

SUBJECT:	2026/27 REVENUE BUDGET – FINANCIAL UPDATE
MEETING:	PERFORMANCE & OVERVIEW SCRUTINY COMMITTEE
DATE:	29 SEPTEMBER 2026
DIVISION/WARDS AFFECTED:	ALL

1. PURPOSE:

- 1.1 To provide Scrutiny and Cabinet with an update of the progress against the Council's revenue budget for the 2026/27 financial year.

RECOMMENDATIONS TO PERFORMANCE AND OVERVIEW SCRUTINY COMMITTEE

- i. That the Performance and Overview Scrutiny Committee scrutinise the revenue budget forecast for the 2026/27 financial year;
- ii. That the Committee as part of their role assesses whether effective budget monitoring is in place; the extent to which budgets are spent within the agreed budget and policy framework, including the reasonableness of the explanation for variances and; consider the achievement of progress in meeting budget savings targets.

2. RECOMMENDATIONS (to Cabinet):

- 3.1 That Cabinet note the forecast revenue budget overspend of £464,000 at Update 1, representing a forecast 0.2% variance against the approved budget for the year.
- 3.2 That Cabinet note that, while the Update 1 forecast is reporting a small net overspend, the overall position remains broadly manageable at this stage of the year. This reflects the impact of recent service reform, demand management, income maximisation and budget discipline, while recognising the specific budget risks that will continue to be managed through future monitoring updates, including:

- demand volatility in high-cost services, particularly adults' and children's social care;

- inflationary and contractual cost pressures where these affect commissioned services, supplies, utilities or income targets;
- delivery of the approved £4.291m savings programme, with services currently forecasting 85.7% delivery and a £614,000 shortfall;
- the impact of one-off or annually allocated grant funding streams where these support core service activity; and
- the cumulative schools reserves deficit and the impact this has on the Council's overall financial resilience.

- 3.3 That Cabinet note the forecast movement in cumulative schools reserves as outlined in Appendix 4. Schools are currently forecasting a further draw on reserves of £2,457,000 during 2026/27, resulting in a projected cumulative deficit balance of £9,337,000 by year-end, with eighteen schools forecast to be in deficit.
- 3.4 That Cabinet note the forecast movement in school reserve balances and request that the Strategic Director for Learning, Skills and Economy undertake a review of all schools categorised as high risk (Appendix 4) and report, in the first instance, to the Cabinet Members for Education and Resources on the adequacy of budget recovery plans, progress against agreed actions and whether any further support, challenge or intervention is required to secure financial recovery.

4 KEY ISSUES:

4.1 Context

- 4.2 The 2026/27 budget was developed within a continuing period of financial constraint and uncertainty for local government. The approved budget provided additional investment in services experiencing the greatest demand and cost pressures, particularly social care, education and infrastructure. This included a further £1 million recurrent investment in school budgets for the second consecutive year, alongside increased provision for preventative children's services, adults and children with complex needs, additional learning needs and social, emotional and mental health provision.
- 4.3 The budget set by Council in March addressed an estimated £16.8 million increase in the annual cost of delivering services, equivalent to around 8% of the Council's budget. This was funded through a 4.4% increase in Welsh Government support, generating approximately £6.15 million of additional funding; a 5.95% increase in Council Tax; increased fees and charges; and £3.5 million of service efficiencies and reforms. The final budget was balanced without using the Council Fund reserve to support recurrent expenditure and included a £1 million budget risk contingency.

