

SUBJECT: 2025/26 REVENUE BUDGET – FINANCIAL UPDATE
MEETING: PERFORMANCE & OVERVIEW SCRUTINY COMMITTEE
DATE: 23rd September 2025
DIVISION/WARDS AFFECTED: ALL

1. PURPOSE:

1.1 To provide Cabinet with an update of the progress against the Council’s revenue budget for the 2025/26 financial year.

RECOMMENDATIONS TO PERFORMANCE AND OVERVIEW SCRUTINY COMMITTEE

- i. That the Performance and Overview Scrutiny Committee scrutinise the revenue budget forecast for the financial year;
- ii. That the Committee as part of their role assesses whether effective budget monitoring is in place; the extent to which budgets are spent within the agreed budget and policy framework, including the reasonableness of the explanation for variances and; consider the achievement of progress in meeting budget savings targets.

2. RECOMMENDATIONS (to Cabinet):

- 3.1 That Cabinet note the forecast revenue budget overspend of £533,000, representing a forecast 0.2% variance against the approved budget for the year.
- 3.2 That Cabinet note the budgetary risks that are inbuilt into this forecast, namely;
 - The volatility of demand for high-cost services, particularly in Adults & Children’s Social Care;
 - Higher inflation levels currently being experienced than originally budgeted for;
 - The risk of further non-delivery of the £10.7m of budgeted savings targets, with services currently forecasting 92.1% delivery;

- The trend of reducing debt recovery, particularly within Council tax and Social Care where there has been a slowing down in collection rates, and where there are increasing numbers of discounts and exemptions being awarded;
 - The potential impact upon the Council's financial resilience from the forecast increase in the cumulative schools reserves deficit that is being carried on the Council's balance sheet.
- 3.3 Cabinet notes that confirmation has been received for funding related to the increased cost of Employers' National Insurance Contributions, resulting in a funding shortfall of £811k or 24% compared to the actual cost increases. The Council will use its contingency budget of £850k to address this shortfall, as reflected within this forecast.
- 3.4 That Cabinet note the forecast increase in the deficit on cumulative schools reserves as outlined in **Appendix 4** of this report of £2,835,000. This would result in school balances ending the financial year in a deficit of £6,926,000, with eighteen of thirty-five schools forecast to be in a deficit balance.
- 3.5 That Cabinet note that schools which are budgeting to end the 2025/26 financial year in a deficit balance are required to bring forward recovery plans by October half term to ensure that the proposed actions to address their budget shortfalls are instigated.

4 KEY ISSUES:

4.1 Context

- 4.2 The 2025/26 budget round reflected the sustained period of increased demand, complexity, and costs within School ALN provision, and Adults and Children's social care, which were addressed through significant base budget increases.
- 4.3 The budget set by Council in March also needed to consider other headwinds which continue to impact the Council's service operating environment:
- The wider socio-economic landscape and cost of living challenges that continue to have an impact on our communities, with a consequential increase in demand for Council services, and impact upon income generating services
 - The wider public sector challenges which impact upon Council services, notably within Health where efforts to improve patient pathways impact upon the level and complexity of demand for Social care
 - Headline inflation rates remain above UK Government targets, with some discrete areas of Council services continuing to experience cost pressures on supplies and services alongside supply chain issues

- In continuing efforts to combat inflation, interest rates have remained higher for longer and above previous UK Government forecasts

4.4 The above results in a growing need for supportive Council services, pressure on income generating services, increased risks around debt recovery, and a higher-cost operating environment.

