

Medium term financial plan update – July 2025

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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 MTFS, as approved, committed to a six-monthly update of the MTFP, including an update of progress against the performance framework and delivery plan embedded within the MTFS. The first of these updates was received by Cabinet in October 2024 and was subsequently updated as part as part of the final budget that was endorsed by Cabinet and approved by full Council in March 2025.

Event	Date	Details
MTFS Approval	July 2024	MTFS approved with commitment to six-monthly MTFP updates
First MTFP Update	October 2024	Received by Cabinet on 16th October
Final 2025/26 Budget Approval	March 2025	Final budget endorsed by Cabinet and approved by full Council that included an updated MTFP forecast
Second MTFP Update	July 2025	This document

2. Strategic Financial Context and Outlook

2.1. Overview

- 2.2. The Council's financial planning has been shaped by a consistent and disciplined approach in response to a prolonged period of fiscal constraint. Since the 2009 financial crisis, the Council - like many across Wales and the UK- has operated within a challenging financial environment. Over the period from 2010/11 to date, the Council has delivered over **£83 million** in budget savings. In the last two financial years alone, it has absorbed more than **£31 million** in cost pressures.

2.3. Financial Performance and Resilience

- 2.4. Despite these pressures, the Council has maintained a strong track record in delivering value for money and managing public resources effectively. It has successfully navigated the impacts of austerity, economic recession, and the COVID-19 pandemic.

- 2.5. The 2024/25 financial year has seen the continuation of financial headwinds which are impacting upon the Council's service operating environment.
- 2.6. The ongoing cost of living crisis and broader socio-economic challenges are increasing demand for Council services, especially in Children's and Adult Social Care, Homelessness, and Additional Learning Needs. Pressures from the wider public sector, particularly Health, are adding complexity to social care needs. Despite falling headline inflation, some services still face rising costs and supply chain issues. High interest rates, expected to persist longer than initially forecast, add financial strain. Additionally, staff shortages continue to affect some Council departments.
- 2.7. The first two financial updates received by Cabinet in October and December 2024 indicated significant pressure on the Council's budget of between £3m and £4m. Cabinet subsequently endorsed mitigating action to develop a structured approach to tackling the forecast deficit through a range of budget recovery measures.
- 2.8. At outturn, the Council successfully mitigated the overall cost pressures through these ongoing targeted actions, and through additional unbudgeted grants and contributions. This has culminated in a gross expenditure budget surplus of £1.239 million prior to transfers to reserves, representing a 0.6% variance against the approved budget.
- 2.9. The final budget position has helped to stabilise the Council's reserves, providing a stronger financial foundation and helping to reduce future financial risks.
- 2.10. **Forward Outlook**
- 2.11. Looking ahead to 2026/27, the financial outlook remains uncertain. Significant changes at both national and local levels are expected to influence the Council's operating environment, including economic conditions, policy shifts, additional responsibilities, and changes in demographic trends.
- 2.12. The UK Government Comprehensive Spending Review (CSR) published in June, and the anticipated Welsh Government CSR will help provide further clarity on the medium term outlook for local government funding.
- 2.13. **Implications for Financial Planning**

2.14. 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.

2.15. **Strategic Response**

2.16. While the Council's budget process has consistently maintained a medium-term focus, the current funding context, increasing service demands, and the cumulative impact of previous efficiency savings present a highly complex environment for setting the 2026/27 budget. The Council's response must therefore be:

- **Strategic and evidence-led**, ensuring decisions are informed by robust data and analysis.
- **Targeted**, focusing on areas of greatest need and opportunity.
- **Reform-oriented**, supporting long-term sustainability through the wider programme of change.

3. External context

- 3.1. 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.
- 3.2. Since the 2025/26 budget was set, the UK economy has experienced broadly flat GDP growth, with limited momentum in private sector activity and business investment. This stagnation is largely attributed to rising employment costs and ongoing global uncertainties, which are dampening business confidence. Consumer spending is also expected to soften, and with fiscal policy acting as a constraint on both business and consumer sentiment, any meaningful boost to economic growth is likely to depend heavily on increased government spending.
- 3.3. Labour market conditions are showing signs of easing, with employment levels retreating from recent highs and employment growth projected to remain weak in the near term. Although private sector wage growth and services inflation remain elevated, the Monetary Policy

Committee (MPC) anticipates a gradual decline in wage pressures, forecasting wage growth to slow to around 3.7% by the end of 2025. This softening labour market is expected to exert downward pressure on both wage growth and services inflation, contributing to a more stable inflation outlook over time.

- 3.4. However, near-term inflation risks have increased due to several external factors. Rising oil and gas prices, influenced by geopolitical tensions such as the Israel-Iran conflict, along with new US tariffs and increasing food prices, are pushing consumer prices higher. With the Consumer Price Index (CPI) already above 3% due to regulated price increases, there is growing concern among policymakers about the impact on household inflation expectations and wage demands. Additionally, gilt yields have remained elevated, driven by concerns over fiscal credibility in the UK and US, uncertainty surrounding US monetary and trade policy, and inflationary pressures from higher energy prices.
- 3.5. 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 2026/27 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 and external professional expertise leading to increased costs for commissioned services and agency staff, real living wage implications.
Energy prices	Impact on energy costs across Schools, Leisure centres, Offices, and Street Lighting, fuel costs for Council vehicles and for contracted transport providers.
Interest Rates	Implications on the cost of borrowing and the affordability of the capital programme.
Economic & political landscape	The future level of funding for public services is influenced by both economic and political factors. Global events - such as trade tariffs, conflicts, or political unrest can shift the UK Government's financial priorities. In addition, domestic policy

decisions, like prioritising spending on healthcare, can also affect how much funding is available for other public services.

4. Funding context

4.1. 60.5% of the funding of the Council's revenue budget for 2025/26 came from the Welsh Government settlement, with the remaining 39.5% through council tax income. The assumptions for these funding elements are fundamental in developing robust medium term financial plans.

4.2. Welsh Government settlement

4.3. 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.