- 4.4 Since the budget was approved, the wider operating environment has continued to present both cost and demand risks. Although inflation remains significantly below the peaks experienced in recent years, the latest ONS release shows CPI inflation rising to 2.9% in the 12 months to July 2026, from 2.6% in June, and remaining above the Bank of England's 2% target. This underlines the need for continued caution, particularly where commissioned services, contractual uplifts, utilities, supplies and construction-related costs are exposed to in-year price movements. Inflationary pressure, alongside subdued growth expectations and the prospect of borrowing costs remaining higher for longer, will continue to require close monitoring through future budget updates.
- 4.5 There is now greater certainty over national pay developments. The 2026/27 NJC pay award has been agreed at 3.3%, backdated to 1 April 2026. The Welsh Government has also announced consultation on a 3.5% pay award for teachers and school leaders from September 2026, together with a 5% increase for unqualified teachers, and has indicated that additional funding will be provided to local authorities and schools. The financial implications of these settlements, including the timing and adequacy of any associated funding, will need to be reflected through in-year monitoring.
- 4.6 Alongside these national developments, the Council continues to face uncertainty around service demand, annually allocated specific grants, income collection and debt recovery, the delivery of planned service reforms, recruitment and retention in specialist areas, and the financial position of schools. These risks are most acute within social care, education and housing and will require close monitoring and continued financial discipline throughout 2026/27.

4.7 Revenue budget forecast

- 4.8 Full Council approved a total revenue expenditure budget of £253,702,000 for the 2026/27 financial year. This is inclusive of £30,551,000 of precepts for Police and Community Council, and levies for Fire, Drainage and National parks which are paid directly to these organisations. The Council's net revenue budget that is spent on delivering Council services is therefore £223,151,000.

Table 1: Revenue budget forecast by directorate

Service Area	Revised Annual Budget	Forecast Outturn	Forecast (Under) / Over Spend @ Update 1	% Variance
	£000's	£000's	£000's	%
Social Care & Health	81,936	81,967	31	0.0%
Learning, Skills & Economy	76,172	76,451	279	0.4%

Infrastructure	26,273	26,238	(35)	-0.1%
Place & Community Wellbeing	5,788	5,712	(76)	-1.3%
People, Performance & Partnership	7,104	7,207	102	1.4%
Law & Governance	3,247	3,313	66	2.0%
Resources	9,794	10,073	278	2.8%
Corporate Costs and insurances	4,264	4,399	135	3.2%
Borrowing & Reserves	8,572	8,236	(336)	-3.9%
Service budgets	223,151	223,596	444	0.2%
Precepts & Levies	30,551	30,551	0	0.0%
Financing	(253,702)	(253,682)	20	0.0%
Net General Fund (Surplus) / Deficit	0	464	464	0.2%

- 4.9 The Update 1 forecast is a net revenue budget overspend of £464,000, representing 0.2% of the approved revenue budget. The position is made up of a £444,000 net overspend across service budgets, inclusive of Borrowing and Reserves, and a £20,000 overspend within Financing.
- 4.10 Within Social Care, Health and Safeguarding, the overall forecast is close to budget, with a £31,000 overspend against a revised budget of £81.936m. Adult Services is forecasting a £665,000 underspend, supported by demand management, grant funding and vacancies, but this continues to mask underlying care at home and complexity pressures. Children's Services is forecasting a £594,000 overspend, reflecting pressures in fostering, respite care, legal costs and family time, alongside an increase in looked after children and delayed opening of new in-house facilities. Housing and Homelessness is forecasting a £257,000 overspend, reflecting property hand-back costs and Careline 2G to 4G migration costs.
- 4.11 Learning, Skills and Economy is forecasting a £279,000 overspend, mainly due to the £116,000 increase in rates for the new King Henry VIII 3-19 School building, £19,000 of schools-related legal costs and pressures within Standards. These include a £150,000 overspend against the Expansion of Early Years Grant, where strong take-up and more families using non-maintained settings mean the Welsh Government grant allocation is insufficient to meet the Council's statutory duty to provide early education. Breakfast Clubs are also forecasting a £40,000 overspend, with broadly stable pupil numbers but higher staffing and food costs from inflation, pay awards, long-term sickness cover and additional support for pupils with additional learning needs. Before-school care income has increased slightly but not enough to offset the budget pressure. These pressures are partly mitigated by grant income used to offset staff costs.

