against the Medium Term Financial Strategy (MTFS) delivery plan, as detailed in Section 14 of Appendix 1.

**3. KEY ISSUES:**

**Background**

- 3.1. The Council reviews its budgetary position annually and produces a rolling 4-year plan, known as the Medium Term Financial Plan (MTFP). This plan considers the financial context at both the local and national level together with forecast available resources and budgetary pressures in arriving at a forward financial projection.
- 3.2. This report presents the six-monthly update of the Council's MTFP and outlines the context and framework for the budget for the financial year 2026/27, together with a high-level indication of the financial outlook over the medium term.
- 3.3. The updated Medium Term Financial Plan (MTFP) projects a £13.6 million budget gap for 2026/27, rising to a cumulative £38.0 million by 2029/30. This reflects updated assumptions around pay inflation, non-pay inflation, superannuation rates, and service pressures.

- 3.4. The Council has operated in a challenging financial environment since 2010, delivering over £83 million in savings in that time, and absorbing more than £31 million in cost pressures in the last two years alone. Despite these pressures, the Council has maintained a strong track record of financial resilience and effective resource management.
- 3.5. The Council faced significant in-year pressures in 2024/25, particularly in Children's and Adult Social Care, Homelessness, and Additional Learning Needs. These were driven by the ongoing cost-of-living crisis, inflationary pressures, high interest rates, and workforce challenges. Early forecasts projected a deficit of up to £4 million. However, through targeted recovery actions and additional unbudgeted grant funding, the Council achieved a £1.239 million surplus before transfers to reserves. This outcome has helped to stabilise the Council's reserves and reduce future financial risk.

### **Forward Outlook and Planning Implications**

- 3.6. The financial outlook for 2026/27 remains highly uncertain. National and local factors - including economic conditions, policy changes, demographic shifts, and new responsibilities - are expected to influence the Council's operating environment. The UK Government's Comprehensive Spending Review (CSR), published in June, and the anticipated Welsh Government spending review will provide further clarity on future funding levels.
- 3.7. In light of these developments, it is essential that the assumptions, modelling, and risk assessments underpinning the Medium Term Financial Plan (MTFP) are reviewed and updated. This review must reflect:
- The current economic climate and its implications for service demand and cost pressures
  - Revised assumptions aligned with the Council's strategic policy objectives
  - The need for a more agile and responsive financial planning framework.

### **External context**

- 3.8. The Medium Term Financial Plan (MTFP) is shaped by the broader UK economic context and public spending decisions, particularly those made by the UK Government and passed through to the Welsh Government. Since the 2025/26 budget was set, the UK economy has experienced stagnant growth, with weak private sector activity and investment. Rising employment costs and global uncertainties have dampened business confidence, while consumer spending is expected to slow. Fiscal policy remains tight, limiting the potential for economic stimulus. Labour market conditions are softening, with employment growth slowing and wage pressures expected to ease, contributing to a more stable inflation outlook.
- 3.9. However, inflation risks remain elevated due to external pressures such as geopolitical tensions, rising energy and food prices, and new trade tariffs. The Consumer Price Index (CPI) remains above 3%, raising concerns about inflation expectations and wage demands. Elevated gilt yields reflect market concerns over fiscal credibility and global economic uncertainty. These factors have significant implications for the Council's financial planning, requiring careful review and updating of budget assumptions for 2026/27 and beyond.

### **Funding context**

- 3.10. The Council's revenue budget for 2025/26 is primarily funded through the Welsh Government settlement (60.5%), with the remainder (39.5%) coming from council tax. These two funding streams are central to the Council's medium-term financial planning. However, the broader funding context has been shaped by over a decade of public sector austerity, which has significantly constrained the resources available to Welsh Government and, in turn, local authorities. While recent years have seen positive settlements in cash terms, these have not kept pace with inflation or the increasing demands placed on councils, resulting in real-terms reductions in funding.
- 3.11. Monmouthshire has experienced a variable funding pattern, receiving below-average settlements in 12 of the past 15 years. This reflects a combination of factors, including its demographic characteristics, dispersed population, and comparatively strong ability to generate income through local taxation. Even during periods of national funding growth, Monmouthshire's allocations have tended to be more modest.
- 3.12. While more recent settlements have begun to recognise the vital contribution of councils - particularly during the pandemic and cost-of-living challenges – the ongoing wider economic and political environment has meant that the increasing demands and responsibilities placed on Councils have not always been fully recognised with additional funding.
- 3.13. The Final Local Government Settlement for 2025/26 introduced a funding floor of 3.8%, ensuring that every local authority in Wales received at least a 3.8% increase in core revenue funding compared to the previous year. This approach helped create a fairer distribution of resources and provided additional support to councils like Monmouthshire, which would have otherwise received a lower increase under the standard funding formula. Looking ahead, the 2026/27 settlement is expected to follow a similar pattern. It will be essential for local government to clearly communicate its evolving role and the growing demand pressures to Welsh Government throughout the budget process.

