

SUBJECT: MEDIUM TERM FINANCIAL PLAN UPDATE – NOVEMBER 2025

MEETING: CABINET

DATE: 19th November 2025

DIVISION/WARDS AFFECTED: WHOLE AUTHORITY

1. PURPOSE:

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

2. RECOMMENDATIONS:

- 2.1. Note the updated projected revenue budget shortfall of **£11.5 million** for 2026/27 and a cumulative shortfall of **£37.4 million** over the medium term period to 2029/30.
- 2.2. Note the outline budget setting timetable as outlined in Appendix 1.
- 2.3. Note the progress against the Medium Term Financial Strategy (MTFS) delivery plan, as detailed in Section 13 of Appendix 1.

3. KEY ISSUES:

Background

- 3.1. The Council reviews its budgetary position annually and produces a rolling 4-year plan, known as the Medium Term Financial Plan (MTFP). This plan considers the financial context at both the local and national level together with forecast available resources and budgetary pressures in arriving at a forward financial projection.
- 3.2. This report presents the six-monthly update of the Council's MTFP and outlines the context and framework for the budget for the financial year 2026/27, together with a high-level indication of the financial outlook over the medium term.
- 3.3. The latest Medium Term Financial Plan (MTFP) estimates a budget gap of £11.5 million for 2026/27, increasing to a cumulative total of £37.4 million by 2029/30. These figures represent a positive change from the previously reported £13.6 million and £38.0 million, respectively.

- 3.4. This update reflects updated assumptions around pay inflation, non-pay inflation, superannuation rates, and service pressures.
- 3.5. The prevailing economic climate continues to pose significant challenges for the Council, as persistent inflation, increased service demand and supply chain pressures result in ongoing upward pressure on the cost of delivering council services. Despite a moderation in some cost drivers, issues such as the cost of living crisis and evolving demands within health and social care continue to impact both the community and the Council's financial planning. These factors remain central to shaping the Council's approach to developing a balanced budget for 2026/27 and over the medium-term financial plan (MTFP) window.
- 3.6. Despite these pressures, the Council has demonstrated robust financial management, successfully navigating previous periods of austerity, recession and the pandemic. The 2025/26 budget addressed over £17 million in additional service pressures, and recent financial updates show an improved in-year position compared to prior years, with a projected balanced budget, and with contingency budgets intact. Should this positive trend continue through to year-end, the Council will be well-placed to stabilise its reserves and lay a solid foundation for next year's budget planning.

Forward Outlook

- 3.7. The financial outlook for 2026/27 remains highly uncertain, with significant national and local developments expected to shape the Council's operating environment. Key influences include shifting economic conditions, political uncertainty, policy changes, the prospect of new responsibilities, and evolving demographic factors. It is not yet clear how any changes from the forthcoming UK Government Autumn budget, due on 26th November, will impact public service expenditure or Welsh Government settlements up to 2028/29. This uncertainty highlights the necessity of regularly reviewing the assumptions, modelling, and risk assessments that underpin the Medium Term Financial Plan (MTFP).
- 3.8. Given this challenging context characterised by increased service demands and the ongoing impact of previous efficiency measures, the Council must adopt a strategic and evidence-based approach to budget-setting for 2026/27. Decisions should be guided by robust data analysis, targeted towards areas presenting the greatest need or opportunity, and support broader reforms to ensure the longer-term sustainability of Council services.

External context

- 3.9. The financial year to date has been characterised by significant global economic uncertainty, largely driven by US trade tariffs, which has led to heightened volatility across equity and bond markets. The UK has grappled with speculation over the autumn Budget and concerns about its fiscal stance, resulting in increases in the cost of government borrowing. Inflationary pressures have persisted above the Bank of England's target, while economic growth remained modest.
- 3.10. In response to ongoing economic challenges, central banks adjusted their policies, with the Bank of England reducing its Bank Rate, the US Federal Reserve cutting rates in September, and the European Central Bank lowering its refinancing rate. Forecasts indicate that inflation should gradually return to target levels, although near-term growth is expected to remain subdued. Financial markets have stabilised following earlier volatility, with credit conditions remaining broadly consistent.

- 3.11. These factors all influence the Council's medium term financial planning with impacts upon the costs of good and services, staff pay, utilities prices, interest rates, and levels of funding available to the government to support public sector spending.