4.4. Recent funding settlements in cash terms are outlined below. When taking into account inflation over the period, there has been a significant real terms reduction in funding capability for local government.

Financial Year	Monmouthshire Settlement (Cash terms)	All Wales Settlement (Cash terms)
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%
2025/26	3.8%	4.5%

- 4.5. 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.
- 4.6. Whilst the most recent 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.
- 4.7. 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.
- 4.8. Monmouthshire has received below average settlements in twelve of the fifteen 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.
- 4.9. 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 2026/27 will see a recurrence of this, as was experienced in 2025/26.
- 4.10. **Implications of the UK Government Spending review**
- 4.11. The UK Government's recent Spending Review, announced by Chancellor Rachel Reeves on 11 June, has set out a clearer medium-term funding framework for the Welsh Government.
- 4.12. The Wales Fiscal Analysis unit published their analysis in June 2025 on the implications of the spending review on the Welsh Government budget. In summary it concluded the following important points:

- 4.13. *The return to a multi-year spending review offers greater certainty, with block grants for day-to-day spending confirmed through to 2028–29 and capital grants through to 2029–30. This clarity is particularly significant as it will shape the fiscal context for the upcoming Senedd election and inform the development and scrutiny of party manifesto commitments.*
- 4.14. *The Welsh Government’s day-to-day spending is projected to grow by around 1.4% per year in real terms, factoring in devolved tax revenues. However, capital spending is expected to decline after a brief increase in 2026/27, with the capital block grant falling by 3.6% between 2025–26 and 2029–30. Much of the additional funding stems from increased NHS and school spending in England, which accounts for approximately 91% of the new funding for Wales in 2028–29. While this allows for some growth in NHS funding in Wales, it implies tight or flat budgets for other public services.*
- 4.15. *The funding profile is also frontloaded, with more generous allocations in 2026–27 followed by leaner years. This benefits the current Cabinet Secretary for Finance, who may avoid cuts in the pre-election budget. However, the post-election Cabinet Secretary could face real-term reductions in non-NHS spending of around 1.4% annually in 2027–28 and 2028–29, presenting a more difficult fiscal landscape in the latter part of the review period.*
- 4.16. *Although the Spending Review describes the settlement as the largest in real terms since devolution, this is less impressive when viewed in historical context. The average annual growth in day-to-day spending over the current UK Parliament is 1.6%, down from 2.6% in the previous term. This indicates that, despite Labour’s increased departmental spending relative to its manifesto, the overall trajectory for public service funding remains cautious and constrained.*
- 4.17. *Looking ahead, the scope for significant new spending commitments in Welsh party manifestos appears limited unless parties are willing to consider raising additional revenue through the Welsh Rates of Income Tax. The fiscal rules and political promises of no major tax increases at the UK level further constrain flexibility. As such, Welsh political leaders will need to make tough choices about spending priorities and prepare for the possibility that future budgets may need to adapt to changing economic conditions or unforeseen pressures”.¹*
- 4.18. *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.*

¹ [Spending Review 2025 – the implications for Wales - Thinking Wales - Meddwl Cymru - Cardiff University](#)

- 4.19. The approach is described as responsible and forward-looking, aiming to balance certainty for public services during an election year with flexibility for the next administration. The outline Draft Budget, detailing high-level allocations for each Cabinet Secretary, 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.
- 4.20. The above context suggests that the current modelling assumptions within the Council's Medium Term Financial Plan (MTFP) shown below - which anticipates modest growth in grant funding over the medium term, remains a prudent basis for financial planning and should continue to inform projected budget gaps.

	2026/27	2027/28	2028/29	2029/30	<i>Sensitivity to 1% change £000's</i>
WG Grant funding change assumption	1.30%	0.90%	1.10%	1.10%	1,352

- 4.21. When taking into anticipated levels of inflation over the same period, this would reflect real terms reductions in funding levels for the Council.
- 4.22. Welsh Government are expected to publicise their own Comprehensive Spending Review in the coming months, but at the time of writing no formal publication date has been set. It is expected that this will provide further clarity on future year financial settlements for Councils which will further aid medium term financial planning.
- 4.23. **Council Tax**
- 4.24. The updated Council Tax planning assumption is currently modelled at a 3.95% increase for each year of the MTFP.
- 4.25. 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 £*	Band D Council Tax (All Wales average) £*	Increase over Previous Year	All Wales average increase
2015/16	1094.98	1087.91	4.95%	4.36%
2016/17	1138.23	1127.40	3.95%	3.63%
2017/18	1183.19	1161.65	3.95%	3.04%
2018/19	1241.76	1219.07	4.95%	4.94%
2019/20	1315.64	1294.22	5.95%	6.16%
2020/21	1380.76	1354.02	4.95%	4.62%
2021/22	1434.47	1402.51	3.89%	3.58%
2022/23	1476.79	1433.42	2.95%	2.20%
2023/24	1564.66	1512.48	5.95%	5.52%
2024/25	1686.70	1630.83	7.80%	7.82%
2025/26	1,818.26	1746.58	7.80%	7.10%
* Council only charge - excludes the Police and Crime Commissioner for South Wales, and Community Council Precepts				

- 4.26. Consideration of any increase in 2026/27 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.
- 4.27. The modelling assumption used for 2026/27 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.
- 4.28. Cabinet have not yet made any consideration of the level at which Council Tax will be set for 2026/27, and the rate of increase used is for illustrative purposes only at this stage.
- 4.29. **Fees & Charges for services**

- 4.30. Fees and charges make a significant contribution to the Council's budget, with £24.8m budgeted to be received in 2025/26. Any significant changes to fees and charges are presented for consideration as part of the Council's draft budget proposals and are ultimately approved by Council at final budget setting stage.
- 4.31. The annual planning assumption is that Fees and charges will normally increase at a minimum of the prevailing inflation rate.