### **Reserves and School balances**

- 3.14. The Council's usable revenue reserves have been significantly drawn down over recent years, particularly during 2022/23 and 2023/24, to support budget proposals and recovery measures. This followed a temporary replenishment during the COVID-19 pandemic through substantial Welsh Government support.
- 3.15. 2024/25 saw a modest improvement in general reserves, however this was offset by a £3.187 million increase in the schools reserve deficit, bringing the cumulative schools position to a £4.1 million deficit. Despite additional investment in school budgets for 2025/26, further reserve use is forecast, weakening the Council's financial resilience.
- 3.16. Monmouthshire's Council Fund remains at 5% of the net revenue budget, a level considered prudent for managing short-term risks. However, the Council has the lowest reserve cover in Wales, which heightens its exposure to financial risk. Many reserves are earmarked for specific services or timing adjustments, leaving limited flexibility for strategic use. This has prompted a renewed focus on strengthening budget management and in-year financial discipline, alongside a revised reserves policy aimed at protecting and rebuilding reserve levels over the medium term.

- 3.17. Schools receive funding through the Individual Schools Budget (ISB), which totals £60.45 million in 2025/26 - around 27% of the Council's net budget. While schools are responsible for managing their own budgets, the Council retains oversight of their financial performance. Reserve balances vary widely across schools, with some maintaining healthy surpluses and others facing significant deficits. The final position for 2024/25 showed a £3.187 million increase in the overall schools deficit, with 15 of 35 schools now operating in deficit. This was lower than forecast due to late grant funding and cost-saving measures.
- 3.18. The financial challenges facing schools are compounded by the legacy of the pandemic, inflationary pressures, and rising pay costs. Schools are also expected to contribute to wider Council savings and deliver on Welsh Government reforms, including the Curriculum for Wales and the Additional Learning Needs and Education Tribunal Act. These pressures have not always been fully funded, and future investment in education will need to be carefully balanced against the Council's overall financial position. A strategic, evidence-based approach will be essential to ensure sustainability and equity across the school system.

### **UK Government Spending review and WG budget announcement**

- 3.19. The UK Government's June 2025 Spending Review has provided a clearer medium-term funding framework for the Welsh Government, with day-to-day spending allocations confirmed through to 2028–29 and capital grants through to 2029–30. While this offers greater certainty, the funding profile is frontloaded, with more generous allocations in 2026/27 followed by tighter budgets in subsequent years. Day-to-day spending is projected to grow by 1.4% annually in real terms, but capital funding is expected to decline after 2026/27. Most of the additional funding is linked to NHS and school spending in England, implying limited growth for other public services in Wales. This creates a more challenging fiscal environment for future Welsh budgets, particularly post-election.
- 3.20. Although the settlement is described as the largest in real terms since devolution, its historical context reveals a more cautious trajectory for public service funding. The scope for new spending commitments in Wales is likely to be constrained unless additional revenue is raised through devolved taxation.
- 3.21. The Welsh Government announced on the 1 July 2025 that it will publish a one-year budget in October 2025, which will increase departmental budgets in line with inflation. This budget will include a pool of unallocated funding, reserved for the next Welsh Government following the 2026 Senedd election.
- 3.22. The outline Draft Budget, detailing high-level allocations for each department, will be published on 14 October, followed by a more detailed Draft Budget on 3 November. The Final Budget will be released on 20 January 2026, with a debate and vote scheduled for 27 January.
- 3.23. For Monmouthshire, the Spending Review reinforces the prudence of current MTFP assumptions, which anticipate modest growth in grant funding. When adjusted for inflation, these assumptions reflect real-terms reductions in funding. The anticipated Welsh Government Spending Review is expected to provide further clarity for future financial planning.

## **Budget assumptions and updated budget modelling**

- 3.24. The Council's medium term budget model is reviewed and updated on a six-monthly basis, incorporating the latest data and assumptions to reflect changing financial conditions. This process is informed and supported by external data from the Office for Budget Responsibility (OBR), the Wales Fiscal Analysis unit, and the Welsh Local Government Association (WLGA). These sources help validate and challenge the assumptions used, ensuring the model remains robust and evidence-based.
- 3.25. The latest modelling for 2026/27, incorporating revised assumptions and emerging pressures, indicates a projected budget deficit of £13.6 million. While this represents an early view of the financial landscape, it highlights the ongoing challenges facing local government. The budget process remains dynamic, and figures will continue to be refined, but the scale of the projected gap underlines the need for continued financial discipline and strategic planning.
- 3.26. The medium-term financial outlook remains highly uncertain. While current budget assumptions are based on inflation stabilising and public spending aligning with independent forecasts, there are significant downside risks that could worsen the projected budget shortfalls. The forthcoming Welsh Government Comprehensive Spending Review is expected to provide greater clarity on future funding, enabling more informed planning. However, the latest modelling highlights substantial budget gaps over the coming years, with cumulative shortfalls rising from £13.6 million in 2026/27 to £38 million by 2029/30.

