

COUNCIL BUDGET - 2025/26 BUDGET MONITORING

Cabinet Member & Portfolio	Councillor Martin Goddard Cabinet Member for Finance & Transformation
Responsible Officer	Steve Muldoon, Corporate Director of Finance
Report Author & Directorate	Andy Goodwin, Head of Strategic Finance
Papers with report	None

HEADLINES

Overview

This report sets out a summary of the Council's General Fund and Housing Revenue Account forecast positions for both revenue and capital budgets as at the end of August 2025 (Period 5) for the financial year 2025/26.

General Fund Revenue

The Council has an approved expenditure budget of £974m, comprised of £552m within the General Fund and £422m within the Dedicated Schools Grant. As at the end of August 2025 (Period 5), the General Fund forecast shows an overspend of £30.2m, leading to an adverse movement of £8.1m from Month 4 against the reserves position.

The change in forecast of £8.1m represents a variance predominantly driven by service operations and reflects the ongoing pressures and risks local authorities face in homelessness, children's and adults social care provision. There remain significant inherent risks which continue to be reviewed and may impact the forecast at a future point.

Dedicated Schools Grant (DSG)

The in-year forecast deficit relating to DSG remains in line with budget, i.e. a £12.5m in-year increase in the deficit reserve position. It should be noted that the in-year deficit for 2025/26 represents an improvement of £2.5m on the in-year deficit reported for 2024/25. When factoring in the opening deficit position of £65.9m, this forecast position leads to a closing cumulative deficit for 2025/26 of £78.4m. The statutory override is in place until March 2028 while the Council continues with its deficit management plan.

Housing Revenue Account (HRA)

The 2025/26 HRA revenue budget consists of £85.4m expenditure matched by an equivalent level of income (rents, service charges and other contributions). The Month 5 forecast reflects an unchanged position (nil variance) against this budget. This comprises a £0.9m pressure against service expenditure offset by a reduction in the revenue contribution to the capital programme.

General Fund and HRA Capital Programmes

The Council set itself ambitious targets to invest in local services, infrastructure and homes during 2025/26 – a total of £307m being budgeted across both the General Fund and HRA areas in 2025/26. 95% of that target is expected to be spent in year, with the majority of the underspend

proposed to be rephased into 2026/27 at this stage, subject to Cabinet approval as part of the draft outturn report to be prepared in early 2026/27.

The General Fund capital programme includes a budget of £17.0m of capital receipts to be used to fund transformation costs leading to ongoing future revenue savings or cost avoidance and is to be funded from the flexible use of capital receipts (as allowed for under Government regulation). The level of available capital receipts and how this will be applied to qualifying expenditure in this year is under review and it is possible that this may reduce in future months.

As the capital programme is reported quarterly to Cabinet, the next update will be for Month 6 to be presented to Cabinet in November.

Putting our Residents First Delivering on the Council Strategy 2022-2026	<p>This report supports our ambition for residents / the Council of: An efficient, well-run, digital-enabled council working with partners to deliver services to improve the lives of all our residents</p> <p>This report supports our commitments to residents of: A Digital-Enabled, Modern, Well-Run Council</p>
Financial Cost	N/A
Select Committee	Corporate Resources & Infrastructure
Ward(s)	All

RECOMMENDATIONS

That the Cabinet:

1. **Note the budget monitoring position and treasury management update as at August 2025 (Month 5) as set out in Part A of the report, furthermore, noting the actions proposed by officers.**
2. **Approve the financial recommendations as set out in Part B of this report.**

Reasons for recommendation

1. The reason for **Recommendation 1** is to measure performance against the Council's budgetary objectives, providing Cabinet with the update on performance against budgets approved by Council on 27 February 2025 contained within **Part A** of this report. An update on the Council's Treasury Management activities is included within this.
2. **Recommendation 2** seeks approval for the financial recommendations set out within **Part B** of this report, which may include acceptance of grant funding, revisions to fees & charges and ratification of decisions taken under special urgency provisions.