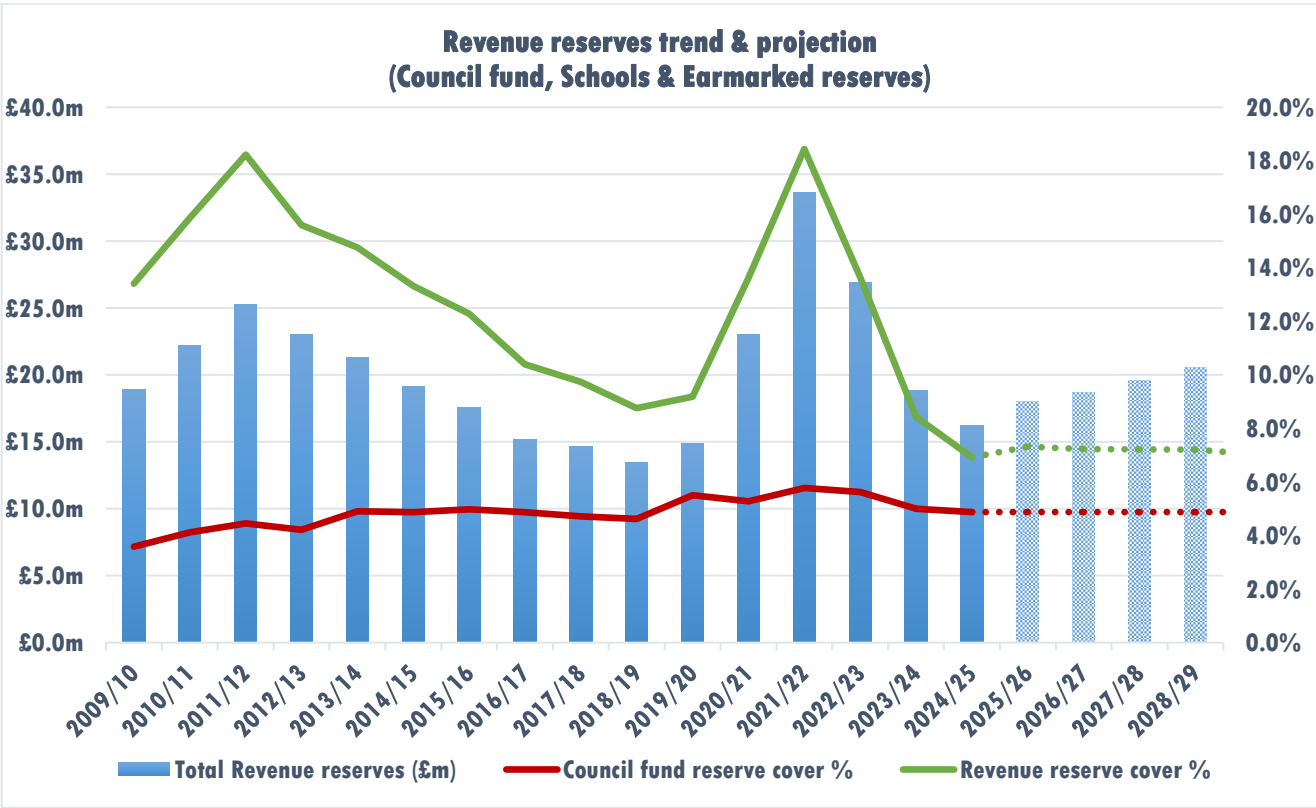
5. Current year budget

- 5.1. The context outlined above continues to impact on the Council's finances in the current financial year.
- 5.2. The first full financial update for 2025/26 will not be considered until September, however early indications are of developing cost pressures and income shortfalls against the approved budget. These are currently in excess of the £850,000 contingency budget that is held.
- 5.3. The Council will need to draw on its successful experience from 2024/25 to bring forward prompt mitigating action by services in order to deliver at least a balanced outturn position by year end.
- 5.4. Notably, the 2025/26 budget continues to be supported by £3.7 million of capital receipts under the Welsh Government's directive on the flexible use of capital receipts. Originally introduced in 2019/20 as a short-term measure to facilitate investment in service transformation and reduce medium-term service costs, this approach was not intended to be a long-term funding strategy. However, the sustained need for service reform over the past five years has necessitated the continued use of this flexibility to support the delivery of cost-reduction initiatives.
- 5.5. The inherent pressures noted above will need to be assessed for their impact upon the 2026/27 budget and over the medium term unless suitably mitigated through service changes, additional funding or alternative recurrent service savings.

6. Reserves

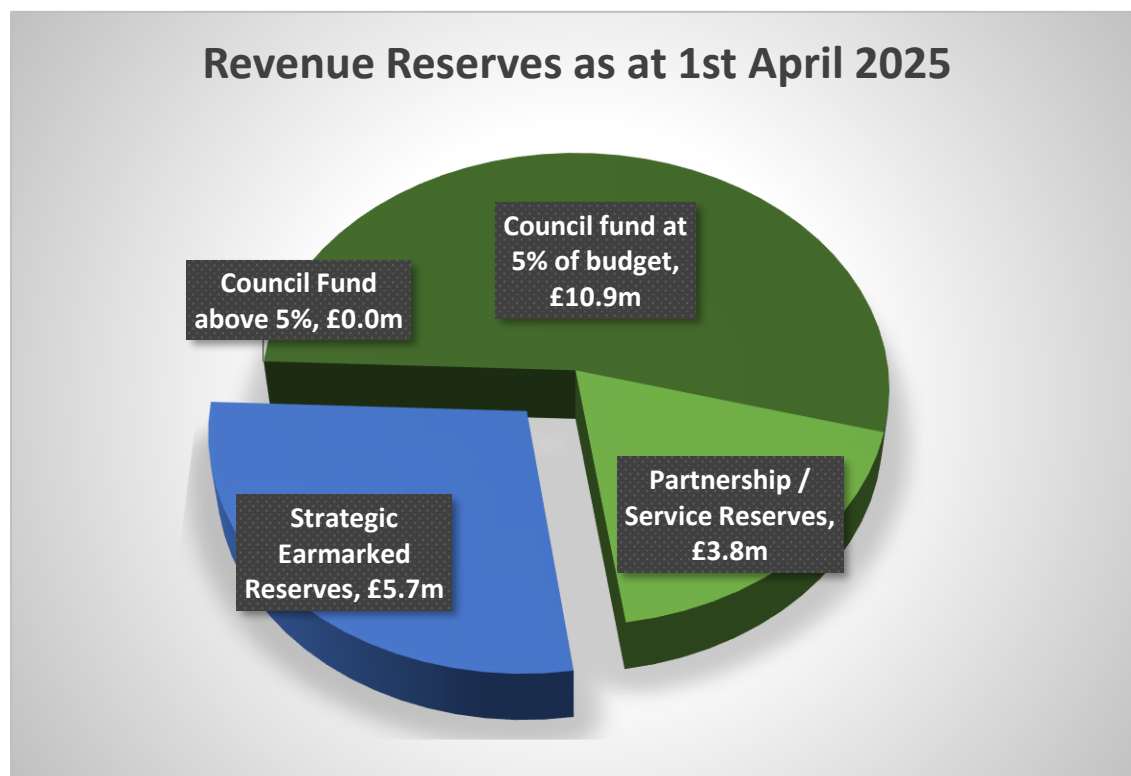
- 6.1. The Council's usable revenue reserves have been significantly depleted due to the need to support both the budget proposals and subsequent recovery measures during the 2022/23 and 2023/24 financial years. This follows a period during the COVID-19 pandemic when reserves were partially restored through substantial Welsh Government funding.