4.5 Revenue budget forecast

4.6 Full Council approved a revenue expenditure budget of £236,778,000 for the 2025/26 financial year. The latest forecast against this budget at a directorate level is shown below:

Table 1: Revenue budget forecast by directorate

| Directorate | Budget £000's | Forecast £000's | Forecast Overspend / (Underspend) £000's | % Variance to budget |
|------------------------------------|------------------|--------------------|---|-------------------------|
| Social Care, Health & Safeguarding | 77,982 | 79,056 | 1,074 | 1.4% |
| Learning, Skills & Economy | 72,635 | 72,675 | 40 | 0.1% |
| Infrastructure | 21,462 | 21,402 | (61) | -0.3% |
| Place & Community Wellbeing | 7,632 | 7,773 | 141 | 1.8% |
| People, Performance & Partnerships | 4,655 | 4,754 | 99 | 2.1% |
| Legal & Governance | 3,089 | 3,153 | 64 | 2.1% |
| Resources | 9,216 | 9,121 | (95) | -1.0% |
| Corporate & Treasury management | 40,106 | 40,564 | 458 | 1.1% |
| Expenditure to be financed | 236,778 | 238,497 | 1,719 | 0.7% |
| Financing | (236,778) | (237,964) | (1,186) | -0.5% |
| Total | 0 | 533 | 533 | 0.2% |

4.7 Specific cost pressures remain within Social Care despite significant investment as part of the base budget for 2025/26. In Adult services this is driven by the rising demand for high-cost care packages, particularly in placements. While reablement efforts are expanding, they

are not yet sufficient to offset the overall need for care. Service and practice changes are beginning to mitigate costs, but further progress is needed.

- 4.8 In children's services, although placement costs remain stable, financial strain has emerged due to the need to sustain family support following the withdrawal of certain Welsh Government grants. Maintaining this support is crucial to prevent increased placement costs and to ensure better outcomes for children.
- 4.9 Both Adults and Children's services are vulnerable to fluctuations in demand, especially as winter approaches. In housing and homelessness, the opening of Severn View offers some immediate cost mitigation, but pressures within private leasing through increased costs and rental debt arrears present ongoing financial challenges that require further mitigation.
- 4.10 Fleet Maintenance is forecasting a £171k overspend, driven by increased fuel costs, hire charges, and EV charger inspection and maintenance. The service is actively monitoring vehicle utilisation to reduce this overspend by year-end.
- 4.11 Passenger transport faces a net overspend of £392k, driven by a £265k shortfall in School transport against the catchment area savings planned for 2025/26. Changes in pupil numbers and route safety have limited the ability to fully realise expected savings. Internal operations are also under strain due to reduced income from contract changes and delays in adjusting vehicle and staffing costs. While grant income has helped offset some of the pressure, further mitigation options are being explored, with more accurate figures expected once September pupil numbers and contracts are confirmed.
- 4.12 Funding for the increased cost of Employers' National Insurance Contributions was not included within the final Welsh Government grant settlement. For the purposes of budget setting, it was assumed that the additional £3.32m pressure relating to the increase in 'direct' employers' national insurance contributions would be fully funded. Confirmation was received in July that Monmouthshire will receive £2.51m of funding, a shortfall of £811k or 24%. The Council set aside a contingency budget of £850k as part of budget setting that will need to be drawn upon to address this shortfall and this is reflected within forecasts. Whilst it has been confirmed that the funding will transfer into the Welsh Government grant base for 2026/27, the recurrent cost pressure will also need to be considered as part of the budget process for 2026/27.
- 4.13 The NJC pay award for 2025/26 was agreed in July at 3.2% which is marginally above the budgeted assumption of 3.1%. The resultant additional cost pressure of £0.1m will need to be met from within existing service budgets, with an increase in base budget pressure considered for 2026/27.

- 4.14 The NJC have agreed that from 1 April 2026, Spinal Column Point (SCP) 2 will be permanently deleted from the NJC pay spine. Whilst this is not expected to result in an immediate cost pressure, it may be necessary to review existing pay band structures given the erosion in the pay differential between bands.
- 4.15 Welsh Government have confirmed a 4% pay award will be implemented for teaching staff from September 2025. Whilst this increase is above the Councils budget assumption of 3.1% increase, Welsh Government have confirmed they will continue with their recent commitment of providing additional grant funding in-year to meet the increased costs falling to local government. As a result, no budget cost pressure is anticipated.
- 4.16 Underspends within Waste and Decarbonisation, alongside ongoing staff vacancies across some services, and out-performance of Council tax income targets have all helped mitigate the overspends reported.
- 4.17 **Appendix 1** to this report outlines the summary reasons for the service budget variances, with a more detailed explanation outlined in **Appendix 2**.