Alternative options considered / risk management

3. There are no other options proposed for consideration.

Select Committee comments

None at this stage.

PART A: 2025/26 MONTHLY BUDGET MONITORING

SUMMARY

GENERAL FUND REVENUE

4. As at Month 5, the Council is forecasting a net overspend of £30.2m on its core operating activities. This includes overspends of £28.0m across Service Operating Budgets, a £4.2m pressure against the planned use of reserves and a breakeven position across centralised and Corporate Budgets including Corporate Funding. These pressures are partially mitigated by £2.0m of planned interventions, which are expected to deliver savings aligned with the Target Operating Model (TOM) and spend control measures, and are currently held under unallocated budget lines, pending allocation to service areas. To address the total gross pressure of £40.7m, which includes further pressures of £2.7m relating to pay inflation and £7.1m on cross-cutting savings no longer viewed as deliverable in-year, the full £10.5m contingency budget has been released, reducing the net overspend to £30.2m. Overall, this represents a £8.1m increase in the overspend compared to the Month 4 position.
5. The service operating budget pressure of £28.0m, representing a £3.9m adverse movement from Month 4, is largely being driven by four pressure areas:
 - i. c£19.5m relating to further demand pressures above the budget position presented to February Cabinet and Council, with £8.2m being driven by Adult Social Care demand, £6.5m from homelessness support, £5.1m within Children's Social Care, offset by a £0.3m reduction in the waste forecast.
 - ii. c£8.0m relates to a shortfall against the savings budgeted in 2025/26 and the £38.8m target to be delivered this year (with a further £7.1m included in unallocated savings budgets), representing 39% slippage.
 - iii. £3.0m from the General Fund share of Treasury activities and the interest costs arising from the increase in borrowing resulting from the forecast
 - iv. Lastly, c£2.5m net underspend relating to a number of other smaller updates, mainly driven by staffing underspends across Adult Social Care & Health (c£2m) and Children's Social Care (c£1m) with some other minor movements.
6. Whilst centralised and Corporate Budgets are presenting a breakeven position, this includes a forecast pressure of £9.8m comprising an under-delivery against unallocated savings of £7.1m and £2.7m as a result of the final 2025/26 pay award offer of 3.2% compared to the budgeted 2.0%. A further pressure of £0.7m is reported against Corporate Funding due to an element of the Children's Prevention Grant that was announced as part of Core Spending Power being required to be spent on new initiatives leading to that element of the grant being transferred to the Children's Social Care service. The forecast then includes two mitigating actions, firstly the approved release of the £10.5m general contingency and secondly to reflect £2.0m of interventions to incorporate an anticipated reduction in expenditure which will arise as a consequence of introducing more stringent spend controls.
7. Within the position, the Planned use of Reserves of £4.2m is reported as a pressure due to the Council's low opening reserves position and therefore there is no scope to draw any

reserves down. Should the Government approve the Council's EFS submission, this position may change to reinstate this planned use of reserves.

8. As part of the Month 5 review, the Council has also carried out an analysis of exposure to risks and where further opportunities exist. This review has identified more risks than opportunities, with risks totalling £10.7m against further opportunities of £2.9m. The identified risks include demand exposure from homelessness (£1.0m), adult social care (£1.8m) and Waste Services (£0.3m) with wider corporate risks linked to the delivery of the interventions (£1.0m). An estimated £5m of the above reflects the level of capital receipts yet to crystallise to fund transformation activity as set out in the Council's budget; a pipeline for this is in place with some assets now being marketed and so this risk is anticipated to reduce through the year. The remaining £1.6m of risks come from a number of smaller updates including funding strategies such as buyers premium and potential environmental costs associated with compliance related activities. It should be noted that risks not able to be quantified include the cost of any redundancies that may arise from any TOM savings implementation (redundancies would precede any savings that ensue), and also the financial impact relating to the amortisation of any EFS that may get agreed in respect of the 2024/25 financial year.
9. Opportunities in this position include £0.9m associated with various waste workstreams including the release of regional benefits from the West London Waste Authority (WLWA) and £1.4m related to the Council's ability to positively impact the homelessness support pressure through demand and market management, with £0.6m from smaller opportunities.
10. It should be noted that the risk of further overspend against homelessness costs remains high, like many London boroughs, given the rising levels of homeless presentations and the challenges in securing suitable alternative accommodation to prevent homelessness, particularly in the private rented sector. This position is being reviewed in detail and updates will be provided in future budget monitoring reports.
11. Within the £1.0m homelessness demand risk, it is worth noting that the Council is seeing exceptional costs as a result of being a port authority. This includes the arrival of UK nationals, which remains an unknown quantum at this time, given the costs incurred by the Council are not fully funded by the Government. The Council's forecast is based on the current run rate to date. It should be noted that a review commissioned by London Councils has identified a "Funding Gap" of £740m for London Councils between homelessness costs incurred and funding provided by Central Government in 2024/25.

