

Medium term financial plan update – November 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 timeline to of budget updates since the adoption of the MTFS is as follows:

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
Draft 2025/26 Budget published	January 2024	Draft budget published by Cabinet for consultation and engagement
Final 2025/26 Budget approved	March 2025	Final budget endorsed by Cabinet and approved by full Council that included an updated MTFP forecast
Six monthly MTFP Update	July 2025	Received by P&O Scrutiny and Cabinet in July 2025
Six monthly MTFP Update	November 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.
- 2.3. The wider economic context continues to present a challenge, and although there has been a dampening in some of the impacts upon the Council's cost drivers, there remains upward pressure on the cost of delivering council services.

2.4. This report sets out the key factors impacting the Council's financial planning and how the changes in these will be fundamental to developing a balanced budget for 2026/27 and over the MTFS window.

2.5. **Financial Performance and Resilience**

2.6. The Council maintains a strong track record in delivering value for money and managing public resources effectively. It has successfully navigated the impacts of austerity, financial crisis, economic recession, and the COVID-19 pandemic.

2.7. The 2025/26 budget approved in March accommodated over £17m of additional service pressures resulting from increased demands for Council services, and the inflationary impact on both pay and non-pay costs. The budget identified specific areas of financial headwinds, notably:

- Cost of living challenges and the wider socio-economic landscape continue to have an impact on our communities, with a consequential increase in demand for Council services, and reduced demand for 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.

2.8. The first two financial updates received by Cabinet in October and November 2025 demonstrate a much improved forecast performance against budget than has been the case over recent years. Whilst an initial over spend of £533,000 and significant use of budget contingency was forecast in the first financial update in October, this has now been reversed by update two, with a balanced budget outturn now forecast and the £850,000 contingency budget remaining in place.

2.9. If this position continues to hold or can be improved upon through to year-end, it will aid in stabilising the Council's reserves and provide a stronger financial foundation in which to develop the 2026/27 budget.

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, political uncertainty, policy shifts, additional responsibilities, and changes in demographic trends.
- 2.12. The UK Government Autumn budget will be published on the 26th November with a potential funding shortfall to be resolved. It is currently unclear whether there will be any impact upon public services expenditure and consequently any impact upon the multi-year settlements made available to Welsh Government through to 2028/29.
- 2.13. In light of this uncertainty, it is essential that the assumptions, modelling, and risk assessments underpinning the Medium Term Financial Plan (MTFP) remain up to date.
- 2.14. 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 results in a 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. The financial year to date has been marked by considerable global economic uncertainty, primarily stemming from the impact of US trade tariffs. These tariffs led to pronounced volatility in both equity and bond markets, with notable divergence between US and UK government bond yields. The UK has also faced domestic challenges, including speculation surrounding the autumn Budget and concerns about its fiscal position, which contributed to rising yields on medium and long-term gilts and heightened economic uncertainty.

- 3.3. Inflationary pressures have persisted, as UK headline annual CPI rose significantly above the Bank of England's 2% target, reaching 3.8% in August. Meanwhile, the UK economy showed modest expansion, with GDP growth of 0.7% in the first quarter and 0.3% in the second, although growth stalled in July. The labour market softened, with rising unemployment and slowing earnings growth, but not enough to prompt further aggressive rate cuts from the Bank of England's Monetary Policy Committee (MPC).
- 3.4. Central banks responded to the evolving economic landscape with policy adjustments. The Bank of England reduced its Bank Rate twice, while the US Federal Reserve held rates steady before a cut in September, and the European Central Bank lowered its refinancing rate in June. Forecasts suggest inflation will gradually return to target levels, supported by increased spare capacity and tighter policy measures, although near-term GDP is expected to remain subdued amid ongoing uncertainty.
- 3.5. Financial markets have experienced volatility, with bond yields fluctuating and equity markets recovering earlier declines. Credit conditions remained stable, as evidenced by the management of credit default swap prices and rating agency actions, including upgrades and downgrades of several major banks. Overall, market sentiment has improved from initial declines, but persistent volatility and ongoing monitoring of credit stress remain key features shaping financial activity during the year.
- 3.6. The context outlined above has consequences for the Council's medium term financial planning. These 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	<ul style="list-style-type: none"> Increased costs across supplies and services Contractual arrangements calculated via CPI/RPI Impact on pay awards
Labour market	<ul style="list-style-type: none"> Availability of staff and external professional expertise Impact on commissioned services and agency staff Real living wage implications
Utilities prices	<ul style="list-style-type: none"> Impact on energy costs across Schools, Leisure centres, Offices, and Street Lighting Fuel costs for Council vehicles Impact on contracted transport providers
Interest Rates	<ul style="list-style-type: none"> Implications on the revenue cost of borrowing Affordability of the capital programme