4.18 Budgeted service savings

- 4.19 As part of the approved revenue budget, services were required to bring forward and deliver savings totalling £10,701,000. The current forecast indicates a projected shortfall of £847,000 (7.9%) in meeting this target.
- 4.20 Full details of progress against individual savings targets can be found at **Appendix 3** to this report, however the main variances are as follows:

Table 2: Progress against budgeted savings targets

| Savings proposals by Directorate | Budgeted Saving | Current Forecast | Variance | Percentage met | Comment |
|------------------------------------|-----------------|------------------|----------|----------------|--|
| | £000 | £000 | £000 | % | |
| Social Care, Health & Safeguarding | (2,950) | (2,589) | 361 | 87.8% | £250k Adult's services - Too early in the year to ascertain if the full £250k of savings will be delivered from practice change, given the complexity and level of demand for care presenting. |

| | | | | | |
|--------------------------------------|-----------------|----------------|------------|--------------|--|
| | | | | | £111k Homelessness – Delay in Severn view opening that impacts on 4 months of savings being generated. |
| Learning, Skills and Economy | (745) | (745) | 0 | 100% | No variance forecast |
| Infrastructure | (5,679) | (5,254) | 425 | 92.5% | £265k Passenger Transport routes - Pupil figures have changed, and some routes are unsafe, requiring continued transport. £160k Waste funding – the final extended producer responsibility funding has been confirmed as slightly lower than anticipated. |
| Place & Community Wellbeing | (606) | (606) | 0 | 100% | No variance forecast |
| People, Performance and Partnerships | (165) | (104) | 61 | 63.0% | Savings anticipated from further structure changes are not deemed achievable following further review. Savings in subscriptions has not been achieved. |
| Legal & Governance | (1) | (1) | 0 | 100% | No variance forecast |
| Resources | (555) | (555) | 0 | 100% | No variance forecast |
| Totals | (10,701) | (9,854) | 847 | 92.1% | |

4.21 Schools' budgets and reserves

4.22 The overall level of school reserves are currently forecast to move further into deficit by £2,835,000 by the end of the 2025/26 financial year, to a collective deficit balance of £6,926,000. This forecast draw is £120,000 above the budgets schools have set for the year.

| School reserve balances at 31 st March (Surplus) / Deficit | 2022 £000 | 2023 £000 | 2024 £000 | 2025 £000 | 2026 (Forecast) £000 |
|--|--------------|--------------|--------------|--------------|-------------------------|
| Comprehensive schools | (2,253) | (1,259) | 976 | 1,366 | 1,973 |
| Middle schools | 0 | 0 | 329 | 1,386 | 1,917 |

| | | | | | |
|-----------------|----------------|----------------|------------|--------------|--------------|
| Primary schools | (4,622) | (3,027) | (1,142) | (306) | 265 |
| Special schools | (79) | 31 | 742 | 1,645 | 2,771 |
| Total | (6,955) | (4,255) | 905 | 4,091 | 6,926 |

4.23 The legacy impact of the pandemic continues within the school environment, particularly in respect of attendance, behaviours and increased additional learning needs. This has required increased staff and specialist resources to tackle the issues presenting and increased overall costs of provision. Higher than budgeted pay awards for both teaching and non-teaching staff have also impacted upon budgets in recent years.

4.24 All schools that forecast a deficit balance at a financial year-end are required to bring forward budget recovery plans. Close monitoring and support continues to be given to these schools, as well as those at risk of entering a deficit position over the medium term, to ensure that the proposed actions to address medium term budget challenges are instigated.