- 6.2. The decisions to utilise reserves were made with careful consideration. Without this intervention, the Council would have faced severe and immediate impacts on service delivery. A balanced approach was necessary in light of the inflationary pressures and increased demand arising from the cost-of-living and public health crises.
- 6.3. Although the 2024/25 financial year saw a modest replenishment of the Council Fund and earmarked reserves, this was outweighed by a £3.187 million increase in the schools reserve deficit, bringing the cumulative schools reserve position to a £4.1 million deficit. Despite additional investment in schools' base budgets for 2025/26, a further draw on reserves is currently forecast. This trend weakens the Council's balance sheet, undermines financial resilience, and heightens risk exposure by reducing available resources.
- 6.4. The current and projected levels of the Council's usable revenue reserves are detailed below:



- 6.5. The Council Fund remains at 5% of the net revenue budget, a level deemed prudent and sufficient to manage short-term financial risks.

- 6.6. Over the medium term, overall reserve levels are expected to remain relatively stable. However, it is important to note that Monmouthshire currently has the lowest reserve cover as a percentage of net revenue budget in Wales². This necessitates a revised reserves policy that prioritises the protection of revenue reserves to safeguard against both anticipated and unforeseen risks. Strengthened budget management and in-year financial discipline will be essential to promptly identify overspends and implement mitigating actions or savings.
- 6.7. This challenge is further exacerbated by the fact that many reserves are earmarked for specific services, partnerships, or timing adjustments, leaving a limited proportion available for strategic use, as outlined below:



preservation of an appropriate and prudent level of reserves.

6.8. The 2025/26 budget planning framework emphasised the need to place the Council on a path toward long-term financial sustainability, including the

² [Audit Wales report on financial sustainability of local government, December 2024 – Table 3](#)

- 6.9. The framework established clear principles for the use of general and earmarked reserves, including a commitment to avoid reliance on revenue reserves to balance the budget.
- 6.10. The reserves policy will continue to evolve to ensure that revenue reserves are both protected and replenished over the medium term, thereby maintaining the Council's capacity to respond to future financial risks.

7. Schools' budgets and reserve balances

- 7.1. The Council allocates funding to schools through an annual delegated budget, known as the Individual Schools Budget (ISB), for which each school's governing body holds direct responsibility. However, the Council retains a key oversight role in monitoring the overall financial performance of schools.
- 7.2. For the 2025/26 financial year, the total ISB delegated to schools amounts to **£60.45 million**, representing approximately **27%** of the Council's net budget.
- 7.3. The majority of school funding is provided by the Council, which receives resources for pre-16 education through the Welsh Government's local government revenue settlement and local taxation. Post-16 education funding is allocated via specific Welsh Government grants. Schools may also generate supplementary income through voluntary contributions, donations, and the rental of premises to community groups.
- 7.4. Schools begin each financial year with reserve balances that reflect cumulative surpluses or deficits from previous years.
- 7.5. The trend in net school reserve balances over the past ten years is as follows:

Year	Net level of School Balances (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	905
2024/25	4,092

- 7.6. The final financial position for 2024/25 showed a significant use of reserves, leading to an overall increase of £3.187 million in the total schools' deficit. As a result, 15 out of 35 schools are now operating in deficit. Earlier forecasts had predicted the deficit could reach £5.0 million, but this was reduced due to cost-saving measures and additional grant funding received later in the year.
- 7.7. There is considerable variation in financial performance across schools. While some continue to deplete their reserves, raising concerns, others maintain relatively healthy surpluses.
- 7.8. Pandemic-related grants temporarily boosted school balances, masking underlying structural deficits in some schools.
- 7.9. Over the past decade, ISB funding has generally increased at a rate exceeding the Council's own settlement from the Welsh Government. However, during and immediately following the pandemic, this trend reversed, coinciding with a period of substantial grant funding to schools.
- 7.10. The legacy of the pandemic continues to affect schools, particularly in areas such as attendance, behaviour, wellbeing, and additional learning needs. Addressing these challenges has required increased staffing and specialist support, driving up costs.
- 7.11. The post-pandemic period has also seen sustained inflation and higher pay awards for teaching and non-teaching staff - costs that have not always been fully funded.
- 7.12. Schools have also been expected to contribute to addressing the Council's broader budgetary pressures during successive challenging financial years.