Economic & political landscape

- The future level of funding for public services
- Global events - such as trade tariffs, conflicts, or political unrest can shift UK Government's financial priorities
- Domestic policy decisions, such as 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 (Aggregate External Funding), with the remaining 39.5% through council tax income. Regularly reviewing and updating these funding elements are fundamental in developing robust medium term financial plans.
- 4.2. **Welsh Government settlement**
- 4.3. In June 2025, the UK Government's Spending Review set out multi-year settlements for the Welsh Government. It provided resource budgets for the financial years up to 2028/29 and capital budgets up to 2029/30. The longer-term horizon provided additional certainty for the Welsh Government and increased the ability to plan for the future.
- 4.4. 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.
- 4.5. 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.
- 4.6. The outline Draft Budget was published on 14th October and was supported with more detail on 3rd November. The Final Budget will be released on 20 January 2026, with a debate and vote scheduled for 27 January.
- 4.7. The main implications resulting from the Welsh Government draft budget that impact upon Local Government are:
- There will be an average growth of 2.5% in Local Government funding
 - Local authorities will retain the growth in non-domestic rates income in 2026/27
 - Welsh Government are providing £8.9m for a funding floor so that no Local Authority receives less than a 2.3% uplift

- The full-year impact of the additional funding provided for the 2025 teachers' pay award will be made recurrent
- The additional funding to support increases in employers' National Insurance contributions in the public sector will be recurrent
- The additional funding of £30m for social care, £30m for childcare and £8m for the funding floor made at last year's final budget will be recurrent
- The 2026/27 Budget will not introduce major new spending commitments

4.8. In addition to Aggregate External Funding (AEF), Councils receive specific grants subject to defined terms and conditions governing their use. For the 2025/26 financial year, these grants constitute approximately £58 million of Council income. As these funds are typically provided on an annual basis, they present challenges regarding recruitment and financial planning, especially when inflation diminishes their real-term value. The Welsh Government has pledged to alleviate administrative burdens for local authorities, including undertaking a review to consider the potential transfer of certain specific grants into AEF. It is important to recognise that such transfers may impact the reported percentage change in funding during headline announcements. For the purposes of financial planning, the level of specific grants is assumed to remain constant unless there is robust evidence to suggest otherwise.

4.9. The provisional Local Government settlement is scheduled to be published on the 24th November 2025 and will provide further clarity on how the above changes will impact the amount of funding made available for 2026/27.