4.25 **Financial implications and future focus**

4.26 The budget planning framework for 2025/26 reaffirmed the need to progress the Council on a path towards financial sustainability including conserving an appropriate and prudent level of financial resilience, of which the Council's reserves are a key component. As a consequence, the final revenue budget proposals for 2025/26 did not include any use of reserves to meet recurrent revenue expenditure.

4.27 The delivery of a balanced budget position for 2025/26, alongside substantial budget recovery action within schools will be fundamental in maintaining financial stability and limiting any further impact upon the Council's reserves.

4.28 The continuing financial headwinds, increasing demand for services, funding uncertainty, and the need for £10.7m of service savings to be delivered present tangible ongoing budget risks for the year.

4.29 When this is considered alongside a significant budget gap to be resolved for 2026/27, and a challenging and uncertain funding outlook over the medium term, there remains ongoing challenge to the financial resilience of the Council.

- 4.30 The forecast budget deficit of £533,000 will need to be managed through the collective financial discipline that has been a feature of recent budgets.
- 4.31 As we move towards the next formal monitoring period, work will continue to deliver on the structured approach to tackling the underlying budget pressures, with particular importance assigned to tackling costs which have the ability to be recurrent for 2026/27 and beyond.
- 4.32 In order to deliver this, a range of mitigation measures will need to be implemented, including, but not limited to:
- Maximising all grant and income opportunities, including the transfer of core costs into grant where conditions allow
 - Vacancy management with a strategic and thoughtful approach to the filling vacant posts that is in line with the needs of the service, and the longer term objectives of the Council
 - Maximising the opportunity to meet the costs of organisational reform from capital receipts where regulations allow

4.33 Remaining budgetary risks

- 4.34 There remain specific budgetary risks that have the ability to further impact upon the revenue budget during 2025/26:
- **Further non-delivery of budget savings targets**, especially where these involve income generation, changes to structures, alternative delivery models or those involving community or other partners.
 - The trend of **reducing debt recovery**, particularly within Council tax and Social Care where there has been a slowing down in collection rates, and where there are increasing numbers of discounts and exemptions being awarded;
 - **The recruitment market** remains challenging, with some services encountering difficulty hiring and retaining suitably qualified and skilled staff. Whilst this will result in a reduction in immediate expenditure, it will impact the ability to deliver services in line with the Councils objectives.
 - **CPI inflation** rose by 3.8% in the 12 months to July 2025, up from 3.6% in June 2025 and the highest since January 2024. This is above budgeted assumptions. Current projections suggest that inflation will rise to 4% over the coming months before easing. This has the consequence of increasing costs and contracts agreed over the remainder of the financial year.
 - **Schools reserve balances** – the further forecast draw on balances for 2025/26 of £2.8m would significantly increase the cumulative schools reserve 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 RESOURCE IMPLICATIONS:

- 5.1 The report itself covers the resource implications of the entirety of the revenue budget activity during the year. There are no further resource implications as a result of the recommendations in this report.

6 EQUALITY AND FUTURE GENERATIONS EVALUATION (INCLUDES SOCIAL JUSTICE, SAFEGUARDING AND CORPORATE PARENTING):

- 6.1 This report provides Members with an update on the progress being made against the revenue budget of the Authority and carries no decisions. There are therefore no equality and future generations' implications directly arising from this report.

CONSULTEES:

Senior Leadership Team
Cabinet

BACKGROUND PAPERS:

Appendix 1 – Summary service variances
Appendix 2 – Detailed service variances and commentary
Appendix 3 – Progress against budgeted savings
Appendix 4 – Individual school balance forecasts