- 7.13. Concurrently, schools are required to implement the Welsh Government's long-term education reform agenda, including the Curriculum for Wales, reducing absenteeism, closing the attainment gap, and meeting the requirements of the Additional Learning Needs and Education Tribunal Act.
- 7.14. In light of the current funding context and the structural deficits within some schools, the level of future investment in education will be a critical consideration in the upcoming budget process.
- 7.15. The Council's approach must be evidence-based and strategically balanced, taking into account the variability in school financial positions, the overall budget gap, and the need to develop a sustainable, balanced budget.

8. Budget assumptions and the projected budget gap

- 8.1. 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.
- 8.2. 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.
- 8.3. 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.
- 8.4. The latest budget planning assumptions are shown below which reflect the updated assumptions following new data and information coming forward:

Budget assumptions 2026/27	Previous assumption	Updated Assumption	Impact of 1% change in £000's
Expenditure:			
Pay award (non-teaching staff)	2.30%	3.00%	1,099

Pay award (teaching staff – from September 2026)	2.30%	3.00%	419
Superannuation rates	25.3%	23.90%	668
Non-pay inflation	0.00%	2.00%	1,279
Service pressures (non-schools)	£7.5m	£7.5m	
Service pressures (schools)	£0.0m	£0.0m	
Borrowing cost pressures	£1.0m	£1.0m	
Fire levy	3.95%	3.95%	62
Income and Efficiencies:			
Staff vacancy factor (non-schools)	3.00%	3.00%	659
Fees and charges	2.00%	2.00%	217
Funding:			
Welsh Government Settlement (AEF)	1.3%	1.3%	1,352
Council Tax (MCC) - Band D increase	3.95%	3.95%	786
Capitalisation direction support	£2,358,000	£2,708,000	

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

Pay award (non-teaching staff)	Increase from 2.3% to 3.0%. Assumptions had previously been based on forecast movements in inflation in line with the target of 2% over the medium term, recognising that there is often a lag effect within pay negotiations. The latest Monetary Policy Committee (MPC) forecasts anticipates a more gradual decline in wage pressures, forecasting wage growth to slow to around 3.7% by the end of 2025. It is therefore felt prudent to revise this assumption upward at the current time.
Pay award (teaching staff)	Increase from 2.3% to 3.0% (September 2026 onwards).

	The independent pay review body has recommended a 4% increase for the academic year starting September 2025. Whilst it is yet to be accepted, this forms the basis of the forecast for the 5/12ths that will fall into the 2026/27 financial year. The projection for the 2026/27 academic year is in line with non-teaching staff at 3% for the reason outlined above.
Superannuation rates	Reduce from 25.3% to 23.9%. The Council's Local Government Pension Scheme valuation review in 2025 has resulted in revision to the Councils contribution rate, with a stepped reduction recommended from 24.9% in 2025/26 to 21.9% in 2028/29. This has resulted from an improved overall pension funding position within the fund. The Teacher's Pension Scheme (TPS) was subject to its actuarial review which increased contributions with effect from 1st April 2024 and funded via Welsh Government grant.
Non-pay inflation	Increase from 0% to 2.0%. Over more 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. This was adjusted in 2025/26 following reflection upon previous budget rounds and the significant impact that inflation has had on final cost pressures experienced by services. At this stage, an allowance of 2% remains prudent. This assumption will be further considered as better information becomes available.
Service pressures (non-schools)	Maintain at £7.5m. Provision is made within 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.

	When considering the gross pressures included within the 2024/25 budget outturn, coupled with early indications of cost pressures on the 2025/26 budget, this assumption remains prudent. An initial review of recurrent pressures impacting 2026/27 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.
Service pressures (schools)	Maintain at £0.0m. 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. The additional recurring £1m of funding added to schools' budgets for 2025/26 will provide ongoing support for pressures being experienced. Any further investment will need to be carefully balanced with overall funding landscape for the Council, the need to set a balanced budget, and the need for schools to operate within a financially sustainable budget.
Borrowing cost pressures	Maintain at £1.0m. 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. Coupled with capital programme commitments, is expected to create further cost pressure of £1.0m in 2026/27.
Staff vacancy factor (non-schools)	Maintain at 3% Services have consistently experienced a challenging labour market 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. A vacancy freeze initiated as part of the budget recovery action during over recent years is expected to maintain a degree of vacancy throughout staffing structures leading into 2026/27.

Fees and charges	Maintain at 2% 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 proving stickier than previously anticipated, this assumption will be kept under constant review.
Welsh Government Settlement (AEF)	Maintain at 1.3% increase 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. A Comprehensive Spending Review is expected to be forthcoming from Welsh Government which will provide more certainty on funding allocations in the medium term. 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.
Council Tax increase	Maintain at 3.95% 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 2026/27. 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. 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.

Fire levy	Maintain at 3.95% 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.
Energy	The Council procures its energy through a purchasing consortium, benefiting from regular market intelligence and data updates to inform budget planning. As the budget-setting process progresses, the financial impact of revised energy tariffs will be evaluated across the Council's operational estate, street lighting infrastructure, and the solar farm. Given the volatility of external market conditions, the energy cost landscape remains fluid. This necessitates ongoing monitoring and responsive management, including the potential implementation of mitigation strategies. These may involve reassessing the Council's decarbonisation initiatives and identifying opportunities to reduce overall energy consumption.

- 8.6. The effect of these revised assumptions and pressures being incorporated into the updated modelling is shown below for 2026/27, indicating a projected budget deficit of £13.6m.
- 8.7. This represents an early assessment of the budget landscape for 2026/27. The budget process is always a dynamic one, and all figures will be revised during the process. The funding outlook for local government does, however, remain challenging and the projected budget gap a very real one.

