GENERAL FUND REVENUE BUDGET, HOUSING REVENUE ACCOUNT AND CAPITAL PROGRAMME 2025 / 2026

Reporting Officer: Head of Democratic Services

Council Tax Resolution 2025/26 – Cabinet Proposals

Summary

1. The purpose of this report is to enable the Council to calculate and approve the Council Tax Requirement for 2025/26, in accordance with the Local Government Finance Act 1992 as subsequently amended. In addition, the Act requires Council to determine whether any Council Tax increase is excessive (that is in excess of 4.99%) which would require a referendum to be held.

2. In considering this budget all Members should take into consideration the comments of the Corporate Director of Finance (Section 151 Officer). This is set out in this report under the heading of Chief Financial Officer's Section 25 Statement.

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3. The background paper to this report sets out the Cabinet's proposals to Council on Hillingdon's General Fund revenue budget, Housing Revenue Account budget, Capital Programme, amendments to the approved schedule of Fees & Charges, Capital Investment Strategy, Treasury Management Strategy, Investment Strategy, Minimum Revenue Provision Statement and Pay Policy Statement. In addition, this report also considers reasons for, and implications arising from these proposals. The proposals result in a Band D Council Tax for Hillingdon of £1,461.99, which represents a 4.99% uplift on the Council's element of Council Tax at the 2024/25 level.

4. The report to Cabinet is available on request to the Head of Democratic Services or online at:
   Hillingdon Council -Agenda for CABINET on Thursday, 20th February, 2025, 7.00 pm

5. The Greater London Authority (GLA) budget proposals add £490.38 to the amount payable by Hillingdon's Council Tax payers, which includes a 4.03% increase in the GLA portion of Council Tax compared to 2024/25.

6. Based on the Cabinet's proposals, and the GLA precept, the total Band D Council Tax for 2025/26 will be £1,952.37.

7. **Chief Finance Officer's Section 25 Statement**

The Local Government Act 2003 (Section 25) requires the Chief Finance Officer to report the following matters to Members when agreeing the annual budget and precept.

(a) the robustness of the estimates made for the purposes of the budget calculations, and
(b) the adequacy of the proposed financial reserves.

There is no prescribed format to a section 25 statement, but it is a statutory statement that is required to be presented as part of the Council's budget report. All Members must consider this report ahead of their decision making on the budget.

The structure I have used will set out:
1. Summary
2. The statutory context
3. Macro-economic context – the strategic issues facing local government and Hillingdon Council
4. Hillingdon Council's governance and financial position
5. Conclusion

This statement has been shared in draft form in its development with the Cabinet Member for Finance and Transformation and Chief Executive, and was shared with the Cabinet prior to the Cabinet meeting on 20 February, and also with all Councillors ahead of the Council Budget Setting meeting on 27 February, which is in line with best practice and the Chartered Institute of Public Finance and Accountancy's (CIPFA's) expectations.

Summary

Hillingdon Council, like many other councils, is underfunded and endeavouring to meet many statutory needs and maintain essential services. In endeavouring to do so the Council has been heavily reliant on drawing down on reserves over recent years and is now in the position of having a significant savings target in 2025/26 that must be delivered, given reserves are now low for an authority of this size with the service pressures and risks it is managing. The fact that £34m of savings have to be delivered in 2025/26 is a significant and not inconsequential matter. A further £17.8m of savings are needed in 2026/27. Hillingdon has the lowest level of reserves against its nearest neighbours and the highest use of reserves in 2023/24 compared to its CIPFA nearest neighbours.

The Council has experienced significant demand in specific areas, including within adult social care, children and young people services, special educational needs and homelessness and needs to ensure it has policies and robust service and financial information in order to deliver savings within these services. The Council has chosen to continue to deliver a full range of universal services often at no extra cost to its residents where other councils have been charging for some years. This is an admirable achievement over many decades, but the financial pressures mean Hillingdon will need to review this situation for 2025/26 and in its plans for future years.

In addition, all areas across the Council need to move very quickly to a corporate, more centralist, business-like and efficient basis of operation, if the Council is to achieve financial stability to allow the council time to develop a sustainable financial position.

Hillingdon provides many very good services to the residents and business and has had recognition on the quality of many of these services. It is a low tax borough, being the lowest of its comparator group of 16 London boroughs and notably £400 cheaper on a band D property than Harrow Council, being a neighbouring authority. It's fees and charges are very low and provide very good value to residents. Whilst this report is not about the quality, low charging and good value for money of services it is important to recognise these points.

Benchmarking of services underline this value for money point in many services which is a positive but again increases the challenge to make savings as does having had to make savings for a number of decades.

The Council has delivered very good services for many years, but the affordability and funding of these services is now under severe pressure. The budget report if approved makes steps towards recognising this very low charging environment, but it has been left late to do so in a desire to protect residents from increases, which has resulted in the need for a significant step change in years 2025/26 and 2026/27.

Hillingdon Council's information and governance arrangements need to be improved. This work is already underway.

Statutory Context

1. Section 25(1) of the Local Government Act 2003 ("the 2003 Act") requires the Chief Financial Officer (CFO) to report to Full Council on: -
   a. The robustness of estimates made for the purposes of budget calculations, and
   b. The adequacy of the proposed financial reserves

2. Section 25(2) of the 2003 Act requires Full Council to have regard to the CFO's report when agreeing its annual budget and precept.

3. In the London Borough of Hillingdon, the CFO (and Section 151 Officer, as defined in the Local Government Act 1972) is the Corporate Director of Finance, a role held by the current CFO on an interim basis since 1st August 2024. The S25(1) and S151 duties are the personal responsibility of the CFO and this statement is provided in the exercise of those statutory duties.