4.10. **Council Tax**

4.11. The updated Council Tax planning assumption is currently modelled at a 3.95% increase for each year of the MTFP.

4.12. 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%

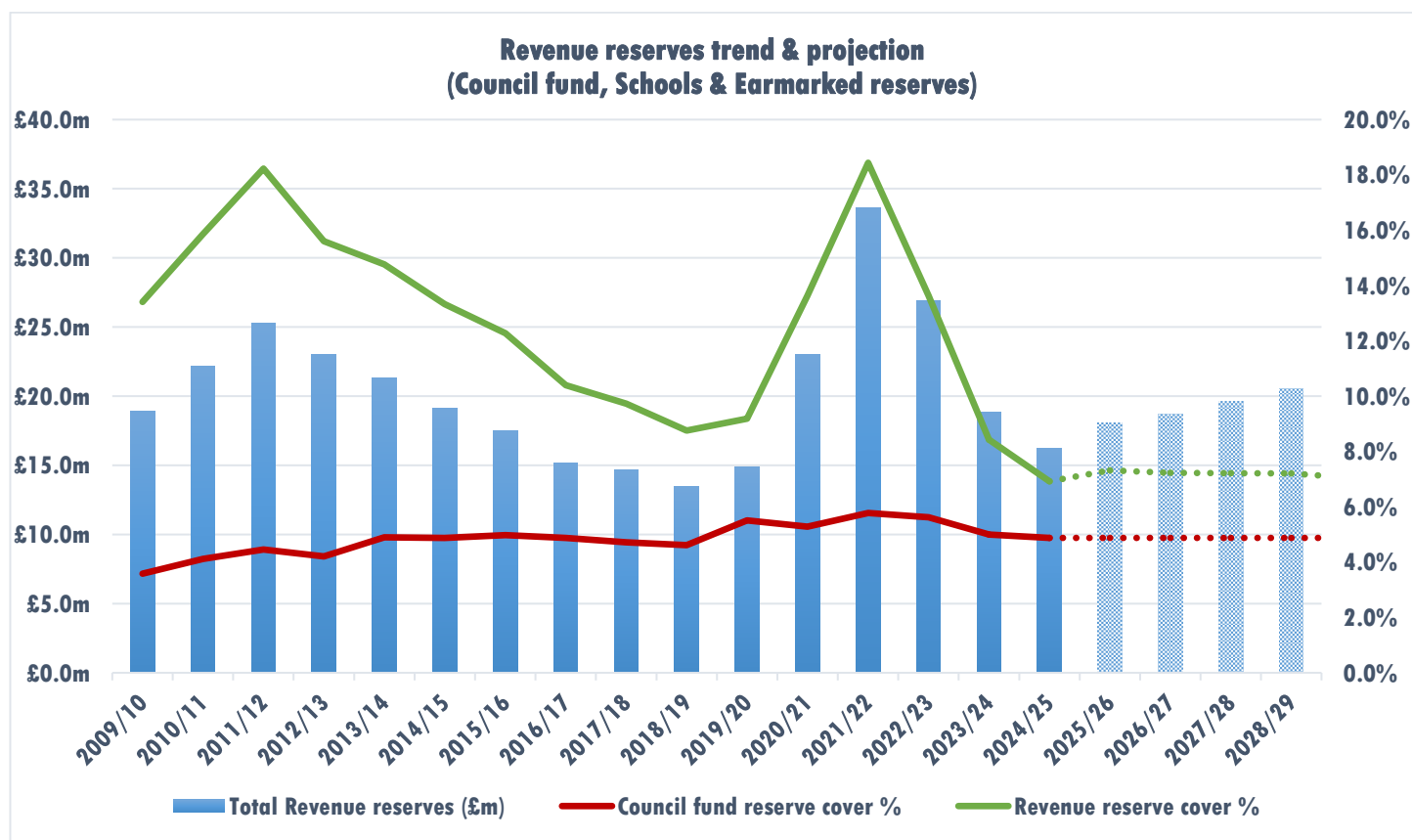
2019/20	1315.64	1294.22	5.95%	6.16%
2020/21	1380.76	1354.02	4.95%	4.62%
2021/22	1434.47	1402.51	3.89%	3.58%
2022/23	1476.79	1433.42	2.95%	2.20%
2023/24	1564.66	1512.48	5.95%	5.52%
2024/25	1686.70	1630.83	7.80%	7.82%
2025/26	1,818.26	1746.58	7.80%	7.10%
* Council only charge - excludes the Police and Crime Commissioner for South Wales, and Community Council Precepts				

- 4.13. 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.
- 4.14. 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.
- 4.15. **Fees & Charges for services**
- 4.16. 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.
- 4.17. The annual planning assumption is that Fees and charges will normally increase at a minimum of the prevailing inflation rate that is applicable in September in the year preceding the budget year.