2026/27 projected budget gap	(£000's)	
2025/26 Balanced Budget		0
<u>Pay</u>		
Superannuation rate	-668	
Pay inflation - non-teaching	3,243	

Pay inflation - teaching	1,385	
		3,940
<u>Non-Pay</u>		
Non-pay inflation	2,558	
Fire Levy	244	
Service pressures (non-schools)	7,500	
Service pressures (schools)	0	
Waste Adjustment	3,035	
Indicative budget savings	-819	
Treasury, Corporate & Reserves	1,456	
		13,974
<u>Income</u>		
Council tax increase	-3,106	
WG settlement increase	-1,758	
Fees & Charges	-434	
Reduction in capitalisation directive support	1,000	
		-4,298
Budget Gap		13,616

9. Budgetary Risk

- 9.1. In preparing the Council's 2026/27 budget, a number of financial uncertainties persist, driven by limited forward-looking information and a volatile economic environment that continues to place pressure on public services. In this context, it is essential to maintain a robust risk management framework that enables the identification, assessment, and mitigation of financial risks wherever possible.
- 9.2. The principal risks currently influencing the Council's financial planning are summarised below:

Service pressures	There is currently limited clarity regarding the recurrent budget pressures that will carry forward, as well as new pressures anticipated for 2026/27. This uncertainty presents a challenge in accurately forecasting service demands and associated costs.
National living wage / Real living wage	The Council's pay structure, particularly at the lower end, is directly influenced by increases in the National Living Wage. Each financial year must begin with the lowest pay scale meeting or exceeding the NLW expected in the following April. Although no forecasts are currently available, historical trends show that even during periods of low inflation, the NLW has typically increased by at least 4%, with the exception of 2021. The limited headroom at the lower end of the pay scale may necessitate a review of the Council's grading structure. Additionally, as a Real Living Wage employer, the Council ensures all staff and apprentices are paid at or above this level, which is closely aligned with NLW movements. The NLW also has significant implications for commissioned care services, where the Welsh Government expects local authorities to ensure care workers are paid in line with the NLW.
Economic factors	Inflation and interest rate fluctuations continue to impact the cost of goods, services, and borrowing, placing additional pressure on the Council's financial position.
Delivery of budget saving proposals	81.6% of the £10.9 million in-year savings for 2024/25 were delivered - broadly consistent with historical performance. However, this highlights a potential risk in achieving full delivery of savings targets for 2026/27.
Variations to settlement Assumptions	Each 1% change in the Welsh Government settlement equates to approximately £1.3 million, significantly influencing the Council's ability to plan and deliver services effectively.
Income	The ongoing cost-of-living crisis continues to affect household disposable income, which in turn impacts demand for income-generating Council services. The new responsibilities under the Extended Producer Responsibility scheme for Waste are yet to be fully embedded within services, with the corresponding funding levels being based upon future disposal performance.

Debt recovery	Similarly, financial pressures on households are affecting the Council's ability to recover debts, including Council Tax and charges for services.
Capacity for service change delivery	High vacancy levels across Council services may limit the organisation's capacity to implement strategic service changes and transformation initiatives.

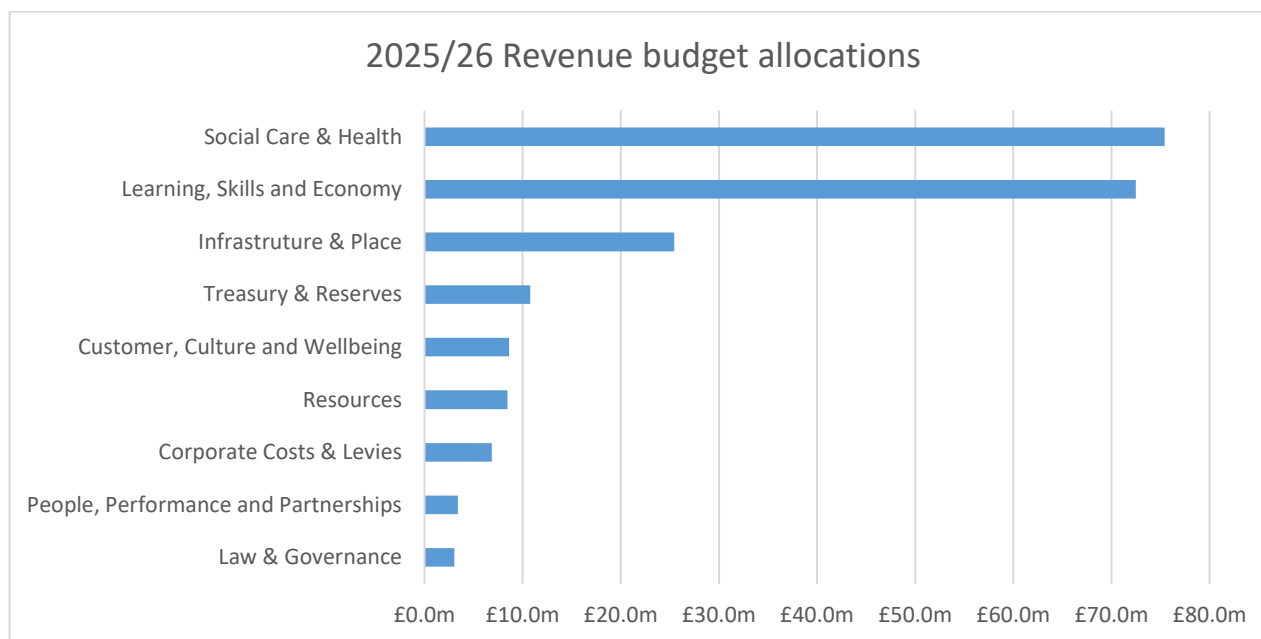
10. Medium term outlook

- 10.1. The medium term outlook remains very uncertain at the current time. 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.
- 10.2. It is anticipated that the Welsh Government Comprehensive Spending Review will provide greater clarity on funding levels over the medium term that will allow service changes to be considered and planned over a more certain timeframe.
- 10.3. The most up to date modelling indicates significant budget gaps over the medium term:

Budget shortfall	In Year (£m)	Cumulative (£m)
2026/27	13.6	13.6
2027/28	8.4	22.0
2028/29	8.0	30.0
2029/30	8.0	38.0

