

<b>SUBJECT:</b>	<b>2025/26 REVENUE BUDGET – FINANCIAL UPDATE</b>
<b>MEETING:</b>	<b>PERFORMANCE &amp; OVERVIEW SCRUTINY COMMITTEE</b>
<b>DATE:</b>	<b>18th November 2025</b>
<b>DIVISION/WARDS AFFECTED:</b>	<b>ALL</b>

**1. PURPOSE:**

- 1.1 To provide Cabinet with an update of the progress against the Councils 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 2024/25 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 a forecast revenue budget underspend of £29,000 at update 2.
- 3.2 This represents a £1.323 million improvement since the initial financial update, reversing a previously forecast overspend of £533,000 and restoring £761,000 of the Council's budget contingency.
- 3.3 The improvement is primarily driven by changes in Social Care where the ability to maximise the impact of grant funding to meet core expenditure has benefited the forecast.

- 3.4 That Cabinet note the budgetary risks that are inbuilt into this forecast, namely;
- Demand for high-cost services such as Social Care and Additional Learning Needs remains volatile.
  - Inflation continues to be higher than anticipated.
  - Only 90.4% of the £10.7m saving targets are expected to be met, down from the previously forecast 92.1%.
  - Debt recovery rates are declining, especially in Council Tax and Social Care.
  - The growing cumulative schools' reserves deficit that weakens the Council's financial resilience.
- 3.5 The Cabinet notes the projected increase in the deficit on cumulative schools' reserves, as detailed in **Appendix 4** of this report, amounting to £2,970,000, an increase of £135,000 compared to the previous forecast. School balances are expected to close the financial year at a deficit of £7,061,000, with eighteen out of thirty-five schools anticipated to have a deficit balance.
- 3.6 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.
- 3.7 The Cabinet note the forecast Capital budget expenditure for the year of £59.79 million, alongside projected slippage of £8.14 million. No significant variances are anticipated at the current time with a minor underspend of £19k reported.

## 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.
- 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. At the first financial update in July a forecast overspend of £533,000 was reported against this budget.

4.7 This position has improved significantly at update 2 by £1.323 million, reversing the previously forecast overspend of £533,000 and also restoring £761,000 of the Council's budget contingency which had originally been used to mitigate overspends within the first forecast.

**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	78,131	149	0.2%
Learning, Skills & Economy	72,635	72,804	169	0.2%
Infrastructure	21,462	21,148	(314)	-1.5%
Place & Community Wellbeing	6,223	6,202	(21)	-0.3%
People, Performance & Partnerships	6,275	6,323	48	0.8%
Legal & Governance	3,089	3,158	69	2.2%
Resources	9,006	8,861	(145)	-1.6%

Corporate & Treasury management	40,106	41,326	1,221	3.0%
<b>Expenditure to be financed</b>	<b>236,778</b>	<b>237,954</b>	<b>1,176</b>	<b>0.5%</b>
Financing	(236,778)	(237,983)	(1,205)	-0.5%
<b>Total</b>	<b>0</b>	<b>(29)</b>	<b>(29)</b>	<b>0.0%</b>

- 4.8 Despite the improving position with Social care, there remain specific underlying cost pressures. In Adult services this is driven by the rising demand for high-cost care packages, particularly in residential 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. Annually allocated grants are helping to offset these pressures, but also bring expectations for faster hospital discharges, potentially increasing the need for expensive care packages.
- 4.9 In children's services the financial position has improved due to successful negotiations limiting annual uplifts for external placements, but significant pressures remain, notably linked to increased use of external counsel and barristers in family court cases, reflecting the necessity to ensure children's safety and welfare. Additionally, a reduction in Welsh Government grant funding has created a pressure on Family Support services, which, despite funding challenges, continue to play a vital role in preventing children from entering care and supporting safe family reunification. Maintaining these services is crucial to cost avoidance and promoting positive outcomes for children and families, as most children involved with children's services benefit from some level of family or community-based support, and any reduction could lead to increased care admissions.
- 4.10 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 continue within private leasing through increased void and repair costs and rental debt arrears. Encouragingly, reliance on B&B accommodation is currently at a historic low.
- 4.11 An overspend of £169,000 within Learning, Skills & Economy is largely driven by increased costs in Early Years where grant income does not fully meet the cost of provision, and in Breakfast clubs where additional catering and staffing provision has been required.
- 4.12 Facilities and Fleet is forecasting a £385k overspend, driven by pressures 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. Within Fleet, increased hire charges and EV charger inspection and maintenance is adding to cost pressures.