- 4.12 Infrastructure is forecasting a net underspend of £35,000. Infrastructure Management is forecast to underspend by £56,000, mainly from managed staffing savings and increased Universal Free School Meals income within Schools Catering. Within Transport Services, Passenger Transport is forecasting a £268,000 underspend, primarily due to reduced external contract costs, lower pupil numbers and contract rationalisation. This is partly offset by a £255,000 overspend in Fleet Maintenance, driven by additional vehicle hire, fuel, maintenance and repair costs, alongside smaller pressures within the Corporate Pool Car Scheme.
- 4.13 Place and Community Wellbeing is forecasting a £76,000 underspend, mainly due to underspends within Performance, Finance and Resources, Countryside, Destination and Environment and Culture and Community Learning. These are partly offset by a £34,000 overspend within Placemaking, Regeneration and Car Parks, while Leisure and Wellbeing is currently forecasting a balanced position but remains exposed to income target risk across the leisure centre portfolio.
- 4.14 People, Performance and Partnerships is forecasting a £102,000 overspend. This is mainly due to pressures within the Chief Executive's Office, including staffing pressures across Community Hubs and Communications, the inability to meet vacancy factor savings and shortfalls against income targets. These pressures are partly offset by a forecast underspend within People, most notably from vacant posts in Payroll and System Support.
- 4.15 Law and Governance is forecasting a £66,000 overspend. This reflects the inability to achieve budgeted staff vacancy savings within Democratic Services and Legal and Land Charges. Other areas of the directorate are currently forecast to remain on budget, with mitigating actions continuing to be explored ahead of the next monitoring update.
- 4.16 Resources is forecasting a £278,000 overspend. The principal pressure relates to Commercial, Corporate and Landlord Services, particularly Castlegate Business Park, where anticipated changes in occupancy and increased rates, electricity and service charge costs are creating a significant pressure. Further pressures are forecast within Finance, ICT and Corporate Health and Safety, linked to system and licence costs, income shortfalls and vacancy factor savings. Management action will focus on vacancy management, limiting non-essential spend, maximising income and improving the financial performance of investment assets.
- 4.17 The NJC pay award for 2026/27 was agreed in August at 3.3% which is marginally above the budgeted assumption of 3.0%. The resultant additional cost pressure of £0.3m will need to be met from within existing service budgets, with an increase in base budget pressure considered for 2027/28.

4.18 **Appendix 1** to this report outlines the summary reasons for the service budget variances, with a more detailed explanation outlined in **Appendix 2**. The headline position is supported by a £336,000 favourable variance within Borrowing and Reserves, mainly through reduced net borrowing costs payable.

4.19 Budgeted service savings

4.20 As part of the approved revenue budget, services were required to bring forward and deliver savings totalling £4,291,000. The current forecast indicates that £3,677,000 of savings will be delivered, leaving a projected shortfall of £614,000, with 85.7% of savings forecast to be met.