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Appendix 1 – Summary of service variances forecast

| Directorate | Forecast Overspend / (Underspend) (£000s) | % Variance to budget | Overspend | Underspend |
|--------------------------------------|---|----------------------|---|--|
| Social Care, Health & Safeguarding | 1,074 | 1.4% | Children's services £598k – Primarily additional Counsel costs of £293k and reduction in WG grant £274k | |
| | | | Adult services £201k – level and complexity of care needs tracking slightly above budgeted levels | |
| | | | Housing & Homelessness £238k – Delay in opening of Severn view and repair costs to B&B premises | |
| Children, Learning, Skills & Economy | 40 | 0.1% | Central budgets £40k – Various smaller over spends relating to management staff costs, income reductions and ICT costs | |
| Infrastructure | (61) | -0.3% | Passenger transport £392k – Shortfall in meeting pupil transport route savings £265k, reduced income & vehicle/staffing adjustments taking longer than anticipated £127k | Grounds Maintenance £76k - staff savings and increased fee income |

| Directorate | Forecast Overspend / (Underspend) (£000s) | % Variance to budget | Overspend | Underspend |
|---|---|----------------------|---|---|
| | | | Fleet Maintenance £171k – fuel, hire charges and EV charging inspection and maintenance | Decarbonisation £152k – increased income from the Solar farm, staff vacancies, offset by inability to meet corporate mileage savings |
| | | | | Schools catering £93k – increased grant and staff vacancies |
| | | | | Waste £285k – one-off dividend from incineration partnership alongside savings in disposal and recycling contracts, and some staff savings |
| Place & Community Wellbeing | 141 | 1.8% | Car parking £109k – under recovery of fixed penalty charges and higher than anticipated publication costs | |
| | | | Culture & Community Learning £38k – staffing costs, inflationary impact on some contracts | |
| People, Performance and Partnerships | 99 | 2.1% | Communications £88k - Staffing structure changes and reduction in income. | Contact Centre - £39k – system and licence spend coming in below budget |
| | | | Community & Partnership developments - £50k - Tour of Britain cycling contribution and requirement for security, road closures, and cleansing | Payroll & System Support - £73k – reduction in system and supplies & services spend and staff vacancy |
| | | | People Management - £44k – unachievable staff vacancy factor and extra staff resource being put in place to bolster team capacity | |
| | | | Subscriptions - £32k – costs have exceeded available budget, in addition the membership of New Local was renewed which was an agreed budget saving | |
| Legal & Governance | 64 | 2.1% | Members - £54k – overspend against superannuation contributions plus an inability to achieve vacancy factor savings, coupled with an increase in Mod Gov system charges. | Staff savings - £22k |

| Directorate | Forecast Overspend / (Underspend) (£000s) | % Variance to budget | Overspend | Underspend |
|--|---|----------------------|---|--|
| | | | Legal - £32k – inability to achieve staff vacancy factor savings and an anticipated reduction in court fee income | |
| Resources | (95) | -1.0% | Newport leisure park £44k – the income surplus of £278k is £44k below budget due to unbudgeted utility costs associated with a vacant unit | Finance/Audit £58k – grant income and staff vacancies |
| | | | Castlegate £90k - increased operating costs associated with vacant units that fall to the authority to manage | Building cleaning & Public conveniences £130k – part-year staff vacancies as the service implements a restructure, as well as savings on maintenance and business rates in public conveniences. |
| | | | County Farms & Industrial units £78k – Void Property Costs (£50k) from covering running costs of vacant farms and cottages. Professional Fees (£20k) for valuations and succession reports needed for tenancy management | Landlord services £94k - staff vacancies offset by a shortfall in other rental income |
| Corporate & Treasury Management | 458 | 1.1% | Earmarked reserves £535k – unbudgeted contribution to Council Tax Premium reserve is forecast. This will be mirrored by a corresponding underspend within Council tax | Lower net borrowing costs £50k - reflective of higher than anticipated cash balances, forward starting loans, and capital slippage. |
| Financing | (1,186) | -0.5% | | Council tax reduction scheme £400k - cases have tracked slightly lower than budgeted for the year Council tax £250k – changes in the domestic registration list of properties chargeable has resulted in an increase of income forecast Council tax premiums £535k – The collection rate is currently higher than anticipated when setting the budget |
| Total | 533 | 0.2% | | |