- 4.13 Funding for the increased cost of Employers' National Insurance Contributions (NIC's) 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 employers' NIC's for directly employed staff would be fully funded. Confirmation was received in July that Monmouthshire will receive £2.56m of funding, a shortfall of £761k or 23%. Whilst it has been confirmed that the funding will transfer into the Welsh Government grant base for 2026/27, the recurrent cost pressure will need to be considered as part of the budget process for 2026/27.
- 4.14 The National Joint Council (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. Welsh Government are currently considering if further in-year grant support can be given to Councils to support pay pressures, and a further update will be given at update 3.
- 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 and no budget cost pressure is reported.
- 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 fully 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 £1,032,000 (9.6%) in meeting this target – a deterioration from the £847,000 (7.9%) reported at update 1.
- 4.20 Full details of progress against individual savings targets can be found at **Appendix 3** to this report. 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)	(2,548)	402	86.4	£232k 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.  £170k 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)	(5,185)	494	91.3%	£334k 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)	(531)	75	87.6%	£75k Planning application fee increase – Fees will be increased from 1 <sup>st</sup> December, meaning full £100k based on October start cannot be achieved.
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
<b>Totals</b>	<b>(10,701)</b>	<b>(9,669)</b>	<b>1,032</b>	<b>90.4%</b>	

#### 4.21 Schools' budgets and reserves

- 4.22 The overall level of school reserves are currently forecast to move further into deficit by £2,970,000 by the end of the 2025/26 financial year, to a collective deficit balance of £7,061,000. This is a deterioration of £135,000 since the first update, and £255,000 above the budgets schools have collectively set for the year.

<b>School reserve balances at 31<sup>st</sup> March</b>	<b>2022 £000</b>	<b>2023 £000</b>	<b>2024 £000</b>	<b>2025 £000</b>	<b>2026 (Forecast) £000</b>
<b>(Surplus) / Deficit</b>					
Comprehensive schools	(2,253)	(1,259)	976	1,366	1,806
Middle schools	0	0	329	1,386	2,033
Primary schools	(4,622)	(3,027)	(1,142)	(306)	616
Special schools	(79)	31	742	1,645	2,606
<b>Total</b>	<b>(6,955)</b>	<b>(4,255)</b>	<b>905</b>	<b>4,091</b>	<b>7,061</b>

- 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 the 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 Capital Programme

- 4.26 Capital expenditure of £59.79 million is forecast for the year, with no significant variances anticipated at the current time. A marginal under spend of £19k is currently reported. The £1.3m capital contingency budget remains unallocated.
- 4.27 Capital schemes by nature are usually multi-year, and some slippage is to be expected as expenditure profiles change based on flex in project circumstances. A total of 16 capital schemes are indicating that slippage will be required into 2025/26 totalling £8.14 million, representing 12% of the total budget for the year. Recent experience suggests that the final amount of schemes requiring slippage will increase as the year progresses as scheme progress becomes clearer.

- 4.28 **Capital receipts** – The table below outlines the latest forecast of capital receipts balances available to meet future capital commitments. The full balance of capital receipts is committed to future capital investment meaning there is little scope to support additional capital investment. This also means that the level of capitalisation direction support to the revenue budget is profiled to taper down to zero over the medium term.

**Table 5: Capital receipts balances**

<b>Capital receipt balances</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>	<b>2029/30</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Balance as at 1st April	6,083	1,810	1,330	375	428
Capital receipts used for financing	(606)	(50)	(50)	(50)	(50)
Capital receipts used to support capitalisation direction	(3,770)	(2,708)	(1,708)	0	0
Capital receipts Received	0	0	0	0	0
Capital receipts Forecast	103	2,278	803	103	103
<b>Forecast Balance as at 31st March</b>	<b>1,810</b>	<b>1,330</b>	<b>375</b>	<b>428</b>	<b>481</b>

#### 4.29 **Financial implications and future focus**

- 4.30 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.
- 4.31 The delivery of at least 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.
- 4.32 The continuing financial headwinds, increasing demand for services, funding uncertainty, and the need for £10.7m of service savings to be delivered still present tangible ongoing budget risks for the year.
- 4.33 The service commentaries provided indicate that there remain underlying cost pressures that will be recurrent into 2026/27 unless successfully reversed or mitigated. Conversely the mitigations that are offsetting those cost pressures during 2025/26 are less likely to be recurrent, such as annually allocated grants, one-off income, and staff vacancies that are gradually being filled.



- 4.34 When this is considered alongside the existing budget gap to be resolved for 2026/27, and a challenging and uncertain funding outlook over the medium term, the need for strong financial discipline remains paramount.
- 4.35 As we move towards the next formal monitoring period, work will continue to deliver on the structured approach to tackling the underlying cost pressures, with particular importance assigned to tackling costs which have the ability to be recurrent for 2026/27 and beyond.
- 4.36 In order to deliver this, a range of measures will continue 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 through its Community & Corporate plan.
  - Maximising the opportunity to meet the costs of organisational reform from capital receipts where regulations allow

#### 4.37 Remaining budgetary risks

- 4.38 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 Council's objectives.
  - **Inflation** rose by 3.8% in the 12 months to September 2025 and remains well above government targets and above budgeted assumptions. Current projections suggest that inflation could rise further 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 £2.97m 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, Schools reserves, Capital programme