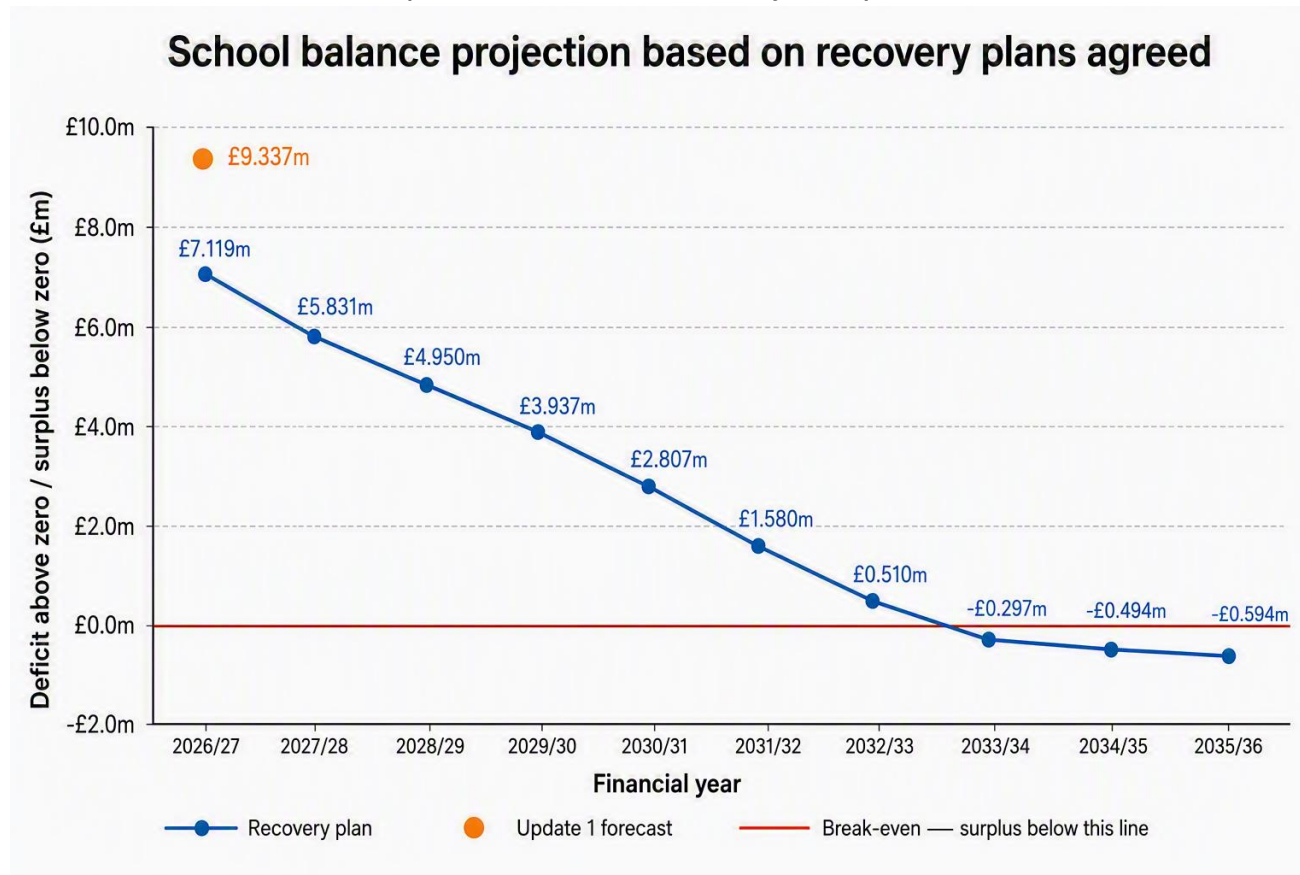
4.21 Full details of progress against individual savings targets can be found at **Appendix 3** to this report. The main shortfalls relate to the delayed opening of children's facilities, fleet savings not yet implemented, delayed implementation of the Place and Community Wellbeing area management restructure, and the corporate energy saving which is no longer forecast to be achieved in year.

4.22 Schools' budgets and reserves

4.23 The overall level of school reserves is currently forecast to move further into deficit by £2,457,000 by the end of the 2026/27 financial year, to a collective deficit balance of £9,337,000. This forecast draw is £17,000 above the budgeted draw on reserves that schools have set of £2,440,000.

Cluster	Opening Deficit / (Surplus)	Draw / (Contribution) Update 1	Forecast closing Deficit / (Surplus)
	£000	£000	£000
Abergavenny	2,393	299	2,692
Caldicot	647	653	1,300
Chepstow	758	(124)	634
Monmouth	270	134	404
Special	2,813	1,494	4,307
Total	6,880	2,457	9,337

4.24 The chart below compares the Update 1 forecast with the agreed recovery plan trajectory, illustrating both the scale of the current adverse movement and the period over which recovery is expected to be delivered.



4.25 The forecast movement in school balances represents a material deterioration in an already challenging position. The cumulative deficit is forecast to increase from £6.880m at the start of the year to £9.337m by 31 March 2027, with eighteen schools forecast to be in deficit. This is £2.218m worse than the recovery plan trajectory for 2026/27, which currently shows an expected deficit of £7.119m before gradually reducing to £0.510m by 2032/33 and moving into a modest surplus from 2033/34. This means that, while recovery plans provide an agreed forward trajectory, the latest forecast indicates a materially weaker starting point and reinforces the need for renewed review, support and challenge.