11. Bridging the gap between expenditure and available resources

- 11.1. As the Council prepares for the 2026/27 budget and looks ahead over the medium term, Cabinet must carefully assess the extent to which further cost savings can be achieved through service efficiencies or reductions. This assessment must also consider the potential for mitigating budget shortfalls through additional funding streams or income generation.
- 11.2. Since 2010, the Council has responded to sustained financial austerity by delivering significant efficiencies across services. Many areas are now operating at the minimum level required to meet statutory obligations. In light of the projected budget gap for 2026/27 and beyond, a more strategic, evidence-led approach is essential to ensure that resident needs continue to be met within a financially sustainable framework.
- 11.3. Persistent cost pressures, coupled with funding settlements that have not kept pace with inflation or rising demand, and the introduction of new, often underfunded responsibilities, have led to a growing reliance on savings, efficiencies, and the use of reserves and capital receipts to balance the budget.
- 11.4. With reserve levels now comparatively low and the scope for further efficiencies increasingly constrained, the Council faces a significant financial challenge. Addressing this will require a deliberate and forward-looking response - one that prioritises long-term reform, financial resilience, and the transformation of service delivery.
- 11.5. Of the Council's £227 million service delivery budget, 77% is allocated to three core service areas: Social Care & Health; Learning, Skills & Economy; and Infrastructure & Place (including Waste, Housing, Planning, Highways, and Transport). Achieving financial sustainability over the medium term will necessitate substantial and targeted programmes of change within these high-expenditure areas.



11.6. The Council's programme of change

- 11.7. The Council's evolving programme of change, underpinned by strong financial governance, provides the strategic framework through which services will be reshaped to meet resident needs within available resources. This programme is not simply a response to financial pressures but also a proactive effort to modernise and improve outcomes.
- 11.8. Positive progress continues across the programme of change. To maximise its impact, there is a requirement for coordination and discipline to how this work is captured, aligned, and reported. Doing so will help create a more coherent and connected picture of the overall programme, even though different elements are at varying stages of development.
- 11.9. By putting strong foundations in place, better assessment can be made of the quality and direction of the work underway, ensuring that the outcomes being achieved are moving the Council in the right direction. This will also allow the Council to quickly adapt and refine approach as needed.

11.10. Equally important is identifying what the Council is not doing or may need to stop doing, given the limits on capacity, resources, and funding. Making these choices will be key to delivering meaningful and sustainable change.

11.11. Key areas of ongoing change include:

- **Digital Collaboration:** Leveraging technology to streamline operations, improve service accessibility, and reduce costs.
- **Whole-Authority Strategy for Wellbeing and Prevention:** Shifting focus from reactive services to preventative approaches that improve long-term outcomes and reduce demand.
- **Data-Driven Decision Making:** Embedding the systematic use of data and evidence in policy development and service planning.
- **Leadership Alignment:** Ensuring senior leadership is fully engaged and aligned with transformation objectives to drive cultural and operational change.
- **Community-Centric Service Design:** Enhancing resident engagement and co-design to ensure services are responsive, inclusive, and locally relevant.
- **Workforce and Organisational Culture:** Investing in staff development, fostering innovation, and embedding a culture of continuous improvement.
- **Asset optimisation:** The strategic asset management plan is building on identifying underutilised or surplus assets and transforming for new, more effective uses that align with community needs and policy goals.
- A more centralised co-ordination and **assessment of value/outcome/alignment of specific grant funding** streams with our future direction of travel.
- **Appropriate and fit for purpose governance, risk management and capability** – ensuring that all of the above and below is underpinning with sound arrangements to keep the business safe and secure, for delivery and implementation to be overseen, and impacts and outcomes successfully delivered.

11.12. This integrated approach to change is essential to bridging the gap between expenditure and available resources, while maintaining the Council's commitment to delivering high-quality, resident-focused services.

Budgetary Framework for 2026/27

11.13. 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 mitigating any potential impacts of inequality or climate change.
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.
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.

MTFS Strategic Budget Principles

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.

12. Capital programme

- 12.1. In the current climate of financial constraint, capital investment must remain within affordable limits. Demand for capital resources continues to exceed availability, making the prioritisation of projects, securing external funding, and collaboration with partners essential to meeting investment needs.
- 12.2. The capital programme is subject to the same external pressures affecting the revenue budget, including inflation, supply chain disruptions, and internal resourcing challenges. These factors are contributing to delays and reduced delivery capacity within existing capital budgets.
- 12.3. While ongoing condition surveys and monitoring help identify and manage risks, the ageing asset base will inevitably require increasing levels of investment to maintain or refurbish infrastructure to acceptable standards.

12.4. Annual capital allocations for asset maintenance and refurbishment are targeted at the highest-priority backlog issues, focusing on assets in the poorest condition and associated risks. Estate optimisation, asset disposals, transfers, and strategic capital projects will also be used to mitigate risk, although these measures will not fully address the total backlog.

12.5. The current draft capital MTFP is outlined below:

Scheme	Final Budget 2025/26	Indicative Budget 2026/27	Indicative Budget 2027/28	Indicative Budget 2028/29	Indicative Budget 2029/30
Expenditure	£	£	£	£	£
Property Maintenance	1,872,357	1,653,357	1,653,357	1,653,357	1,653,357
Property Maintenance Fees	236,194	236,194	236,194	236,194	236,194
County Farms Maintenance	300,773	300,773	300,773	300,773	300,773
Upgrade School Kitchens	39,725	39,725	39,725	39,725	39,725
Asset Management Schemes	2,449,049	2,230,049	2,230,049	2,230,049	2,230,049
Abergavenny 3-19 school	12,232,076	0	0	0	0
School Development Schemes	12,232,076	0	0	0	0
Carriageway major works	1,136,540	1,136,540	1,136,540	1,136,540	1,136,540
Carriageways & Structures – additional improvements	2,743,000	1,312,000	1,312,000	1,312,000	1,312,000
Safety fence upgrades	76,181	76,181	76,181	76,181	76,181
Footway Reconstruction	197,453	197,453	197,453	197,453	197,453
Reconstruction of bridges & retaining walls	449,041	449,041	449,041	449,041	449,041
Road safety & trafficman programme	161,508	129,508	129,508	129,508	129,508
Signing upgrades & disabled facilities	38,091	38,091	38,091	38,091	38,091
Street Lighting Defect Column Programme	171,408	171,408	171,408	171,408	171,408
Flood Alleviation Schemes	30,427	11,427	11,427	11,427	11,427
Drainage & Gully works	375,000	375,000	375,000	375,000	375,000
Structural Repairs - Public rights of way	437,091	118,091	118,091	118,091	118,091
Surveys and Closures - Public rights of way	90,000	90,000	90,000	90,000	90,000
Ash Dieback/Dangerous Trees works	170,000	100,000	100,000	100,000	100,000
Infrastructure & Transport Schemes	6,075,740	4,204,740	4,204,740	4,204,740	4,204,740