5. Reserves

- 5.1. The Council's usable revenue reserves were 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.

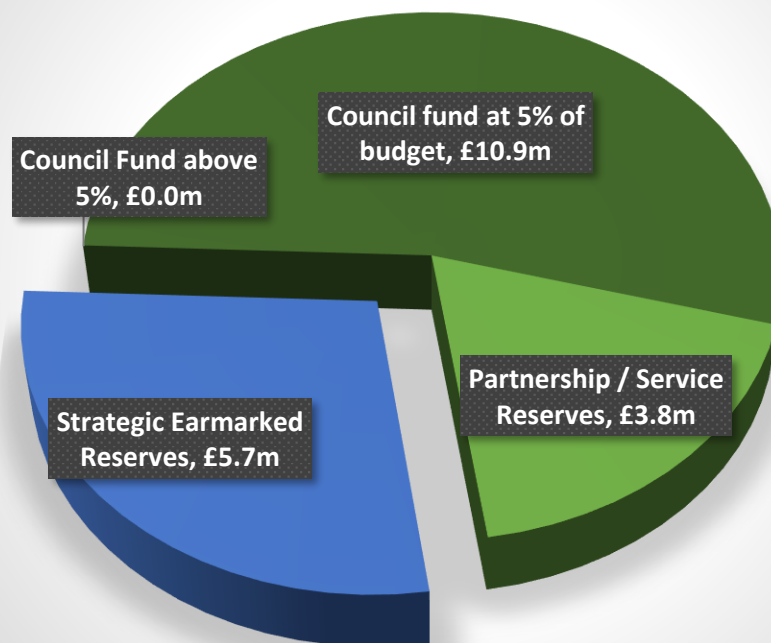
- 5.2. The decisions to utilise reserves were made with careful consideration. Without this intervention, the Council would have faced severe and immediate impacts on service delivery. A balanced approach was necessary in light of the inflationary pressures and increased demand arising from the cost-of-living and public health crises.
- 5.3. 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.
- 5.4. The current and projected levels of the Council's usable revenue reserves are detailed below:



- 5.5. The Council Fund remains at 5% of the net revenue budget, a level deemed prudent and sufficient to manage short-term financial risks.
- 5.6. 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 Wales¹. 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.
- 5.7. 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:

¹ [Audit Wales report on financial sustainability of local government, December 2024 – Table 3](#)

Revenue Reserves as at 1st April 2025



- 5.8. The 2025/26 budget planning framework emphasised the need to place the Council on a path toward long-term financial sustainability, including the preservation of an appropriate and prudent level of reserves.
- 5.9. 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.
- 5.10. 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.

6. Schools' budgets and reserve balances

- 6.1. 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.
- 6.2. 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.
- 6.3. 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.
- 6.4. Schools begin each financial year with reserve balances that reflect cumulative surpluses or deficits from previous years.
- 6.5. The trend in net school reserve balances over recent 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

2025/26 (Forecast)	7,061
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- 6.6. The latest in-year financial information indicates a continued overall increase in the total schools' deficit. As a result, 18 out of 35 schools are now forecast to be in deficit by the end of March 2026.
- 6.7. There is considerable variation in financial performance across schools. While some continue to deplete their reserves, raising concerns, others maintain relatively healthy surpluses. Whilst pandemic-related grants temporarily boosted school balances, this masked underlying structural deficits in some schools.
- 6.8. 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.
- 6.9. 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.
- 6.10. 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.
- 6.11. Schools have also been expected to contribute to addressing the Council's broader budgetary pressures during successive challenging financial years.
- 6.12. 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.
- 6.13. 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.
- 6.14. 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.