Funding context

- 3.12. The Welsh Government's draft budget indicates an average funding growth of 2.5% for Local Government, with assurances that no Local Authority will receive less than a 2.3% increase in allocations, supported by an £8.9 million funding floor. Additionally, several key funding commitments made in the previous year's budget, including allocations for teachers' pay, National Insurance contributions, social care, and childcare, will be made recurrent, providing greater stability for financial planning.
- 3.13. Specific grants, which make up around £58 million of Council income for 2025/26, remain predominantly annual and present ongoing challenges for recruitment and long-term budgeting, particularly in the face of inflation. The Welsh Government has acknowledged these challenges and remain committed to reducing administrative burdens, including a review to consider whether some specific grants should be transferred into Aggregate External Funding (AEF). Such changes may influence future headline funding figures, but for planning purposes, the level of specific grants is assumed unchanged unless there is clear evidence to the contrary.
- 3.14. No major new spending commitments will be introduced in the 2026/27 budget, allowing councils to focus on consolidating and effectively utilising existing funding streams. The provisional Local Government settlement, due for publication on 24th November 2025, is expected to provide further detail and clarity regarding the distribution and impact of these changes for the 2026/27 financial year.
- 3.15. Fees and charges account for a substantial portion of the Council's budget, with £24.8 million budgeted for 2025/26. Any major adjustments to these fees are considered and approved through the Council's budget-setting process. The standard approach is to increase fees and charges annually in line with the inflation rate recorded in the previous September month.

Reserves and School balances

- 3.16. The Council's usable revenue reserves have been significantly reduced following their use to support budget proposals and recovery measures in 2022/23 and 2023/24, with partial restoration during the COVID-19 pandemic from Welsh Government funding. Careful decisions to draw on reserves were made to avoid severe impacts on service delivery amid inflationary pressures and increased demand caused by the cost-of-living and public health crises.
- 3.17. Although there was a modest replenishment of the Council Fund and earmarked reserves in 2024/25, this was offset by a notable increase in the school's reserve deficit, which now stands at £4.1 million. The ongoing trend of reserve depletion weakens the Council's financial resilience and increases risk exposure.
- 3.18. Current and projected reserve levels indicate stability in the short to medium term, with the Council Fund maintained at 5% of the net revenue budget. However, Monmouthshire holds the lowest reserve cover in Wales, which prompted a revised policy to prioritise the protection

of reserves and strengthen budget management. Most reserves are earmarked, limiting their flexibility for strategic use.

- 3.19. The most recent financial data shows a worsening deficit situation for schools, with over half predicted to be in deficit by March 2026. There is wide variation in financial health across schools, as some are running down reserves while others maintain surpluses. Pandemic grants provided temporary relief, but underlying structural deficits remain a concern.
- 3.20. The aftermath of the pandemic continues to present challenges in areas such as attendance, behaviour, wellbeing, and additional learning needs, which has necessitated increased staffing and support. Rising costs due to inflation and higher staff pay awards have added further financial pressure, and not all of these costs have been met through funding. Schools were also being asked to help offset the Council's wider budget shortfalls in a period of sustained financial difficulty.
- 3.21. Looking ahead, schools must continue to implement significant education reforms initiated by the Welsh Government, alongside efforts to close attainment gaps and reduce absenteeism.
- 3.22. Given the variability in school finances and the overarching budgetary pressures, decisions about future investment in education will be pivotal. The Council will need to adopt a balanced, evidence-based approach to ensure the development of a sustainable budget for the sector. Alongside this, the successful delivery of school budget recovery plans will be a key aspect of school budgets being put on a sustainable footing.

Budget assumptions and updated budget modelling

- 3.23. The update of the budget planning assumptions for 2026/27 reflect changes in several key areas, including superannuation rates, service pressures, and income projections. Notable changes include a reduction in superannuation rates, an increase in school service pressures, and adjustments to funding assumptions.
- 3.24. Incorporating these updated assumptions into the budget model has reduced the projected budget gap for 2026/27 from £13.6 million to £11.5 million. However, this figure represents an early assessment, as individual service areas are still refining their budget models, which will further influence final cost pressures and savings requirements. The budget planning process remains dynamic, with ongoing updates to assumptions expected as new information becomes available.
- 3.25. The medium term outlook remains uncertain. It is not anticipated that Welsh Government will provide any form of multi-year indicative funding settlements as part of their final budget proposals. The updated medium term budget shortfall of £37.4 million is 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. The Council will need to remain aware that there are downside risks that could adversely impact further the budget shortfalls modelled over the medium term.