4. It represents the professional opinion of the CFO based on his time in role and the evidence available to him in respect of the reserves the Council

dropping from £62m in 2021/22 and anticipated to be £20.3m at the end of 2025/26, and in order to have this level of reserves, £34m of savings have to be delivered in 2025/26. There are some contingencies in the budget, but it is probable much of this will be needed to deal with specific and market risks in the year. The Council has recorded numbers reportedly delivering an average of £13.1m savings since 2010/11. This increased scale of savings requirement for 2025/26 and 2026/27 is a considerable consideration for this statement.

5. This Statement is the CFO's report for the purposes of Section 25(1) and forms part of the statutory advice given by the CFO pursuant to his Section 151 duties to the Council generally, and in addition to the advice that has been given throughout the year in preparation of the budget for 2025/26.

Macroeconomic Context

6. It is a demanding time for Local Government and Hillingdon is not exempt from these demands. Since 2010/11, local authority funding has fallen from 7.4% of GDP, and it falls further in CIPFA's forecast to 4.6% of GDP in 2028/29. Given local authorities statutory duty to provide a range of services where demand is likely to grow, for example adult and child social care and homelessness, pressure on local authority finances and services will continue. Children and adult care services now account for two thirds of the Council's budget which brings significant risks through their volatility in volumes and costs.

7. Hillingdon Council provides many services to its residents to a high quality and has done so for many years with a lower Council tax than its neighbouring authorities. This Statement is not in the main about the quality of these services, it is about the financial challenges Hillingdon faces, in common with most other councils, to continue to provide the same or similar range and quality of services on a financially sustainable basis.

8. The system of financing Local Government and the services it provides is broken. The dichotomy that Cabinet members and local councillors are placed in is in many councils near impossible to resolve under the current system of funding. Excellent councillors give up their time because they care passionately about their ward residents, yet national Government continues to provide insufficient funding for Local Government.

9. The reductions to Local Government funding, sustained periods of high inflation, huge increases in demand and the economic impact of international events such as Covid and international conflicts place many Councils in an extremely difficult financial position. Governments focus on the many changes ahead for Local Government creates uncertainty and risk.

10. Hillingdon is not shielded from these pressures. It has, throughout the last 15 years, delivered arguably what Government wanted maintaining low council tax through nil and minimal increases. However, this means that hard decisions are now needed that will impact services and charges in a way that

Councillors have strove to avoid. The more time that passes before these hard decisions are taken, the harder and more impactful those decisions will become. The passage of time has already and will continue to make the task of delivering the required financial improvements even more challenging. A 25% council tax increase was proposed in the Royal Borough of Windsor and Maidenhead is an example testimony to this point, albeit only a 9% increase approved by the Secretary of State. These increases result from late decisions on increases often with councillors understandably wanting to protect their residents from such changes that subsequently result in significant stepped increases later.

11. The Council has been and needs to continue to engage strongly and constructively with Government and the Greater London Authority to push hard for greater funding in recognition of the particular pressures unique to our borough. It is simply unacceptable that the residents of this borough are expected to meet the costs of addressing homelessness and other areas of the Council's business, that arise on account of the unique position of Hillingdon having the largest airport in the country, with inadequate funding from Government to account for that fact.

12. The new Government has provided a one-year spending round with a commitment to a future 3-year spending review. Whist this spending review is welcomed as it will provide a degree of greater certainty in the short term, it has not removed the need for a significant increase in Local Government funding. Whilst we have received the settlement and a small amount of extra support, it does not address the need or uncertainties around future reform. The volume and complexity of those reforms is significant and includes a Spending Review, the promise of multi-year settlement, funding model reform and business rates modernisation, all overlaid with plans of significant structural reorganisation of the sector and further devolution. Reforms from several Whitehall departments who own policy responsibility for many services delivered by local councils will also be significant for our planning.

13. The fiscal landscape is uncertain. Inflation forecasts for this year's four quarters by the Bank of England Monetary Policy Committee show inflation at around 3.5% from the 1.7% level for the month of September 2024 upon which the budget was being drafted. The Autumn budget has created much uncertainty and worsened the outlook for local government future funding. Thus, Hillingdon Council must resolve many of its issues itself. This budget is about doing so.

14. All of these uncertainties place real risk on the extremely low, albeit adequate, reserves of the council and increase the importance of ensuring delivery of the very challenging budget to correct the financial direction and position of the Council.

15. Savings are agreed with, and must be owned by accountable Corporate Directors, with programme office delivery support where appropriate. This is essential for the council to avoid seeking exceptional financial support.

Hillingdon Council's Governance and Financial Position

16. The Council's governance arrangements need to be improved. This is not to say that all areas of the Council have governance issues but the number of nil and limited internal audit reports signal there are issues to resolve in several areas across the Council. Work has been undertaken to deal with some of these issues but there is more to do. A governance group is in the process of meetings to oversee this work. I would point to the risk management system that is relatively new but starts the building blocks for this aspect of good governance.

17. The external auditor, Ernst Young [EY], issued its annual Value for Money statement for 2022/23 stating that there were no issues in 2022/23 on the 3 areas this statement tests. These are value for money, financial sustainability, and economy, efficiency and effectiveness. However, in respect of the 2023/24 financial year, EY has concluded that there are significant weaknesses in the Council's financial sustainability and the Council's information

    The EY External Auditor VFM conclusions for 2023/24 are:

    a. The Council does not have proper arrangements in place to identify and manage risks to its financial resilience. We have reached this conclusion based on a number of factors, including: The Council would have reported a significant overspend of £16.6 million (6.3% of the Council's net budget) for 2023/24 had it not been for two one-off accounting adjustments. These adjustments are unlikely to be available in future periods;

    b. The reserves of the Council identified by management as available to support Council spending decreased by 25% between 31 March 2023 and 31 March 2024;

    c. The cumulative deficit on the Council's Dedicated Schools Grant (DSG) increased by £25.6 million between 31 March 2023 and 31 March 2024, and at £47.5 million now exceeds the available reserves of the Council; and

    d. As of the mid-point of 2024/25, the Council is forecasting significant overspends for 2024/25 which we consider indicative that the Council did not fully understand and / or mitigate the scale of demand and inflationary pressures it faces when setting its Medium Term Financial Forecast for the period 2024/25 to 2028/29 during 2023/24.