## **Bridging the gap between expenditure and available resources**

- 3.27. As the Council prepares its 2026/27 budget, it must carefully evaluate the scope for further savings through service efficiencies or reductions, while also exploring opportunities to generate additional income or secure external funding. Having delivered significant efficiencies since 2010, many services are now operating at the minimum level required to meet statutory duties. In this context, a strategic and evidence-led approach is essential to ensure that resident needs continue to be met within a financially sustainable framework.
- 3.28. Persistent cost pressures, underfunded responsibilities, and funding settlements that have not kept pace with inflation have increased reliance on reserves and one-off capital receipts to balance the budget. With reserves now at comparatively low levels and limited scope for further efficiencies, the Council faces a significant financial challenge. Addressing this will require a forward-looking response focused on long-term reform, financial resilience, and service transformation - particularly within the three highest-spending areas: Social Care & Health, Learning, Skills & Economy, and Infrastructure & Place.
- 3.29. The Council's programme of change provides a strategic framework for reshaping services to meet resident needs within available resources. This is not just a response to financial pressures but a proactive effort to modernise and improve outcomes. Progress is being made, but greater coordination and discipline are needed to align and report on the various strands of work. Establishing strong foundations will enable better assessment of progress and allow the Council to adapt its approach as needed.

3.30. Key areas of change include digital collaboration, preventative wellbeing strategies, data-driven decision-making, leadership alignment, community-centric service design, workforce development, and asset optimisation. A more centralised approach to assessing the value and alignment of grant funding is also being developed. Robust governance, risk management, and organisational capability will underpin the successful delivery of this programme. This integrated approach is essential to bridging the gap between expenditure and resources while maintaining the Council's commitment to high-quality, resident-focused services.

3.31. The proposed milestone dates for the next steps in the process are outlined below:

|                                                                                 |                         |
|---------------------------------------------------------------------------------|-------------------------|
| Review of latest of budget modelling using updated assumptions & data           | September 2025          |
| Budget workshops – SLT/Cabinet/Officers                                         | October 2025            |
| High level pressure & saving mandates produced for Cabinet scrutiny             | October 2025            |
| MTFP update report - Cabinet                                                    | November 2025           |
| Final pressure & saving mandates to be produced                                 | December 2025           |
| Budget assumptions, pressures and savings to undergo further Cabinet scrutiny   | December 2025           |
| Consideration of Welsh Government Provisional settlement                        | December 2025           |
| Set Council tax base - ICMD                                                     | December 2025           |
| Consideration of draft revenue & capital budget proposals - Cabinet             | January 2026            |
| Scrutiny of Proposals - Select Committees                                       | January & February 2026 |
| Public Consultation for 2026/27 budget                                          | January & February 2026 |
| Consideration of scrutiny, consultation, final pressures, savings & assumptions | February 2026           |
| Consideration of Welsh Government Final settlement                              | February 2026           |
| Final budget proposals - Cabinet                                                | March 2026              |
| Formal Council Tax Resolution & Budget Proposals - Council                      | March 2026              |

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

4.1. This is a contextual report and therefore carries no direct impacts.

#### **5. OPTIONS APPRAISAL**

5.1. This report provides an update on the Council's financial planning and provides an early overview of the process for the 2026/27 budget setting process. When budget proposals are developed and brought forward for consultation an option appraisal will be completed for each substantive saving and pressure.

- 5.2. The Council's programme of change is not solely driven by financial constraints, but by a commitment to shaping services that meet the needs of communities and align with the aims set out in the Community and Corporate Plan. It also recognises the importance of designing services for long-term sustainability – that will require a careful balance of choices and priorities.

## **6. EVALUATION CRITERIA**

- 6.1. Whilst the nature of this report does not require any evaluation, the annual budget process is reviewed on an ongoing basis and based on feedback received from the public, members and officers. Cabinet and the Strategic Leadership Team review the process and feedback and recommendations for improvement.
- 6.2. The six-monthly MTFP update is part of the evaluation criteria set as part of the MTFS and which includes the reporting of update against the delivery plan as contained in appendix 1.

## **7. REASONS:**

- 7.1. To provide the latest six-monthly update of the Council's Medium Term Financial Plan (MTFP), reflecting updated assumptions, risks, and strategic context. The report outlines the projected budget gap for 2026/27 and the medium term, and outlines the context for developing a balanced budget.

## **8. RESOURCE IMPLICATIONS:**

- 8.1. There are no resource implications arising directly from this report.

## **9. CONSULTEES:**

Strategic Leadership Team  
All Cabinet Members  
Performance and Overview Scrutiny committee

## **10. BACKGROUND PAPERS:**

***Appendix 1*** – Medium Term Financial Plan update – July 2025

## **11. AUTHORS:**

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