Bridging the gap between expenditure and available resources

- 3.26. The Council is preparing for the 2026/27 budget amid ongoing financial challenges, requiring Cabinet to carefully assess viable options for further cost savings and identify new funding

streams or income opportunities. In response to sustained austerity since 2010, the Council has already achieved significant efficiencies, with most services now operating at statutory minimum levels. Given the persistent budget shortfall, a strategic and evidence-led approach is needed to maintain service provision within a sustainable financial framework.

- 3.27. Ongoing cost pressures, funding settlements failing to keep pace with inflation and rising demand, and underfunded additional responsibilities have resulted in increased reliance on savings, efficiencies, and reserves. With reserve levels now low and limited scope for further efficiencies, the Council must pursue longer-term reform, strengthen financial resilience, and transform how services are delivered. Notably, 77% of the £227 million service delivery budget is concentrated in Social Care & Health, Learning, Skills & Economy, and Infrastructure, meaning substantial targeted change in these areas will be essential for achieving financial sustainability.
- 3.28. It is important that the strategic budget principles approved as part of the MTFS guide the budget approach, and that Community & Corporate plan objectives remain central. The strategy needs to have regard to the whole budget and not just areas that aid in closing the budget gap.
- 3.29. Over the medium-term this will be guided by the Council's ongoing programme of change which provides a strategic framework for reshaping services to meet resident needs within available resources. This is not just a response to financial pressures but a proactive effort to modernise and improve outcomes. Progress is being made, but further coordination and alignment to existing streams of work is needed to establish strong foundations that will enable better assessment of progress and allow the Council to adapt its approach as needed.
- 3.30. Key areas of change include digital collaboration, preventative wellbeing strategies, data-driven decision-making, leadership alignment, community-centric service design, workforce development, and asset optimisation. A more centralised approach to assessing the value and alignment of grant funding is also being developed. Robust governance, risk management, and organisational capability will underpin the successful delivery of this programme.

Capital Programme

- 3.31. Given ongoing financial constraints and rising construction costs, the Council faces significant challenges in delivering its capital investment programme. Demand for capital resources exceeds what is available, requiring careful prioritisation of projects, the pursuit of external funding, and collaboration with partners. Inflation is increasing the price of materials and contracts, while external grants have not kept pace, making affordability a key concern. The need for ongoing investment is heightened by an ageing asset base, and annual allocations are focused on tackling the most urgent maintenance and refurbishment needs, though these efforts are insufficient to fully resolve the backlog.
- 3.32. The Council's Capital Strategy provides a framework for investment decisions, ensuring alignment with corporate objectives and promoting transparent planning. All projects are being reviewed for timing and strategic relevance, with non-urgent schemes potentially deferred to prioritise critical works or generate capital receipts. The Capital Programme for 2026-2030 will be reassessed during the budget process to ensure affordability and

sustainability, with a refreshed Capital Strategy to be presented alongside the final budget in March 2026.

Budget timetable

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

Review of latest of budget modelling using updated assumptions & data	September 2025
High level pressure & saving mandates produced for Cabinet scrutiny	October 2025
MTFP update report - Cabinet	November 2025
Consideration of Welsh Government Provisional settlement	November 2025
Final pressure & saving mandates to be produced	December 2025
Budget assumptions, pressures and savings to undergo further Cabinet scrutiny	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 Welsh Government Final settlement	January 2026
Consideration of scrutiny, consultation, final pressures, savings & assumptions	February 2026
Final budget proposals - Cabinet	March 2026
Formal Council Tax Resolution & Budget Proposals - Council	March 2026

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

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

5. OPTIONS APPRAISAL

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

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

6. EVALUATION CRITERIA

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

7. REASONS:

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

8. RESOURCE IMPLICATIONS:

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

9. CONSULTEES:

Strategic Leadership Team
All Cabinet Members
Performance and Overview Scrutiny committee

10. BACKGROUND PAPERS:

Appendix 1 – Medium Term Financial Plan update – November 2025

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