- 4.26 The principal drivers continue to be the sustained impact of attendance, behaviour and additional learning needs, together with the staffing and specialist resource required to maintain appropriate provision. While these pressures are not unique to Monmouthshire, the scale and pace of the projected movement mean that the position cannot be viewed as a short-term timing issue and will require sustained corrective action over more than one financial year. Financial recovery should therefore be regarded as a core leadership and governance responsibility alongside educational standards and pupil outcomes.
- 4.27 The focus must now move beyond the existence of recovery plans to the credibility, delivery and impact of those plans. Plans will need to be tested against the latest forecast position, including whether assumptions around staffing structures, pupil numbers, grant funding, expenditure control and planned actions remain realistic. Where schools are not progressing agreed actions, or where the forecast position has moved materially away from the recovery trajectory, further challenge will be required to identify what additional corrective action is needed.
- 4.28 During 2026/27, the Authority will focus its review activity on those schools presenting the highest financial risk, with particular emphasis on the delivery and impact of agreed recovery actions. This will include direct challenge where actions have slipped, where planned savings or staffing changes are not being implemented, or where updated forecasts indicate that existing plans will not secure recovery within the agreed timescale. Where necessary, the Authority will consider proportionate escalation through established school finance, governance and accountability arrangements. This will ensure that Cabinet Members are sighted on the highest-risk schools, the adequacy of recovery actions and any further support, challenge or intervention required.

4.29 Financial implications and future focus

- 4.30 The budget planning framework for 2026/27 reaffirmed the need to move the Council towards a more financially sustainable position, while maintaining an appropriate and prudent level of financial resilience. The approved budget was set without using the Council Fund reserve to support recurrent revenue expenditure, reflecting the continued discipline applied through recent budget rounds.
- 4.31 At Update 1 the Council is forecasting a £464,000 overspend, equivalent to 0.2% of the approved revenue budget. This is a relatively small variance in the context of the overall budget and indicates that the budget remains broadly on track at this early stage of the year, notwithstanding the range of demand, inflationary and delivery risks that continue to be managed.
- 4.32 The position also reflects the benefit of service reform and changes in delivery that have been progressed over recent years. These include stronger demand management, greater use of grant funding where conditions allow, continued vacancy and non-pay control, income maximisation and service-specific redesign. This work is helping to stabilise both budget and service delivery, even where services continue to experience significant operational pressures.

- 4.33 There remain, however, areas that will need close management through the remainder of the year. One-off and annually allocated grant funding streams continue to present a risk where they are supporting core activity, particularly if grant conditions, allocations or continuation arrangements change. School balances also remain a material issue, with further recovery planning needed to reduce the cumulative deficit over time.
- 4.34 The focus for the remainder of the financial year will therefore be to maintain close financial discipline, continue to deliver approved savings and reforms, and take timely management action where pressures are recurrent or could affect the 2027/28 budget. This approach is intended to contain the current forecast position while ensuring that the underlying medium-term financial challenge remains visible and is addressed through future budget planning.
- 4.35 Management action will continue to be targeted and proportionate, with emphasis on maximising eligible grant and income opportunities, careful vacancy management, limiting non-essential expenditure and supporting services to embed the changes already underway. This will be balanced against the need to protect service resilience and avoid short-term actions that simply defer costs or create pressures in future years.

4.36 **Remaining budgetary risks**

- 4.37 Whilst the overall forecast remains broadly on track, there remain specific budgetary risks that could affect the revenue position during 2026/27 and will continue to be monitored through future budget updates:
- **Demand volatility in high-cost services**, particularly adults' and children's social care, homelessness and additional learning needs, where relatively small changes in client numbers, complexity or placement requirements can have a material impact on the forecast outturn during the remainder of the financial year.
 - **Further non-delivery of budget savings targets**, especially where these involve income generation, changes to structures, alternative delivery models, reliance on one-off or annually allocated grant funding, 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.