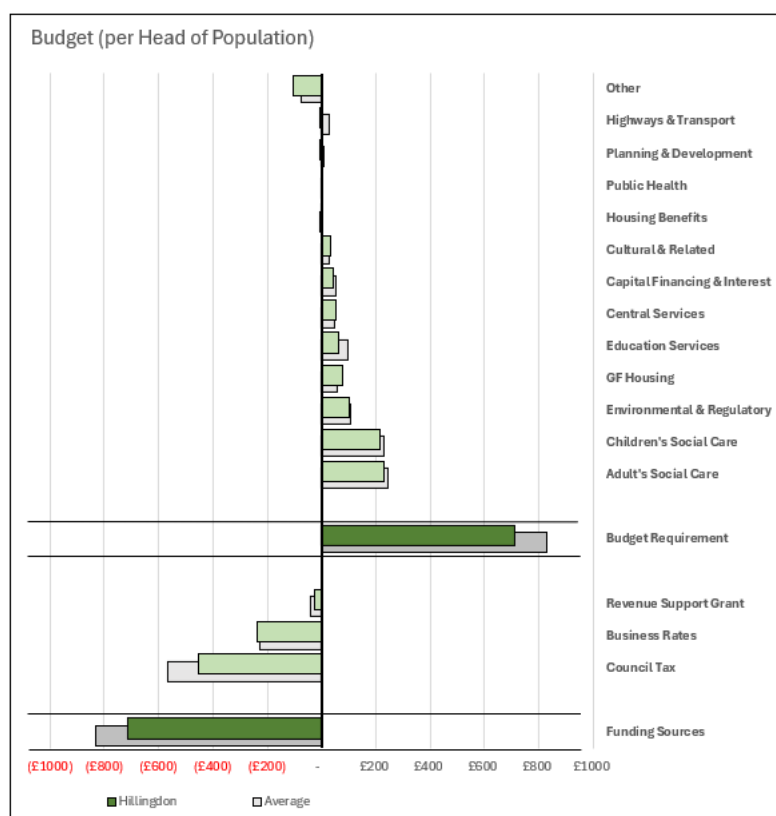
Table 1: General Fund Overview

Service	Approved Budget £m	Forecast Outturn £m	Variance £m	Forecast Variance Prior Month £m	Change in Variance £m
Service Operating Budgets	266.1	294.1	28.0	24.1	3.9
Development & Risk Contingency	10.5	0.0	(10.5)	(10.5)	0.0
Unallocated Budget Items: Pay Award Inflation	(2.7)	0.0	2.7	2.6	0.1
Unallocated Budget Items: Unallocated Savings	(7.1)	0.0	7.1	7.1	0.0
Budgeted Use of Reserves	(4.2)	0.0	4.2	0.0	4.2
Total Net Expenditure	262.6	294.1	31.5	23.3	8.2
Corporate Funding	(262.6)	(261.9)	0.7	0.0	0.7
Subtotal	0.0	32.2	32.2	23.3	8.9
Interventions	0.0	(2.0)	(2.0)	(5.0)	3.0
Net Total	0.0	30.2	30.2	18.3	11.9
Opening Reserves as at 1st April 2025			6.7	6.7	0.0
Less: Underlying Variance			(30.2)	(18.3)	(11.9)
Less: Budgeted Use of Reserves			0.0	(4.2)	4.2
Add/(Less): Movement on Earmarked Reserves			(1.4)	(1.0)	(0.4)
Closing Reserves as at 31st March 2026			(24.9)	(16.8)	(8.1)