    e. The Council does not have proper arrangements in place to ensure it takes properly informed decisions and supports challenge and transparency. We have reached this conclusion based on a number of factors including: The fact the Council was not able to meet the statutory deadline for commencement of the public inspection period of its draft financial statements, and when it did so the documentation published by the Council did not comply with the requirements of the Accounts and Audit Regulations as the Council did not publish its Annual Governance Statement alongside the draft financial statements;

f. Observations from the Council's internal auditor that "poor data quality, reliance on manual records and reliance on outdated systems that are no longer fit for purpose also impacted on the quality of documentation and performance data available" was a contributing factor to the overall level of assurance offered by the Head of Internal Audit in their annual opinion for 2023/24 being only 'Limited'; and

g. The significant difficulties encountered in the delivery of the Council's external audit for 2023/24, including poor quality working papers and supporting information being provided by the Council.

EY will issue their final VFM narrative commentary in our 2023/24 Auditor's Annual Report which we expect to issue in March 2025.

18. EY have only recently shared their recommendations with management which were immediately reported to the Audit Committee, therefore management responses to their recommendations will also be included within the Auditor's Annual Report, to ensure that management are provided time to properly consider our recommendations. If EY are not satisfied with the Council's response to their recommendations, or the implementation of that response, we will consider exercising our further powers by making formal statutory recommendations.

19. My view is that the EY 2023/24 assessment recognises the position more appropriately that in previous years' VFM reports. If the Council is to avoid Exceptional Financial Support, (assuming that any application is accepted) then the identified 2025/26 savings must be delivered, and it is quite possible that further in year savings will be needed to offset any non-delivery. If the Council needs Exceptional Financial Support the level of influence the Council has over its own decision making lessens and in applying, the Council will have been expected to make some key decisions to demonstrate it has taken all the action it needed to before a request will be approved. When Government provides this support, it is usually provided by a capitalisation direction and in all cases the government has set a clear expectation that authorities continue to manage their financial situation and mitigate their financial pressures, as well as respond effectively to the individual challenges being faced and provide regular updates to Government on progress. Such support is provided on an exceptional basis, and on the condition that each local authority is subject to an external assurance review.

20. The reserves outturn of £24m at 31st March 2025 is subject to an £11m capitalisation exercise. This work will be undertaken by CIPFA. Any under-delivery will result in a reduction of our opening reserves position for 2025/26.

21. Government will be reluctant to provide exceptional financial support mid-year, and therefore were the authority to be in a position where its outgoings were to exceed its income there is a possibility that a s114 Notice would need to be issued. Once any S114 Notice is issued, all non-essential expenditure would be stopped, and it would be extremely likely that Commissioners would be imposed on the Council.

22. My concerns on signing off this budget from a robustness perspective arise from the financial system information and broader information available along with the scale of the savings required this coming year. There is a clear financial skills need in many parts of the organisation for the delivery of saving required. Capacity and capabilities must be seen as an organisational wide financial management issue and not just a Finance problem. There are information issues within the Council as a whole, including the financial information necessary to close the accounts. Financial monitoring has proven difficult with the inadequate implementation of Oracle and this alongside a past culture where service areas did not have proper responsibility and accountability for their budgets has made financial management a challenge for Hillingdon recently.

23. The Council has information issues that are in the process of being resolved. That has meant that the budget build information supporting growth and savings has been of mixed quality. It has also resulted in many movements in financial reporting this year.

24. The CFO is engaging the Chartered Institute of Public Finance and Accountancy [CIPFA] to assist Hillingdon with its financial capacity and capability needs. Without this help, the programme of improvement will not be developed. CIPFA will also be needed in delivering much of the Financial Improvement Plan. Many Councils need to both employ new skills and develop their existing in-house skills in this space. The Council has many skilled employees, but it just does not have enough of them. A range of senior officers have exited the Councils Finance team in 2024/25 including both the S151 and Deputy S151 officers. Recruitment and retention is of paramount importance in this recovery plan. It is essential the Council has that plan to attract high quality applicants and retain the many excellent people we have. That said, the Council must also deal with poor performance. Local Government has too many temporary resources and needs to be more careful when employing on this basis, noting it can only do so where it can recruit properly qualified and experienced staff. The Council needs to be an employer of choice given the options available to skilled employees. The culture of the organisation is of paramount importance.

25. There are financial management standards set out by CIPFA, and CIPFA will provide resources to both benchmark where finance services both within the Finance Department and service departments, and how financially capable departments and the organisation are, will be helpfully and positively tested so we can improve. It is important that this work is undertaken in a constructive way. The Council has recognised there are issues, and it needs an improvement plan. Recognising that there needs to be improvement is a

strength. The quality of information in 2023/24 has been judged by the external auditor EY to have significant weaknesses, and decision-making information needs to improve in many aspects, and in 2024/25 it is in the stages of that improvement. That does not mean that the Council is not providing residents with good services. It clearly is in a number of key assessed areas, as has been recognised by recent external reviews. What it means is that decision making is not being facilitated in the way it should with high quality information. This has impacted our financial position.

26. The Council needs to fund an improvement plan using its capital receipts. The £17m required in the capital receipts programme to fund this transformation is very necessary. Any shortfall in capital receipts will put the transformation programme at risk, and underlines the connectivity of all parts of this budget strategy, should one part not deliver.