Capital Region City Deal	730,200	730,200	730,200	730,200	730,200
S106 Schemes	287,524	0	0	0	0
Regeneration Schemes	1,017,724	730,200	730,200	730,200	730,200
Disabled Facilities Grant	900,000	900,000	900,000	900,000	900,000
Access for all - Schools	50,000	50,000	50,000	50,000	50,000
Access For All	250,000	250,000	250,000	250,000	250,000
Inclusion Schemes	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000
ICT Hardware replacement	126,000	260,000	260,000	260,000	260,000
Network Estate replacement	100,000	50,000	50,000	50,000	50,000
SRS capital reserve contribution	61,000	61,000	61,000	61,000	61,000
Business world upgrade transition	40,000	0	0	0	0
Asset Management software transition	51,000	0	0	0	0
Ransomware & security	84,500	42,000	42,000	42,000	42,000
ICT Schemes	462,500	413,000	413,000	413,000	413,000
Vehicle Leasing	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Vehicles Leasing	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Capitalisation Directive	3,707,500	2,357,500	1,357,500	0	0
Capitalisation Directive	3,707,500	2,357,500	1,357,500	0	0
Fixed Asset Disposal Costs	50,000	50,000	50,000	50,000	50,000
Match Funding of Grant applications	500,000	500,000	500,000	500,000	500,000
Contingency budget	0	560,000	560,000	560,000	560,000
Other Schemes	550,000	1,110,000	1,110,000	1,110,000	1,110,000
Total Expenditure	29,194,590	13,745,490	12,745,490	11,387,990	11,387,990
Funding	£	£	£	£	£
Supported Borrowing	(2,432,000)	(2,432,000)	(2,432,000)	(2,432,000)	(2,432,000)
Unsupported Borrowing	(18,068,566)	(4,256,990)	(4,256,990)	(4,256,990)	(4,256,990)
Grants & Contributions	(3,333,524)	(3,046,000)	(3,046,000)	(3,046,000)	(3,046,000)
Reserve Funded	(103,000)	(103,000)	(103,000)	(103,000)	(103,000)
Capital Receipts	(3,757,500)	(2,407,500)	(1,407,500)	(50,000)	(50,000)

Vehicle Lease Financing	(1,500,000)	(1,500,000)	(1,500,000)	(1,500,000)	(1,500,000)
Total Funding	(29,194,590)	(13,745,490)	(12,745,490)	(11,387,990)	(11,387,990)
(Surplus) / Deficit	0	0	0	0	0

- 12.6. The Council's Capital Strategy sets out the framework for making and managing capital investment decisions aligned with corporate objectives. It ensures a consistent, informed, and transparent approach to investment planning. The Capital Strategy will be refreshed and presented alongside final budget proposals to Council in March 2026.
- 12.7. While the core capital programme remains in place and supports infrastructure investment, significant backlog pressures persist outside the programme due to affordability constraints. These pressures carry varying levels of risk that must be actively managed and mitigated.
- 12.8. All schemes within the indicative programme will be reviewed for timing and alignment with strategic priorities. Non-urgent projects may be deferred to focus resources on priority schemes or to release capital receipts for wider service redesign.
- 12.9. The Capital Programme for 2026-2030 will be reviewed during the budget-setting process to ensure revenue implications are accurately reflected and that capital plans remain affordable, prudent, and sustainable.
- 12.10. The capital receipts summary below shows the expected level of receipts and planned usage, highlighting the balances available in the next few years. Future investment in capital schemes, is in part dependent on future success of achieving capital receipts as it mitigates the requirement for borrowing.

13. Budget Process and Timetable

- 13.1. In the context of all the above, setting a balanced budget for 2026/27 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.
- 13.2. The draft milestone dates in developing the budgetary process for 2026/27 is as follows:

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

14. Progress against the MTFS Delivery plan

- 14.1. 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.
- 14.2. 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 July 2025
			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	✓	✓	✓	Continual but next milestone is input into 26/27 budget process – Autumn 2025	Cabinet/SLT	Programme evolving to formally capture ongoing change processes.
2	Delivery of budget holder training	Refresh and rollout of training to all budget holders	✓	✓	✓	Autumn 2025	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 2026	Deputy Chief Executive	
4	Independent financial resilience review to be undertaken	Independent review to highlight and further areas for improvement		✓		March 2026	Deputy Chief Executive	

5	Enhance approach to modelling future growth, demand, demographic and inflationary pressures in the MTFP		✓	✓	✓	Ongoing	Head of Finance	Work is progressing on developing more evidence based data metrics to support the budget process. Some of 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	✓			July 2025	Deputy Chief Executive; Head of Finance	Completed as part of 2024/25 outturn and endorsed by Cabinet
7	Financial risk register to be maintained and regularly updated	To ensure that suitable mitigations are in place against key financial risks	✓	✓	✓	Ongoing	Head of Finance	Risks have currently been identified and updated as part of this plan update. Also captured through various risk registers.
8	Annual review of fees and charges	To benchmark and assess fees and charges to ascertain scope for further income potential	✓	✓	✓	December 2025 and annually	Head of Finance	