7. Budget assumptions and the projected budget gap

- 7.1. 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.
- 7.2. 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.
- 7.3. 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.
- 7.4. 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 July 2025	Updated Assumption Nov 2025	Impact of 1% change in £000's
Expenditure:			
Pay award (non-teaching staff)	3.00%	3.00%	1,099
Pay award (teaching staff – from September 2026)	3.00%	3.00%	419
Superannuation rates	23.9%	21.90%	668
Non-pay inflation	2.00%	2.00%	1,279
Service pressures (non-schools)	£7.5m	£7.9m	
Service pressures (schools)	£0.0m	£1.0m	
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%	3.8%	217
Funding:			
Welsh Government Settlement (AEF)	1.3%	2.3%	1,352
Council Tax (MCC) - Band D increase	3.95%	3.95%	786
Capitalisation direction support	£2,708,000	£2,708,000	

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

Superannuation rates	<p>Reduce from 23.9% to 21.9%.</p> <p>The Council's Local Government Pension Scheme valuation review in 2025 indicated a significant funding surplus that will result in a revision to the Councils contribution rate over the medium term. It is currently anticipated that this will result in a reduction to 21.9% in 2026/27 and each year thereafter in the MTFP.</p> <p>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.</p>
Employers' national insurance	<p>In August Welsh Government confirmed that Monmouthshire will receive £2.56 million to meet the additional employers' NI costs for directly employed staff. This is lower than the actual cost increase the Council faces of £3.32 million and does not take account of any impact on the indirect costs that external providers may pass on through higher fees.</p> <p>Whilst the full £2.56 million will transfer into the Council's funding settlement for 2026/27, the shortfall of £761,000 will need to be considered as a budget pressure.</p>
Service pressures (schools)	<p>Increase from £0.0m to £1.0m.</p> <p>Given the funding context as outlined in Section 6 above, and the most up to date financial monitoring for 2025/26, the level of further investment in schools over and above meeting new pay and non-pay pressures, continues to be a key consideration during the budget process.</p>

	<p>At the current stage of the budget process, an increase to £1m is considered prudent.</p> <p>Any investment as part of the budget 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.</p>
Fees and charges	<p>Increase from 2% to 3.8%.</p> <p>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.</p> <p>The inflationary rate applied is the prevailing rate in September preceding the budget year. This has now been confirmed at 3.8%.</p>
Welsh Government Settlement (AEF)	<p>Increase from 1.3% to 2.3%.</p> <p>Welsh Government published their draft 2026/27 budget on 14th November which included a commitment to a funding floor for Local Government that will ensure that no Council receives less than a 2.3% increase in core funding. It is currently anticipated that given the roll over nature of the Welsh Government budget, that Monmouthshire will require a contribution from the funding floor. The rate of increase is therefore set at 2.3%.</p>

- 7.6. The effect of these revised assumptions and pressures being incorporated into the updated modelling is shown below for 2026/27, indicating a reduction in the projected budget shortfall from £13.6m to £11.5m.
- 7.7. This still represents an early assessment of the budget landscape for 2026/27. Services are currently developing their budget models for 2026/27 which will further inform the level of cost pressures and savings that may need consideration for inclusion. The budget process is always a dynamic one, and all assumptions will continue to be revised and updated during the process.

2026/27 projected budget gap	Current Estimate November 2025 £000's		Previous Estimate July 2025 (£000's)	
2025/26 Balanced Budget		0		0
<u>Pay</u>				
Superannuation rate	-2,004		-668	
Pay inflation - non-teaching	3,243		3,243	
Pay inflation - teaching	1,385		1,385	
		2,624		3,940
<u>Non-Pay</u>				
Non-pay inflation	2,558		2,558	
Service pressures (non-schools)	7,910		7,500	
Service pressures (schools)	1,000		0	
Waste Adjustment	2,147		3,035	
Increased employers' national insurance – annualised funding shortfall	761		0	
Indicative budget savings	-1,178		-819	
Treasury, Corporate & Reserves	1,693		1,700	
		14,891		13,974
<u>Income</u>				
Council tax increase	-3,106		-3,106	
WG settlement increase	-3,111		-1,758	
Fees & Charges	-791		-434	
Reduction in capitalisation directive support	1,000		1,000	
		-6,008		-4,298
Budget Gap		11,507		13,616

- 7.8. 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. Therefore, budget assumptions have been 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.