27. The Council must always be aware of changes to grants programmes particularly ahead of the Governments fundamental review of Local Government funding. We are expecting a three-year funding review for 2026/27 and that will bring some certainty, but we must be ready for further changes ahead should some grants cease to continue.

28. Financial skills are not just a requirement in the finance team. In the CFO's view, financial and commercial skills are insufficiently honed in, in some parts of the Council and that is an inherent part of the issues the organisation faces and must resolve. The Finance Department must be capable and have sufficient capacity and systems. It is essential that sound financial and commercial skills exist in all departments.

29. The culture of the Council needs to be one where overspending is 'unacceptable'. To do so requires a budget that is challenging but achievable. The 2024/25 budget required a significant in-year rebasing exercise but that was clearly insufficient. The 2024/25 budget is still under severe pressure with a net forecast overspend of £10m after mitigating actions including an £11m capitalisation requirement as already highlighted. These mitigating actions were only decided upon halfway through the year to stabilise a high-risk situation.

30. The optimism bias in budget build and delivery of the budget was too great, and its delivery was clearly not sufficient. Departments report adjustments made in isolation by finance and insufficient understanding and oversight of late adjustments to the budget. Reserves movements have not been as visible as could have been for many years. A more transparent and open approach is needed. Netting budgets off and amalgamations need to stop as a practice. Much progress has been made in this narrow respect in particular as these are public reports.

31. IFRS9 changes relating to pooled investments has a negative reserve of some £1m. This statutory override ends this year and could result in a charge to the revenue account for some or all of this amount. Provision has been made for some two thirds of this.

32. The Council has limited exposure to commercial ventures and has not engaged in property investments, at the scale that many boroughs already in exceptional financial support did. This is a strength of the borough.

33. Exposure to inflation is high particularly given the increased Bank of England forecasts since the Autumn budget.

34. The Council also has exposure to interest rate fluctuations. Our average investments are kept around £25m so any 1% change would have an impact of £250k. Whilst most of our loans are fixed-term, the Treasury Management report (Appendix D), notes that refinancing of the existing loans or new loans could cost an additional £1.0m if interest rates were to be 1% above that assumed.

35. A number of areas have not been reviewed for many years. The Council will, for example, receive a stock condition survey on its housing stock for review work to commence in March this year. The Council have ensured they get this assessment as it is essential to provide the information necessary to work out a revised 30-year Housing Revenue Account Plan and this could have significant financial impacts on the Council.

36. The Council's overhead apportionment model needs a full review. There has been insufficient time to do this work this year primarily due to lateness of commencing work to mitigate the overspend and due to work that had to be undertaken to review the robustness of information and the granular details of plans of management upon which to produce a budget for 2025/26. Staff turnover and knowledge loss is an issue that is still being dealt with. The Finance Department needs to rebuild, retaining the good people that have stayed with the Council in balance with new people and additional skill sets. It is important that new and existing staff learning from each other is in both directions.

37. The governance arrangements of the Council must be improved. They are not adequate for an organisation of our complexity. The Oracle system implementation was not sufficiently resourced and was seen as a finance project rather than a fundamental change to the whole Council's operating system. Oversight was poor and siloed. This is now chaired by the Digital Transformation team with strong support though the finance team and other parts of the Council.

38. The CFO has endeavoured to de-risk the budget by including some contingency but given the risks ahead he cannot be certain that this is sufficient. Reserves are very low for a borough of the Council's size with the risks in key areas such as adults care, homelessness, and children's services. Councils run services where demand has increased significantly. The majority of services we run increase costs as demand increases unlike a private sector run company. Legal duties put significant requirements on councils and successive Governments have underfunded local authorities.

Our DSG deficit currently forecast to be £69m by March 2025 is a serious issue.

39. It has been an important year for Hillingdon Council. This is the year that the Council has recognised the scale of challenges ahead, and that it can no longer continue to draw on reserves every year which it has done for the past 5 years. That said the 2025/26 budget does need to draw down these reserves again to the value of £4.2m

40. If the average reported level of savings from 2010/11 to 2024/25, which is £13.1m, were to be delivered in 2025/26 out of the £34.0m then £20.9m of the savings would not be delivered. We have a contingency of £10.5m, which would leave a £10.4m problem (£20.9m minus £10.5m). This would mean that the target saving level for 2026/27 would be £10.4m plus the existing requirement of £17.8m, so the Council would face a £28.2m budget gap, £5.8m lower than the budget gap in 2025/26. This underlines the importance of delivering the 2025/26 budget.

41. The Council has a very low taxation level which is of significant financial benefit to its residents. Many of its services are relatively low cost in benchmarking exercises but nevertheless the Council needs to review its service access policies, the service levels provided and how these are provided. Without a fundamental change in the way the Council operates to enable the delivery of the 2025/26 and 2026/27 savings programmes, which is now the largest at £34m this coming year. There are £17.8m of savings needed in 2026/27 on top of this. It needs to be clearly understood that the delivery of a substantial majority of these savings needs to be delivered to avoid some form of financial support either in 2025/26 or 2026/27. The Leader and Cabinet recognise this possibility and have asked officers to continue engaging with MHCLG officials on our current financial situation as many other Councils are doing. In addition, the Leader and Finance and Transformation Cabinet Member have assured the Chief Executive, Chief Operating Officer and I that they will take the necessary in year budget decisions to reduce overspends and increase income if needed to do all that can be done to avoid an EFS situation.

42. In building the options for this budget officers discussed increasing the Council tax, EFS funded by capital receipts, and EFS funded by borrowing with the Leader and Cabinet Member for Finance and Transformation. These options were not politically acceptable this year. The Cabinet have opted for a significant savings programme which is intended to protect resident's services for a further year without increasing the Council Tax charge beyond the maximum 4.99%. If a significant delivery is not achieved the budget gap will increase in future years and future year savings targets will increase due to the year-on-year nature of the budget.