12. The Council's unaudited opening reserves position, comprising both General and Earmarked Reserves, stands at £6.7m. In arriving at the net £30.2m overspend projected above, the forecast assumes a £1.4m drawdown from Earmarked Reserves to support service-level requirements, bringing the forecast usable general reserves position to £24.9m overdrawn. This is stated before any potential impact from other financial risks which are not currently built into the forecast. It is clearly untenable for the Council to leave this position unaddressed.
13. To this end, the Council is engaged in conversations with the Ministry for Housing, Communities & Local Government (MHCLG) with a view to securing Exceptional Financial Support (EFS), and in order to progress matters has already made a formal submission to MHCLG for support in the form of a capitalisation direction and additional grant funding.
14. Exceptional Financial Support may be granted by the Ministry of Housing, Communities and Local Government (MHCLG) to councils facing significant financial pressures and unable to deliver a balanced budget or maintain adequate reserves. Support can be provided in one or more of the following forms:
 - i. Capitalisation Direction – This permits a council to account for its revenue overspend as capital, subject to Government approval. Without such approval, this approach would be unlawful. Once approved, this capital item can be addressed either through offsetting capital receipts or amortised as MRP over a maximum of twenty years. If a council were to have to borrow to make the cash flow balance this would also incur interest costs.

- ii. Additional Grant Funding – In certain circumstances, a council may receive direct grant support to help manage exceptional financial pressures.
 - iii. Council Tax Flexibility – A council may be granted permission to raise Council Tax above the referendum threshold without holding a referendum. This option is only available as part of the annual Council Tax setting process.
15. The S151 Officer remains of the view that he is not minded to issue a S114 notice at this point in time on the basis that MHCLG are engaged in discussions and reviewing the council's position. There remains a reasonable likelihood that EFS can be approved within an appropriate timeline. This position is held on the current assumption that MHCLG will support the council's application for EFS and that the level of EFS agreed will be seen through on time and to the level required by the council. The decision not to issue a S114 at this time is wholly contingent on the discussions with MHCLG and ultimately without reassurance and progress of substance in these discussions very serious consideration would need to be given to issuing such a notice.
16. The Council is actively reviewing all available options to address the current financial pressure and the forecast negative reserves position. Central to this is the delivery of the 2025/26 savings programme, totalling £34.0m – the largest savings target the Council has ever undertaken. In addition, £4.8m of unresolved savings from previous years have been carried forward, increasing the total savings requirement for 2025/26 to £38.8m. To date, slippage of £13.6m has been identified within this savings requirement and built into the forecast position.
17. Under Government guidance, councils may fund transformation activity using capital receipts from asset disposals. Given the scale of the savings programme, it is likely that the Council will need to utilise all available capital receipts to support transformation. The Council is currently reviewing the pipeline of assets which can be targeted with a view to delivering capital receipts in this financial year. Any receipts will need to be verified to assure that they qualify under the regulations pertaining to flexible capital receipts. This work has not yet completed and the proposed opportunities will need to receive the necessary governance clearance before being progressed through to conclusion so as to bring in the receipts. The Council does have a level of capital receipts brought forward from previous years which can contribute to the requirement, but this will need to be supplemented by in-year disposals.
18. The Council remains firmly committed to achieving a sustainable financial position. It continues to be run efficiently, with spend per capita on frontline services below that of comparable authorities, primarily Outer London boroughs. Despite the financial pressures, the Council has consistently delivered high-quality, well-regarded services in a cost-effective manner, while maintaining one of the lowest Council Tax levels in its comparator group. The chart below, based on 2023/24 data, illustrates this position:

Chart 1: Income & Spend per Head Compared to Cohort Average



19. The Council's forecast of overdrawn reserves by year-end reflects a range of national challenges, compounded by insufficient funding from central government to meet rising demand. A key pressure continues to be the delivery of temporary accommodation and homelessness support. This is particularly acute in Hillingdon, due to the presence of Heathrow Airport - a major port of entry into the UK - which places additional strain on local housing supply and demand, driving up costs. This housing pressure also affects Children's Social Care, where vulnerable young people in supported accommodation are unable to transition into independent tenancies due to a shortage of general needs housing. At the same time, demand for Adult Social Care remains consistently high following the pandemic, with funding from the Department of Health and Social Care failing to keep pace with increasing client demand volume and complexity and market pressures.
20. The Council is taking steps to address the rising cost of temporary accommodation by seeking to make acquisitions which could then be used to address the issue and mitigate the impact of high rental costs in the private sector. For this reason, it is proposed that revisions in the capital programme are made to effectively transfer the planned spend of £20m for housing developments in the General Fund to the HRA, allocating the full in-year £8m HRA contingency to acquisitions as well as bringing forward the future HRA capital contingencies of a further £24m for similar purposes. While it could transpire that this full amount may not be fully spent in year, the intention is to ensure that if the right opportunities arise, the funds will be there to enable the Council to proceed. Any unused balance will be carried into 2026/27.

21. The Government has now closed its consultation on the Fair Funding Review 2.0 with the Council awaiting the outcome of the consultation. The fair funding review has been delayed since the pandemic, with the consultation covering the funding distribution formulae used by Government to allocate funds to each council across the country. Whilst the outcome of the review is still awaited, early modelling by both London Councils and Pixel indicate a reduction in overall funding for London, with funding migrating outwards from Inner London Boroughs to Outer London Boroughs and beyond. Both models suggest that Hillingdon should see a net growth in funding from 2026/27 and beyond. Whilst it is recognised that the borough was aware of the current level of Government funding at the time of setting the 2025/26 budget, the review indicates that Hillingdon is significantly underfunded by Government and had this review taken place in line with the original timescale, Hillingdon's financial position is likely to have been far more favourable.
22. Hillingdon's consultation response largely agreed with the Fair Funding Review 2.0 information and data that the Government shared, supported by the London Councils model. The council's primary response was focused on the timing of the transition period, with the Government indicating transitioning to the new funding level over a 3-year period. The Council's stance is that residents should not be required to fund transitional arrangements and that the Government should seek alternative methods to fund any such arrangements, rather than restrain the release of funding due to Hillingdon.
23. The pressures presented in this report therefore present a challenge for the Council, with the above table setting out this position against service operating budgets, corporate budgets and the use of reserves. This forecast position does not include any potential outcome from the Exceptional Financial Support conversations being held with Government, likewise it does not reflect the revenue impact of any EFS which may be agreed in respect of 2024/25 and would begin to be amortised from 2025/26.
24. The Council's forecast position is therefore a highly challenging one and is highly dependent on the assumptions built into the forecast being deliverable. All of the Council's centrally held contingency has been released in the forecast and so there is no capacity to offset further unforeseen costs, or savings or income shortfalls. It is of critical importance that all areas of the Council aim to deliver on, and give support to, all of the savings commitments made to ensure they are delivered on time and to the value and scale planned in the budget. Equally, it is important that any savings falling short are still pursued so that they can be delivered in full and on time in order to deliver the maximum benefit to 2026/27 and the MTFS. The forecast assumes that transformation activity will be underpinned by capital receipts and so it is also critical that the necessary level of asset disposals can be found to pay for this activity, or that the spend on such activity is otherwise restrained to fit within the level of receipts generated and available. The risks and upsides not encapsulated within the forecast will also need to be carefully reviewed and addressed in order to mitigate and prevent or limit the impact they may present. Any further impacts may have consequences for the EFS requirement and add pressure to the Council's finances in repaying this over time. The Council will have to redouble efforts over the coming weeks to address these risks and not assume that the increase in funding anticipated through the Fair Funding review, which may only be phased in over three years, will fully resolve the situation.