7.9. The most up to date modelling indicates significant budget gaps over the medium term:

Budget shortfall	In Year (£m)	Cumulative (£m)
2026/27	11.5	11.5
2027/28	9.1	20.6
2028/29	8.7	29.4
2029/30	8.0	37.4

8. Budgetary Risk

8.1. In preparing the Council's 2026/27 budget, a number of financial uncertainties will continue to be a feature throughout the process. These are 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.

8.2. The principal risks currently influencing the Council's financial planning are summarised below:

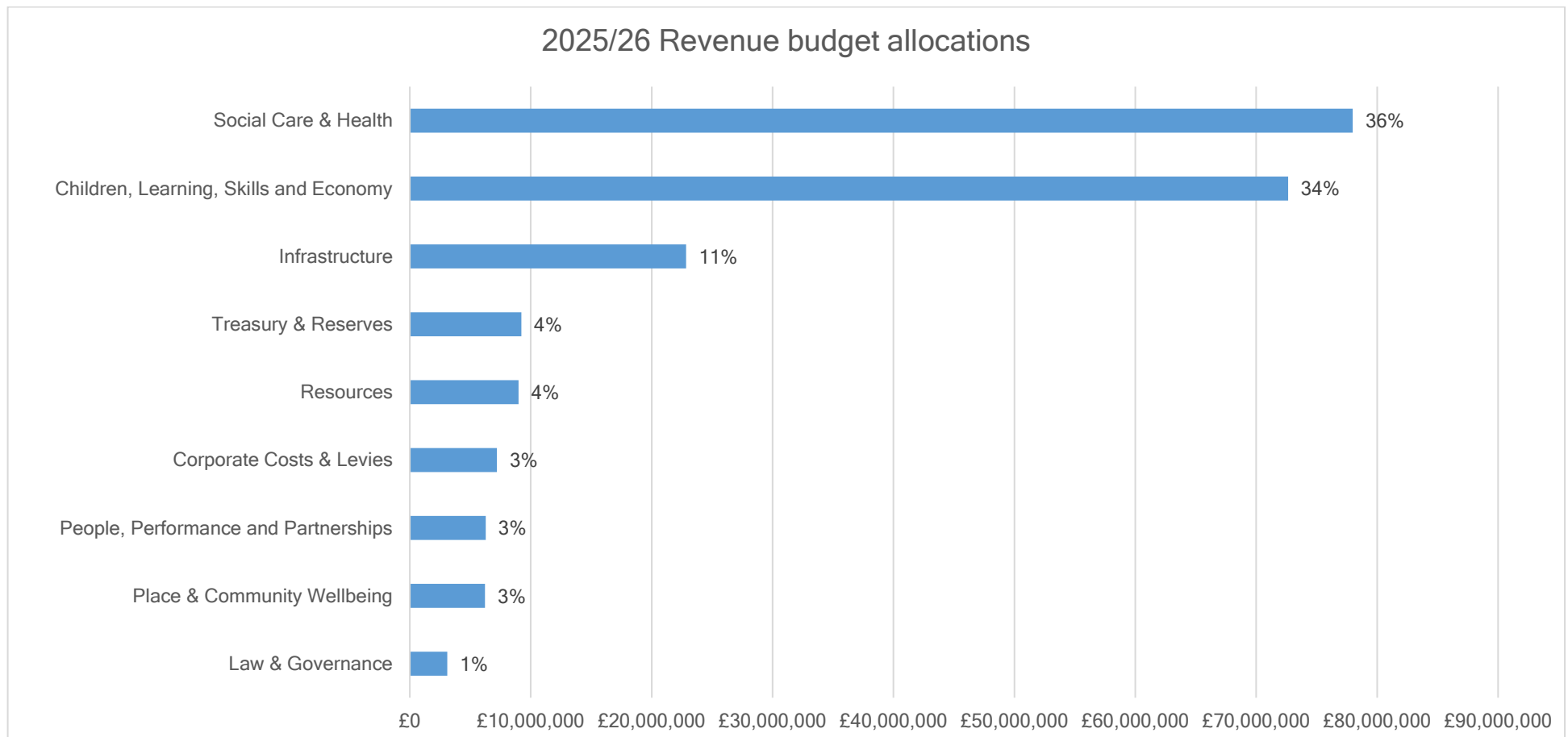
Area	Description	Potential mitigation
Service cost pressures	There is currently limited information available on the level of recurrent service cost pressures that will carry forward, as well as new pressures anticipated for 2026/27. The initial work carried out as part of the budget process in November will aid in providing some clarity, however the nature of the budget process means that uncertainty will continue to feature throughout the budget process.	Robust scrutiny and challenge of any service cost pressures being proposed.