43. It is essential that savings are fully developed and underwritten to ensure delivery, and that undeliverable savings do not role forward into future year's budgets. Councillors have maintained a focus on protecting essential services such as refuse collection, parks and greenspaces and keeping

down the costs of resident parking and investing in highways. There is also significant protection of resident fees and charges where the Council have increased charges but from a very low base. As with a low Council tax level this again places pressure on the Council's funding. These are fully understandable as political decisions that benefit residents but inevitably places the savings target delivery on all other service areas thus increasing the possibility of non-delivery of some of these savings.

44. Governance across the Council needs to be improved. There are too many nil assurance and limited assurance reports. These are red flags that there are cultural ownership issues of good governance. Good governance is the responsibility of all officers and members, not just the responsibility of management or the "corporate core". The officer leadership team have commenced work on this, but capacity to deliver at pace is now required. The organisation must address this as a matter of urgency.

45. The Audit Committee have a key role in this area and must take a stronger role in governance improvement assurance, reporting more regularly to the Cabinet who should rely upon the Audit Committee to provide regular assurance reports.

46. The Council continues to face challenges, the most significant of these issues appear to be:
    - The accounts of 2022/23 were disclaimed by the External Auditor. This means that the Council's accounts are not fully assured but neither are they qualified. In essence, they are somewhere in the middle where, because of the backstop dates, there is insufficient audit evidence available with these time constraints for the External Auditor to state, in their opinion, whether the financial statements are properly put together and free from material error. This is a significant governance concern of critical importance. It means a full balance sheet review will be needed as part of the CIPFA work the CFO has commissioned. The Council needs to know whether and to what extent there are issues within its balance sheet that materially affect its financial standing, whether positively or negatively.

47. The Council needs cross-party political support to lobby for more funding This needs national resolution. Government needs to recognise the costs that present themselves to the borough from hosting Heathrow airport within its boundary.

48. The funding provided through to the NHS is significant and necessary and the Council awaits a properly funded solution for adult social care.

49. In taking decisions on any budget all Members must first and foremost understand the underlying funding challenges which the Council faces and set these associated decisions within the context of the overall financial environment the Council operates within. This report endeavours to help in this respect notwithstanding we have only had a single year funding review from Government.

50. The funding assumptions of the government grant settlement have been eroded by the pressures that inflation places on the Council's budget. Hillingdon's budget allows for reasonable inflation, but it is impossible to be certain on its adequacy given this serious economic issue. In addition, the Council must not pick up the financial costs that the private sector encounters from the fiscal decisions in November's Government budget. Whether the Bank of England has acted fast enough to help drive growth with the sticky inflationary position remains to be seen. The impact of inflation will require a robust financial response from the Council in respect of those who contract with the Council and be kept under regular review. The Council would need to increase the inflationary provision in its budget by a further £4m to meet the latest forecast change in inflation since September CPI. This is a risk that could potentially draw on the contingency budget if it crystallises.

51. In forming this statement of the robustness of the budget estimates and adequacy of reserves the CFO has reviewed the position in reasonable detail with the Chief Executive and Corporate Management Team. An assessment of the potential risks facing the Council have indicated a range of reserves to be built up between £32m to £57m – a summary of the risks included in this analysis is set out in Appendix A.

52. The CFO conclusions have been shared in writing with the Cabinet Member for Finance and Transformation and the Chief Executive, and discussed with the Leader and Cabinet Members ahead of the Cabinet meeting and decisions regarding the recommending of the budget to full Council, as part of the Council's overall governance and financial stewardship arrangements.

53. It is important that there is ownership at all levels from both political leadership and officers, that there is a need for a more robust financial process for delivering services within budget. Ongoing current work and additionally with CIPFA, will help in this respect.

54. All Members must also be aware that the calculation of the budget is, in its simplest form, dependent on three key factors, which are set in the context of the level of support from central government, these are:

- The structural growth and savings in service expenditure or income;
- The level of increase in local taxation (council tax); and
- The level of reserves and balances.

55. With regard to the Housing Revenue Account where Local Authorities were allowed to raise Housing Rents by CPI+1%, this principle continues into 2025/26 and this will ensure that the years of lost income from the 1% reduction in rents better supports tenants in an improved way and the upkeep of the housing stock. The Council will need to review the HRA account in more detail as part of and after the 30-year business plan is produced for Cabinet

Growth, Savings and income options in service expenditure

56. Proposals for growth, savings and income generation in service expenditure are ultimately a matter of political judgment balancing the needs and priorities of the borough within the available revenue resources. In balancing such decisions Members must have regard to the professional advice of officers in such matters as service need, statutory responsibility, changes to Government legislation, demographic factors (particularly in respect of demand-led services), and unavoidable cost pressures whilst always having regard to the need to remain within the statutory requirement to balance the budget and to keep within that budget and available reserves once the budget is set. This report forms part of that advice.

The Level of Reserves and Balance

57. The level of reserves and balances are principally the responsibility of the s151 officer and are key to ensure the financial sustainability of the Council. The reserves level must be kept under review and delivery of services within the 2025/26 budget is essential.

58. In addition, whilst is not possible to be certain that there are no further legacy issues that will emerge in the future, impacting on the assumptions and estimates made and reported here, the engagement of CIPFA for a Balance Sheet review will assist in gaining a greater understanding of this risk.

59. The CFO has endeavoured through asking the Corporate Management Team to both remove what appeared to be non-robust savings and added in real growth pressures to the budget as proposed and additionally allowed reasonable stretch targets without over-optimism bias. Nevertheless, the scale of the ask still presents a significant challenge even after these adjustments. Undelivered savings have increased this year’s target.