- **CPI inflation** remains above the Bank of England's 2% target. The latest ONS release shows CPI inflation at 2.9% in the 12 months to July 2026, up from 2.6% in June 2026. While this is significantly lower than the levels experienced during the recent inflationary peak, it remains relevant for budgets where contracts, supplies, utilities or commissioned services are exposed to in-year price movements.
- **Schools reserve balances** – the further forecast draw on balances for 2026/27 of £2.457m would significantly increase the cumulative schools reserve deficit being carried on the Council's balance sheet to £9.337m. This consequently impacts upon the Council's overall financial resilience and increases its risk exposure by reducing available balance sheet resources.

5 RESOURCE IMPLICATIONS:

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

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

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

CONSULTEES:

Senior Leadership Team
Cabinet

BACKGROUND PAPERS:

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

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Appendix 1 – Summary explanation of service variances forecast

Directorate	Forecast Overspend / (Underspend) (£000s)	% Variance to budget	Overspend	Underspend
Social Care, Health & Safeguarding	31	0.0%	Children's Services £594k – pressures in fostering, legal, respite care and family time, with looked after children increasing and delayed opening of new facilities reducing planned placement savings.	Adult Services £665k – underspend from managed demand, grant support and vacancies, partly offset by care at home and complexity pressures.
			Housing & Homelessness £257k – insufficient budget provision, property hand-back costs and Careline 2G to 4G migration costs.	Public Protection £49k – vacant posts and additional income ahead of service review outcomes.
				SCH Support £106k – finance team vacancies.
Learning, Skills & Economy	279	0.4%	Individual Schools Budget £135k – legal costs met centrally, and new King Henry VIII 3-19 School business rates higher than budgeted.	Resources £39k – grant income used to offset staffing costs.
			Standards £182k – Early Years programme grant shortfall, and Breakfast Club cost pressures.	
Infrastructure	(35)	-0.1%	Fleet maintenance £255k – vehicle hire, fuel and maintenance cost pressures, partly offset by vacancy, borrowing cost and vehicle sale income savings.	Infrastructure Management £56k – schools catering staffing savings and UFSM income.
			Corporate Pool Car Scheme £34k – lower than anticipated early usage limiting planned savings, with increased promotion and vehicle location review expected to improve utilisation.	Passenger Transport £268k – reduced external contract costs, lower pupil numbers and contract rationalisation, partly offset by in-house PTU income pressures.

Directorate	Forecast Overspend / (Underspend) (£000s)	% Variance to budget	Overspend	Underspend
Place & Community Wellbeing	(76)	-1.3%	Placemaking, Regeneration & Car Parks £34k – car parking costs and employee efficiency savings pressures, partly offset by income.	Performance, Finance & Resources £68k – delayed business support structure implementation.
				Green Infrastructure and Nature Recovery £31k – additional grant-funding
People, Performance & Partnerships	102	1.4%	Chief Executive’s Office £157k – staffing, vacancy factor and income target pressures across Community Hubs, Communications and Strategic change programme.	Payroll and System Support £153k - vacant posts being held while staffing requirements are reviewed following the implementation of new software.
			People Management £46k - unachievable staff savings, unbudgeted staffing changes, photography costs and reduced schools SLA income.	Community Education £64k – long-term sickness and additional funding.
Law & Governance	66	2.0%	Democratic services, Legal & Land charges - Inability to achieve staff vacancy savings	
Resources	278	2.8%	Commercial, Corporate & Landlord Services £207k – Castlegate occupancy, rates, electricity and service charge pressures.	
			Finance £27k – Civica system implementation and licence costs, reduced Council Tax summons income and vacancy factor pressures, partly offset by grant funding, vacancy savings and lower software inflation.	

Directorate	Forecast Overspend / (Underspend) (£000s)	% Variance to budget	Overspend	Underspend
			ICT £40k - increases in software and licence costs.	
Corporate Costs & Insurances	135	3.2%	Corporate energy saving £135k – late unit price and standing charge increases following budget set.	
Borrowing & Reserves	(336)	-3.9%		Net borrowing costs – capital programme slippage in prior year, alongside reduced cash requirement in early part of the year.
Financing	20	0.0%	Council Tax £250k - increasing discounts and exemptions, alongside the continuing impact of flood-related relief extending into 2026/27.	Council Tax Reduction Scheme £230k – based on current level of awards.
Total	464	0.2%		