25. The Leader and his Cabinet have asked officers to do everything they can to address and mitigate the overspend and financial pressures faced. To this end, officers will be introducing strict spend controls across all areas of the Council, extending the existing controls over staffing costs to non-staff costs. This will bring with it a burden of administration but is essential to demonstrate that the Council is taking its fiduciary duties seriously. These measures are expected to bring a reduction in the level of non-essential expenditure as well as challenge to the scope of spend which is currently deemed to be statutory in nature, and consequently an assumption has been made that this intervention could lead to a cost reduction of circa £2m in this financial year. Clearly this will need close monitoring through the year.
26. Alongside this, officers have been asked to review the capital expenditure programme to identify any schemes which can be deferred, reduced or stopped, in particular any which require council borrowing in order to fund, or will be a drain on council cash. This will in turn lead to a reduction in the level of borrowing required and hence the interest cost of such borrowing. In future years this would lead to a reduction in the level of MRP arising from capital schemes and so help to mitigate the impact of MRP arising from Exceptional Financial Support.
27. Finally, it should be remembered that not all of the potential risks facing the Council this financial year have been quantified and built into the forecast. All efforts will be undertaken to minimise the impacts of these risks on the Council both in this and into future years.

GENERAL FUND CAPITAL EXPENDITURE

28. The Council updates its capital forecasts on a quarterly basis, and so the position remains the same as at Month 4. A £20.8m underspend is projected on the 2025/26 General Fund Capital Programme of £156.6m, with the forecast outturn variance over the life of the 2025/26 to 2029/30 programme currently projected to breakeven. General Fund Capital Receipts of £17.0m were budgeted for 2025/26, with these funds planned to fund transformation activity, while capital receipts were projected to achieve an income target of £45.5m for the five years to 2029/30. Overall, Prudential Borrowing required to support the 2025/26 to 2029/30 General Fund capital programme remains on budget. These projections will be revisited as part of the Month 6 forecast.

SCHOOLS BUDGET

29. The Dedicated Schools Grant (DSG) total Block for the Maintained Schools is forecast to have an in-year deficit of £12.5m, unchanged from Month 4, representing an ongoing improvement from the draft outturn for 2024/25 of £15.0m as a result of a broad range of positive measures deployed by the Council. The in-year deficit is largely driven by High Needs placement demand and cost pressures which continue to be significantly underfunded in the DSG settlement from the DfE. This position means that the cumulative deficit carried forward to 2026/27 is forecast at £78.4m.
30. There is currently a time-limited statutory override in place, now extended until 31 March 2028, ringfencing the Schools Budget deficit such that this does not impact upon general reserves. The Council is one of many local authorities managing a large deficit within the

Schools Budget and this stood at £65.9m at 31 March 2025, exceeding the level of General Fund reserves held. It is worth noting that between outturn 2024/25 and the position presented in this report, the Council has successfully reduced the in-year spend against the Schools Budget by £2.5m and continues to make good progress in this.

31. The issue of mounting DSG deficits remains a national issue, with projections for a £6.2bn deficit across the country by 2026/27 forming a key strand to lobbying by sector bodies such as the LGA and London Councils. Were the Council faced with having to absorb the deficit into its own reserves from 1 April 2028, it would have no option other than to request a further increase in EFS. Given the national cumulative position indicated above, it is hard to see how this can be managed and so the proposed way forward from Government is keenly awaited by councils across the country.