60. Whilst the Budget includes investment in the capital programme for the next five years there needs to be further work in respect of the stock condition of the Council’s assets, for the HRA in particular as well as the General Fund. Many of the Council’s assets will need condition surveys and decisions on their future use. The Cabinet have requested officers to create an asset management strategy. Invest to save options will face stringent and thorough testing prior to commencement.

61. It is not possible to give full robust assurance to this budget given the scale of savings needing to be delivered in a single year. This is a very high-risk budget the robustness of which will need to be kept under careful and regular review. the Target operating Model (TOM) is a culmination and collective of transformation plans that will need to be firmed up urgently to ensure their delivery in year. Officers will need to focus on delivery of the overall savings to deliver the political choices made. The financial position reported at the end of the first quarter will be a significant milestone on this journey. The transformation plans increase and extend in future years

budgets throughout this budget strategy. They are an ongoing commitment and must in the main be cashable.

62. The scale of challenge is such that the budget may go out of balance quickly and with only adequate and not sufficient reserves that could cause problems in the 2025/26 and/or 2026/27 financial year(s). It is for that reason that the Council must commence the delivery of the savings at the start of the financial years.

63. If the budget goes out of balance the Cabinet will need to take alternative and urgent decisions, including policy changes, to regain balance.

64. Governance and compliance with codes and standards will be tested utilising the Chartered Institute of Public Finance and Accountancy (CIPFA) review team. This will be part of the gap analysis work on where we are against best practice.

DSG

65. The Council will have a Dedicated Schools Grant (DSG) Special Educational Needs and Disabilities grant (SEND) deficit by the end of this year of circa £69m. This is held as a negative reserve on the balance sheet. There is a statutory override in place until the end of March 2026.

66. The expectation is the Government will find a solution towards dealing with (and accounting for) the deficit accumulated prior to 2025/26 or prior to 2026/27. The DSG SEND deficit is however, a significant financial risk to the Council irrespective of the future financial arrangements for the statutory override. Were this statutory override to be removed the Council does not have sufficient other reserves available and would require Exceptional Financial Support from the Government.

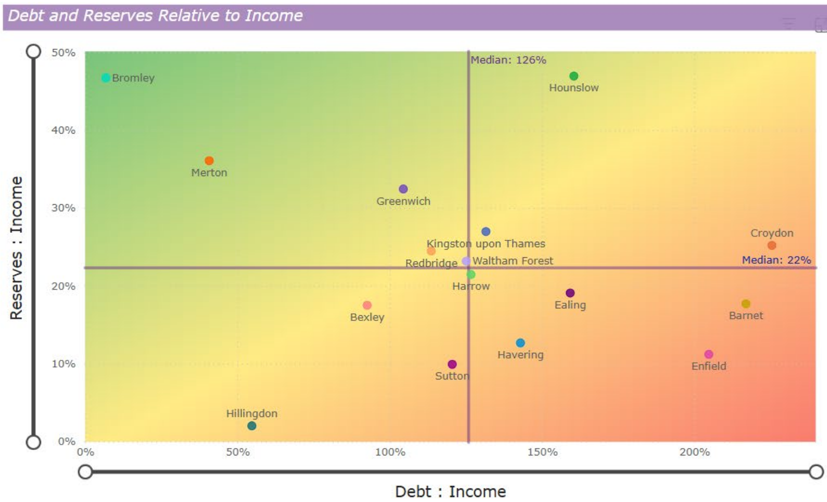
Housing Revenue Account

67. The Housing revenue account reserves are adequate and estimates robust for the purposes of budget calculations. There is a significant development programme within the HRA. The main risk area in this account is the stock condition survey due to be received soon, that will need a thorough review upon receipt and will reset the 30-year business plan for the Council. This will form a key part of the 2026/27 budget.

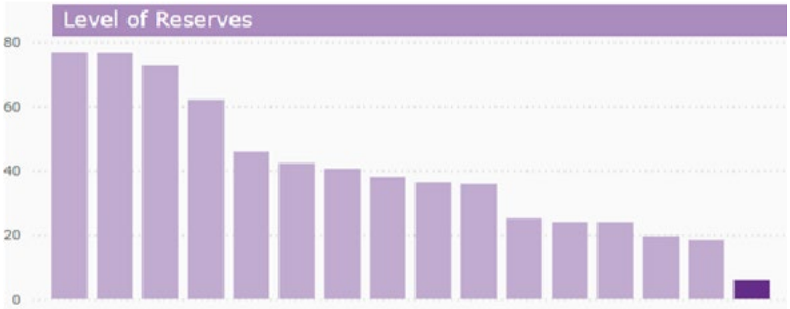
68. In addition, the recharges review that will be undertaken by CIPFA will include this account. The Council will also need to keep a watchful eye on the rising level of debt within this account given the government’s policy position to increase the number of social housing homes built over the remaining term of this Parliament.

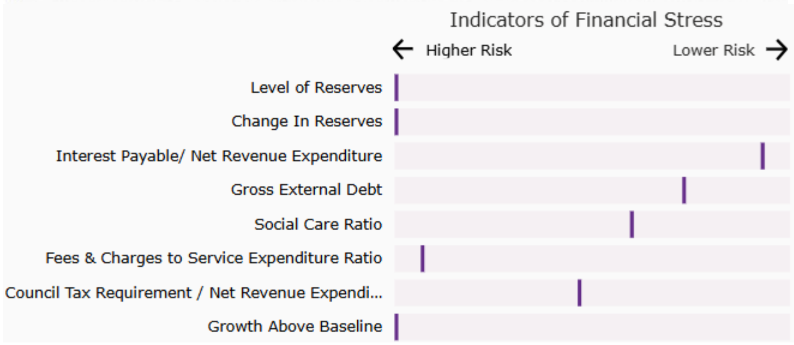
CIPFA RESILIENCE INDEX:

69. CIPFA provide advice to Chief Financial Officers in forming their views on the robustness of reserves and resilience of reserves and point to the relative position of an authority in comparison to a cohort of similar sized authorities with comparable demographic composition. CIPFA's resilience index illustrates that Hillingdon has not been a high spending (and borrowing) authority and thus has a relatively low (healthy) debt to income ratio – being third lowest out of the sixteen in the comparator group. However, as noted elsewhere in this report, the Index illustrates the relative low level of reserves held to mitigate specific future pressures or risks. The charts for Hillingdon available on CIPFA's website are replicated below:



Authority	Reserves : Income	Debt : Income
Barnet	18%	217%
Bexley	17%	93%
Bromley	47%	7%
Croydon	25%	226%
Ealing	19%	159%
Enfield	11%	205%
Greenwich	32%	105%
Harrow	21%	127%
Havering	13%	143%
Hillingdon	2%	55%
Hounslow	47%	161%
Kingston upon Thames	27%	132%
Merton	36%	41%
Redbridge	24%	114%
Sutton	10%	121%
Waltham Forest	23%	125%





Conclusions:

On the binary decisions on robustness of estimates and adequacy of reserves for the General Fund my conclusions are:

1. **The estimates are not sufficiently robust for the purposes of the budget calculations, given the scale of delivery needed, and the issues and uncertainties set out above.**

2. **Reserves are adequate, given the pressures the Council faces but this is a marginal call judgement. To be clear this is very different to concluding that the reserves are ample, but rather that reserves are only just enough. Reserves are very low and must be rebuilt.**

In summary, the next financial year is an incredibly important year for Hillingdon Council. In order for the budget to remain balanced and lawful, in the lead up to and throughout the coming financial year, it will be crucial for the actions [set out in this statement and the budget paper] to be implemented.

Richard Ennis
Corporate Director of Finance-S151 Officer
London Borough of Hillingdon

Appendix A to the S25 Statement - Balances & Reserves Policy - Assessment of General Fund Reserves Requirement

Assessment of General Fund Reserves Requirement	Minimum Level 2025/26 (£ million)	Maximum Level 2025/26 (£ million)	Minimum Level 2024/25 (£ million)	Maximum Level 2024/25 (£ million)
General financial climate to which the Council is subject to in terms of funding	3.0	6.0	2.5	7.0
The overall financial standing of the authority	2.0	4.0	2.0	4.0
Estimates of level of locally raised income	1.0	3.0	3.0	5.0
The treatment of planned efficiency savings / productivity gains	8.0	15.0	4.0	7.0
The treatment of inflation and interest rates	2.0	4.0	6.0	7.0
The financial risk inherent in major contract arrangements	2.0	4.0	2.5	5.5
The treatment of demand led pressures	4.0	7.0	4.0	7.0
The financial risks inherent in any major capital developments	2.0	3.5	2.0	3.5
Estimates of the level and timing of capital receipts	3.0	6.0	1.0	2.0
The availability of reserves and other funds to deal with major contingencies and pressures	5.0	5.0	5.0	4.0
Unallocated GF Reserves	**32.0**	**57.5**	**32.0**	**55.0**

8. CABINET RECOMMENDATIONS That:

1 The General Fund revenue budget proposals made by Cabinet be approved, resulting in a Council Tax requirement for 2025/26 of £154,125,910;

2 Council note that at its meeting on 16 January 2025 the Council calculated the amount of 105,422 as its Council Tax Base for the year 2025/26 This was calculated in accordance with the Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012, as its Council Tax Base for the year *(Item T in the formula in Section 31B (3) of the Local Government Finance Act 1992);*

3 The Hillingdon element of Council Tax be set at £1,462.00 for a Band D property. Taking into account the precept levied by the Greater London Authority, this results in an overall Band D Council Tax of £1,952.37 for the borough;

4 The following amounts have been calculated by the Council for the year 2025/26, in accordance with Sections 32 to 36 of the Local Government Finance Act 1992 (the Act):

a) £974,250,324 — **being the aggregate of the amounts that the Council estimates for the items set out in Section 31A (2) (a) to (f) of the Act. *(Gross Expenditure including the amount required for additions to working balances)***

b) £820,123,360 — **being the aggregate of the amounts that the Council estimates for the items set out in Section 31A (3) (a) to (d) of the Act. *(Gross Income including reserves to be used to meet Gross Expenditure)***

c) £154,125,910 — **being the amount by which the aggregate at 4 (a) above exceeds the aggregate at 4 (b) above. This is calculated by the Council in accordance with Section 31A (4) of the Act, as its Council Tax requirement for the year. *(Item R under Section 31B of the Act)***

d) £1,462.00 — **being the amount at 4 (c) above divided by Item T (2 above). This is, calculated by the Council in accordance with Section 31B of the Act, as the basic amount of its Council Tax for the year. *(Council Tax at Band D for the Council)***

The London Borough of Hillingdon Council Tax (£)			
Band A	**Band B**	**Band C**	**Band D**
974.67	£1,137.11	£1,299.56	£1,462.00
Band E	**Band F**	**Band G**	**Band H**
£1,786.89	£2,111.78	£2,436.67	£2,924.00

being the amounts given by multiplying the amount at 4 (d) above by the number which, in the proportion set out in Section 5 (1) of the Act, is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in valuation B and D. This is calculated by the Council in accordance with Section 36 (1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands;

5 **Council note that for the year 2025/26 the Greater London Authority and its functional bodies have stated the following amounts in precepts. These have been issued to the Council, in accordance with Section 40 of the Act, for each of the categories of dwellings shown below:**

The Greater London Authority Precept (£)			
Band A	**Band B**	**Band C**	**Band D**
£326.92	£381.41	£435.89	£490.38
Band E	**Band F**	**Band G**	**Band H**
£599.35	£708.33	£817.30	£980.76