National living wage / Real living wage	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	Ensuring a robust evidence base is provided into Welsh Government of the full cost implications of the Council meeting its pay obligations.
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.	Robust treasury management based on realistic medium term budget projections. Holding a contingency budget to mitigate inflationary risk.
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 the potential risk in achieving full delivery of any savings targets made for 2026/27.	Robust financial management during the financial year with a key focus on high risk budget areas.
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.	Ensuring a robust evidence base is provided into Welsh Government of the Councils overall cost pressures.
Income & Debt recovery	The ongoing cost-of-living crisis continues to affect household disposable income, which in turn impacts demand and collectability for income-generating Council services.	Prudent income targets set that are based on a reliable evidence base.

	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.	Robust financial procedures and collection action that ensures recovery of income due.
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9. Bridging the gap between expenditure and available resources

- 9.1. 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.
- 9.2. 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. Given the budget shortfall over the medium term, a more strategic, evidence-led approach is essential to ensure that resident needs continue to be met within a financially sustainable framework.
- 9.3. 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.
- 9.4. 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.
- 9.5. Of the Council's £214 million service delivery budget, 81% is allocated to three core service areas: Social Care & Health; Children, Learning, Skills & Economy; and Infrastructure (including Waste, Highways, and Transport). Achieving financial sustainability over the medium term will necessitate substantial and targeted programmes of change within these high-expenditure areas.



Budgetary Framework for 2026/27

- 9.6. 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.
- 9.7. The approved strategic budget principals, as approved by Council in July 2024 are:

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 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.

10. Medium-term approach

- 10.1. 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.
- 10.2. 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.
- 10.3. 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.

10.4. 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.

10.5. The key areas of development 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.

10.6. 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.

10.7. Given the more medium-term nature of this work, it is not considered prudent include any financial impact within the 2026/27 budget proposals. As the programme continues to develop, consideration will be given to the implications this will have on shaping the budgetary framework for 2027/28 and beyond.

11. Capital programme

- 11.1. 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.
- 11.2. Rising construction and material costs are impacting the capital programme and wider asset management. Inflation is driving up prices, creating capacity constraints, affecting contract tenders and risk pricing. External grants have tended not to match these increases, raising affordability risks for ongoing and proposed projects.
- 11.3. 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.
- 11.4. 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.
- 11.5. 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	£000's	£000's	£000's	£000's	£000's
Property Maintenance	1,872	1,653	1,653	1,653	1,653
Property Maintenance Fees	236	236	236	236	236
County Farms Maintenance	301	301	301	301	301
Upgrade School Kitchens	40	40	40	40	40
Asset Management Schemes	2,449	2,230	2,230	2,230	2,230
Abergavenny 3-19 school	12,232	0	0	0	0
School Development Schemes	12,232	0	0	0	0
Carriageway major works	1,137	1,137	1,137	1,137	1,137