HOUSING REVENUE ACCOUNT

32. The Housing Revenue Account (HRA) continues to forecast a breakeven position at Month 4. Operating costs are showing an in-year pressure of £0.9m, an adverse movement of £0.3m, primarily driven by staffing costs, emergency B&B placements and leaseholder insurance premiums, with the adverse movement related to a shortfall in the forecast rental income. These pressures are offset by a reduction in the revenue contributions to the capital programme, ensuring the HRA remains financially viable. The 2025/26 closing HRA General Balance is forecast to be £15m, in line with the target level established for 2025/26. The HRA Capital Programme is forecast to breakeven over the five-year programme, with investment of £529.2m increasing housing supply and maintaining and improving existing stock.

FURTHER INFORMATION

General Fund Revenue Budget

33. As at Month 5, the Council's General Fund is reporting an overspend of £30.2m after allowing for the anticipated delivery of £2.0m in savings through interventions including tighter spend controls, and the approved release of the full £10.5m of contingency budget. This leads to an adverse movement in reserves from Month 4 of £8.1m. This position includes a £13.2m shortfall against the total £38.8m savings target, with capital receipts being used to fund the associated transformation activity.
34. The Month 5 position also includes the deployment of £1.4m from Earmarked Reserves, primarily to support insurance claims and homelessness related pressures. In addition, £0.8m is being drawn down from the Public Health ringfenced reserve, accumulated from prior year underspends against the Public Health Grant.
35. To support the delivery of the savings programme, the Council is utilising £8.9m of capital receipts to fund transformation costs, in line with Government guidance. Asset disposals in 2025/26 plus previously unspent capital receipts are expected to support this transformation activity in the current financial year. However, it should be noted that there is a risk associated with the generation of eligible capital receipts, which could lead to transformation costs falling back on the General Fund revenue position.
36. As at Month 5, the Council has chosen to change reporting of the financial position from Cabinet Portfolios to Directorates as overseen by the Corporate Directors to better reflect management accountability lines, which is also more in keeping with other London Boroughs.

Progress on Savings

37. The savings requirement for 2025/26 is £34.0m as set out in the Council's budget strategy. This position has been supplemented by a further £4.8m of savings carried forward from 2024/25 as set out in the outturn report presented to July Cabinet, resulting in an overall programme of £38.8m savings being targeted in year:

Table 2: Savings Tracker

Directorate	Blue Banked £m	Green Delivery in progress £m	Amber I Initial stages of delivery £m	Amber II Potential problems in delivery £m	Red Serious problems in delivery £m	Savings to be Written Out £m	Total £m
Finance	(0.7)	(0.2)	0.0	(0.2)	0.0	0.0	(1.1)
Adult Services & Health	(2.8)	(1.0)	(0.6)	(0.1)	(3.8)	0.0	(8.3)
Children & Young People's Services	(2.9)	(1.4)	0.0	(0.3)	0.0	0.0	(4.6)
Place	(2.5)	(1.5)	(0.6)	(1.0)	(1.0)	(0.1)	(6.7)
Homes & Communities	(1.5)	(1.3)	(1.8)	(0.8)	(1.3)	(0.3)	(7.0)
Corporate Services	(2.0)	(1.0)	(0.4)	(0.1)	(0.4)	(0.1)	(4.0)
Cross-Cutting	0.0	0.0	0.0	0.0	(5.7)	(1.4)	(7.1)
Total 2025/26 Savings Programme	(12.4) 33%	(6.4) 16%	(3.4) 9%	(2.5) 6%	(12.2) 31%	(1.9) 5%	(38.8) 100%
Month 4 Change from Month 4	(9.0) 23%	(7.0) 18%	(8.8) 23%	(3.2) 8%	(9.4) 24%	(1.4) 4%	(38.8) 100%

38. As of Month 5, £18.8m (49%) of the savings and interventions are being recorded as banked or on track for delivery. A further £5.9m (15%), being tracked above as amber, are in delivery but may not deliver in full this financial year. Of this, £1.2m is currently anticipated to slip but fully deliver in 2026/27. There are £12.2m (31%) of savings reported as red and having challenges in delivery, with mitigations being sought in-year where feasible. Of these, £12.0m are forecast to slip into 2026/27 but are ultimately expected to be delivered. A further £1.9m of savings are now considered to be undeliverable and will need to be written out of the Council's budget from 2026/27. Of these, £1.7m relate to the brought forward balance from the prior year while £0.2m of savings budgeted for delivery in 2025/26 can no longer be delivered.
39. Where savings are at risk of not being delivered in full during 2025/26, the associated pressures have been factored into the monitoring position with compensating actions being implemented where possible to offset the impact.