6 **The Council has calculated the aggregate in each case of the amounts at 4 (e) and 5 above. The Council in accordance with Section 30 and 36 of the Local Government Finance Act 1992 hereby sets the Council Tax for the year 2025/26 for each category of dwelling below:**

Total Council Tax 2025/26 (£)			
Band A	**Band B**	**Band C**	**Band D**
£1,301.59	£1,518.52	£1,735.45	£1,952.38
Band E	**Band F**	**Band G**	**Band H**
£2,386.24	£2,820.11	£3,253.97	£3,904.76

7 **The Council Tax Discount for Older People be retained for 2025/26 with a 1.43% discount on Hillingdon's element of the Council Tax for those who joined the scheme on or after 1 April 2020, 3.27% for those who joined the scheme before or on 31 March 2019 and 6.98% for those who joined before or on 31 March 2018, with the scheme closed to new applicants from 1 April 2021;**

8 **The General Fund Capital Programme for 2025/26 to 2029/30 as set out in Appendix A8 of the background report to Cabinet be approved;**

9 **The Housing Revenue Account budget proposals, HRA Capital Programme and housing rents set out in Appendix B of the background report be approved;**

10 **The proposed amendments to Fees and Charges set out in Appendix C of the background report to Cabinet be approved;**

11 Capital Investment Strategy, Treasury Management Strategy, Investment Strategy, Minimum Revenue Provision Statement for 2024/25 to 2029/30 as set out in Appendix D of the background report to Cabinet be approved;

12 The London Borough of Hillingdon Pay Policy Statement for 2025/26 as set out in Appendix E of the background report to Cabinet be approved;

13 Council note the transformation plan, as set out in Appendix G of the background report to Cabinet, and the use of £17m of capital receipts for this purpose, subject to Government confirmation on utilising receipts for this purpose for a further year.

14 Council note the Corporate Director of Finance's comments regarding his responsibilities under the Local Government Act 2003 as set in his Section 25 Statement accompanying the Budget Report recommended by Cabinet;

15 Council (as set out in Schedule G of the Constitution - Budget and Policy Framework Procedure Rules) resolves that Cabinet may utilise the general reserves or balances during 2025/26 in support of functions designated to the Cabinet in line with Part 4 of the Constitution;

16 Council confirm that the Council's relevant basic amount of Council Tax for 2025/26 is not excessive in accordance with principles approved under Section 52ZB Local Government Finance Act 1992 and therefore a referendum will not be triggered.

Greater London Authority Precept

9. As one of thirty-three billing authorities across the capital, the London Borough of Hillingdon collects Council Tax on behalf of the Greater London Authority (GLA) which is paid over in full as the annual precept. While the Council has no control over the level of this precept or the resulting GLA share of Council Tax payable by residents of the borough, current regulations require that billing authorities calculate the total amount of Council Tax payable as part of the budget setting resolution. The level at which the GLA sets the precept for the forthcoming year does not impact upon the Council's own budgets or the Hillingdon share of Council Tax.

10. The GLA precept this year is set to increase by £18.98 per annum, of this increase, £14 will be applied for policing, with non-police services increasing by £4.98. The GLA have therefore increased their precept by £18.98, or 4.03%, to cover rising costs associated with these areas, this takes the GLA precept to £490.38 for a Band D property.

Council Tax Referendums

11. Schedule 5 of the Localism Act 2011 inserted into the Local Government Finance Act 1992 Chapter 4ZA of Part 1 makes provision for a Council Tax referendum to be held if an authority increases its relevant basic amount of Council Tax in excess of principles determined by the Secretary of State for Communities and

Local Government. Section 41 of the Local Audit and Accountability Act 2014 amended Chapter 4ZA of Part 1 of the Local Government Finance Act 1992 by imposing new obligations on the Council. These include a requirement that as soon as is reasonably practicable after determining that it is required to hold a referendum in relation to its relevant basic amount of Council Tax for the financial year, the Council must notify that fact in writing to any body that has issued a levy or a special levy to it for the financial year.

12. The Secretary of State has determined the principles for the year 2025/26 under section 52ZC (1) of the Local Government Act 1992 that a Council Tax increase will be excessive if the authority's relevant basic amount of Council Tax for 2025/26 is 5% or greater than its relevant basic amount of Council Tax for 2024/25. This 5% threshold for excessive increases includes the 2% additional flexibility available to local authorities with responsibility for providing Adult Social Care.

13. The relevant basic amount of Council Tax as calculated is the same as the Band D Council Tax for Hillingdon and if the proposals within this report are approved there will be a 4.99% increase in the Council Tax level between 2024/25 and 2025/26 and is therefore not excessive.

Financial Implications

14. This is a financial report, and the comments of Corporate Finance are contained throughout.

Legal Implications

15. As is mentioned in the body of the report, the Local Government Finance Act 1992 has been amended by both the Localism Act 2011 and section 41 of the Local Audit and Accountability Act 2014. For this year local authorities are required to hold a referendum if there is an increase in the relevant basic amount of Council Tax of 5% or greater than its relevant amount of Council Tax for 2025/26.

16. The Cabinet's proposals for the 2025/26 Council Tax requirement, as set out in the attached report, do not require a referendum to be held and therefore the notification requirements as set out in Section 41 of the Local Audit and Accountability Act do not apply.

17. Finally, Members must have regard to Section 106 of the Local Government Finance Act 1992. This provides that a Member who has not paid an amount due in respect of Council Tax for at least two months after it becomes payable, may not vote on matters concerning the level of Council Tax or the administration of it. Therefore, any Council Members who are more than two months in arrears with their Council Tax payments must make a declaration to this effect at the beginning of the Council meeting.

Background Documents: The Council's Budget - Medium Term Financial Forecast 2025/26 - 2029/30 - Cabinet's Budget proposals approved on 20 February 2025