Carriageways & Structures – additional improvements	2,743	1,312	1,312	1,312	1,312
Safety fence upgrades	76	76	76	76	76
Footway Reconstruction	197	197	197	197	197
Reconstruction of bridges & retaining walls	449	449	449	449	449
Road safety & trafficman programme	162	130	130	130	130
Signing upgrades & disabled facilities	38	38	38	38	38
Street Lighting Defect Column Programme	171	171	171	171	171
Flood Alleviation Schemes	30	11	11	11	11
Drainage & Gully works	375	375	375	375	375
Structural Repairs - Public rights of way	437	118	118	118	118
Surveys and Closures - Public rights of way	90	90	90	90	90
Ash Dieback/Dangerous Trees works	170	100	100	100	100
Infrastructure & Transport Schemes	6,076	4,205	4,205	4,205	4,205
Capital Region City Deal	730	730	730	730	730
S106 Schemes	288	0	0	0	0
Regeneration Schemes	1,018	730	730	730	730
Disabled Facilities Grant	900	900	900	900	900
Access for all - Schools	50	50	50	50	50
Access For All	250	250	250	250	250
Inclusion Schemes	1,200	1,200	1,200	1,200	1,200
ICT Hardware replacement	126	260	260	260	260
Network Estate replacement	100	50	50	50	50
SRS capital reserve contribution	61	61	61	61	61
Business world upgrade transition	40	0	0	0	0
Asset Management software transition	51	0	0	0	0
Ransomware & security	85	42	42	42	42
ICT Schemes	463	413	413	413	413
Vehicle Leasing	1,500	1,500	1,500	1,500	1,500
Vehicles Leasing	1,500	1,500	1,500	1,500	1,500
Capitalisation Directive	3,708	2,358	1,358	0	0

Capitalisation Directive	3,708	2,358	1,358	0	0
Fixed Asset Disposal Costs	50	50	50	50	50
Match Funding of Grant applications	500	500	500	500	500
Contingency budget	0	560	560	560	560
Other Schemes	550	1,110	1,110	1,110	1,110
Total Expenditure	29,195	13,745	12,745	11,388	11,388
Funding	£	£	£	£	£
Supported Borrowing	(2,432)	(2,432)	(2,432)	(2,432)	(2,432)
Unsupported Borrowing	(18,069)	(4,257)	(4,257)	(4,257)	(4,257)
Grants & Contributions	(3,334)	(3,046)	(3,046)	(3,046)	(3,046)
Reserve Funded	(103)	(103)	(103)	(103)	(103)
Capital Receipts	(3,758)	(2,408)	(1,408)	(50)	(50)
Vehicle Lease Financing	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)
Total Funding	(29,195)	(13,745)	(12,745)	(11,388)	(11,388)
(Surplus) / Deficit	0	0	0	0	0

- 11.6. 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.
- 11.7. 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.
- 11.8. 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.
- 11.9. 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.

11.10. 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.

Capital receipt balances	2025/26	2026/27	2027/28	2028/29	2029/30
	£000's	£000's	£000's	£000's	£000's
Balance as at 1st April	6,083	1,810	1,330	375	428
Capital receipts used to finance capital expenditure	(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
Forecast Balance as at 31st March	1,810	1,330	375	428	481

12. Budget Process and Timetable

12.1. 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.

12.2. The 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
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

13. Progress against the MTFS Delivery plan

- 13.1. 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.
- 13.2. 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 November 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	✓	✓	✓	Ongoing – will embed into MTFP as outcomes become clear	Cabinet/SLT	Programmes of work continuing be shaped with consideration of resourcing required and outcomes expected, both financial and non-financial.
2	Delivery of budget holder training	Refresh and rollout of training to all budget holders	✓	✓	✓	Spring 2026	Head of Finance	Appointment of vacant finance manager post will

Action No.	Action/Description	Outcome/Output	Milestones			Timescale for completion	Responsible Officer/Body	Progress update November 2025
								enable timely rollout of training
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	Developing as part of the budget process.
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 2026	Deputy Chief Executive; Head of Finance	2024/25 review completed as part of financial outturn. Next update will take place as part of the same process in July 2026.
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.

Action No.	Action/Description	Outcome/Output	Milestones			Timescale for completion	Responsible Officer/Body	Progress update November 2025
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	Will be completed as part of annual review of fees and charges on a service by service basis.