**Appendix 3** – Progress against budgeted savings

**Appendix 4** – Individual school balance forecasts

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## Appendix 1 – Summary of service variances forecast

Directorate	Update 2 Forecast Overspend / (Underspend) (£000s)	% Variance to budget	Overspend	Underspend
Social Care, Health & Safeguarding	149	0.2%	<b>Children's services</b> £83k – Primarily additional Counsel costs of £368k and reduction in WG grant £274k offset by ability to contain annual fees uplifts for external placements	<b>Adult services</b> £326k – ability to meet core costs from available grant funding
			<b>Housing &amp; Homelessness</b> £366k – Delay in opening of Severn view, void and repair costs, rent arrears	
Children, Learning, Skills & Economy	169	0.2%	<b>Central budgets</b> £114k – Various smaller over spends relating to staff costs, income reductions and ICT costs	<b>ALN costs</b> £59k – primarily due to a reduction in independent placements
			<b>Early years</b> £73k – WG grant does not fully cover cost of provision	
			<b>Breakfast clubs</b> £41k – Additional staffing and catering costs	
Infrastructure	(314)	-1.5%	<b>Passenger transport</b> £315k – Shortfall in meeting pupil transport route savings £334k, reduced income on internal operations £75k offset by additional grant	<b>Grounds Maintenance</b> £76k - staff savings and increased fee income
			<b>Fleet Maintenance</b> £70k – hire charges and EV charging inspection and maintenance	<b>Decarbonisation</b> £157k – increased income from the Solar farm, staff vacancies, offset by inability to meet corporate mileage savings
				<b>Schools catering</b> £88k – increased grant and staff vacancies

Directorate	Update 2 Forecast Overspend / (Underspend) (£000s)	% Variance to budget	Overspend	Underspend
				<b>Waste</b> £299k – one-off dividend from incineration partnership alongside savings in disposal and recycling contracts, and some staff savings
				<b>Highways design, flooding &amp; road safety</b> £85k – savings in professional fees, supplies & services and some staff vacancies
<b>Place &amp; Community Wellbeing</b>	<b>(21)</b>	<b>-0.3%</b>	<b>Car parking</b> £74k – under recovery of fixed penalty charges and higher than anticipated publication costs	<b>Performance, Finance and Resources</b> £80k – staff vacancies
<b>People, Performance and Partnerships</b>	<b>48</b>	<b>0.8%</b>	<b>Communications</b> £60k - Staffing structure changes and reduction in income.	<b>Payroll &amp; System Support</b> - £73k – reduction in system and supplies & services spend and staff vacancy
			<b>People Management</b> - £44k – unachievable staff vacancy factor and extra staff resource being put in place to bolster team capacity	
<b>Legal &amp; Governance</b>	<b>69</b>	<b>2.2%</b>	<b>Members</b> - £37k – overspend against superannuation contributions plus an inability to achieve vacancy factor savings, coupled with an increase in Mod Gov system charges.	<b>Staff savings</b> - £15k
			<b>Legal</b> - £56k – inability to achieve staff vacancy factor savings and an anticipated reduction in court fee income	
<b>Resources</b>	<b>(145)</b>	<b>-1.6%</b>	<b>Newport leisure park</b> £47k – the income surplus of £276k is £44k below budget due to unbudgeted utility costs associated with a vacant unit	<b>Building cleaning &amp; Public conveniences</b> £125k – part-year staff vacancies as the service implements a restructure, as well as savings on maintenance and business rates in public conveniences.
			<b>Castlegate</b> £93k - increased operating costs associated with vacant units that fall to the authority to manage	<b>Landlord services</b> £215k - staff vacancies offset by a shortfall in other rental income

Directorate	Update 2 Forecast Overspend / (Underspend) (£000s)	% Variance to budget	Overspend	Underspend
			<b>County Farms</b> £65k – 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	
			<b>Finance</b> £24k – a mixture of smaller overspends relating to Benefits, Council tax and systems support	
<b>Corporate &amp; Treasury Management</b>	<b>1,221</b>	3.0%	<b>Earmarked reserves</b> £576k – unbudgeted contribution to Council Tax Premium reserve is forecast. This will be mirrored by a corresponding underspend within Council tax	<b>Lower net borrowing costs</b> £35k - reflective of higher than anticipated cash balances, forward starting loans, and capital slippage.
			<b>Employers' national insurance £761k –</b> Funding shortfall from Welsh Government to cover increased costs incurred	
<b>Financing</b>	<b>(1,205)</b>	-0.5%		<b>Council tax reduction scheme</b> £420k - cases have tracked slightly lower than budgeted for the year
				<b>Council tax</b> £209k – changes in the domestic registration list of properties chargeable has resulted in an increase of income forecast
				<b>Council tax premiums</b> £576k – The collection rate is currently higher than anticipated when setting the budget
<b>Total</b>	<b>(29)</b>	0.0%		