Service Operating Budgets

40. Service Operating Budgets represent the majority of the Council's investment in day-to-day services for residents. With the Council continuing to operate in an environment driven by national pressures and exceptionally high demand, these budgets have been supplemented with £5.5m of funding to meet forecast inflationary pressures and £17.8m for demographic growth and other drivers impacting on demand for services.
41. Table 3.3 represents the position reported against normal activities for the Service Operating Budgets now being presented at Corporate Director level. The salient risks and variances within this position are summarised in the following paragraphs.

Table 3: Service Operating Budgets

Directorate		Approved Budget	Underlying Forecast	Earmarked Reserves	Provisions	Transformation Capitalisation	Forecast Outturn	Variance	Forecast Variance Prior Month	Change in Variance
		£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Finance	Expenditure	113.2	118.4	0.3	0.0	(2.9)	115.8	2.6	2.5	0.1
	Income	(79.7)	(78.4)	0.0	0.0	0.0	(78.4)	1.3	1.6	(0.3)
	Subtotal	33.5	40.0	0.3	0.0	(2.9)	37.4	3.9	4.2	(0.3)
Adult Social Care & Health	Expenditure	183.5	195.1	0.0	0.0	(0.2)	194.9	11.4	9.1	2.3
	Income	(84.3)	(85.1)	(0.8)	0.0	0.0	(85.9)	(1.6)	(1.0)	(0.6)
	Subtotal	99.2	110.0	(0.8)	0.0	(0.2)	109.0	9.8	8.1	1.7
Children & Young People Services	Expenditure	75.6	82.2	(0.4)	0.0	(2.7)	79.1	3.5	3.9	(0.4)
	Income	(22.1)	(21.5)	0.0	0.0	0.0	(21.5)	0.6	0.0	0.6
	Subtotal	53.5	60.7	(0.4)	0.0	(2.7)	57.6	4.1	3.9	0.2
Place	Expenditure	78.8	79.3	(0.4)	0.0	(0.4)	78.5	(0.3)	0.1	(0.4)
	Income	(34.3)	(32.2)	0.1	0.0	0.0	(32.1)	2.2	1.9	0.3
	Subtotal	44.5	47.1	(0.3)	0.0	(0.4)	46.4	1.9	2.0	(0.1)
Homes & Communities	Expenditure	46.6	69.8	(0.2)	0.0	(0.6)	69.0	22.4	17.0	5.4
	Income	(38.9)	(53.4)	0.0	0.0	0.0	(53.4)	(14.5)	(11.5)	(3.0)
	Subtotal	7.7	16.4	(0.2)	0.0	(0.6)	15.6	7.9	5.5	2.4
Corporate Services	Expenditure	30.0	35.7	0.0	0.0	(4.5)	31.2	1.2	1.1	0.1
	Income	(2.3)	(3.1)	0.0	0.0	0.0	(3.1)	(0.8)	(0.7)	(0.1)
	Subtotal	27.7	32.6	0.0	0.0	(4.5)	28.1	0.4	0.4	0.0
Total Service Operating Budgets		266.1	306.8	(1.4)	0.0	(11.3)	294.1	28.0	24.1	3.9

42. As can be seen from the table above, Service Operating Budgets are forecasting a £28.0m overspend which is the cumulative effect of a number of variances which are briefly outlined below by Cabinet Portfolio:
- i. **Finance** – As at Month 5 the service is reporting a pressure of £3.9m, which is a £0.3m favourable movement against the previous report. The variance is predominantly caused by a £2.9m pressure against the Council's Treasury budget as a result of the adverse financial position for the Council. The amount of cash forecast to be received is lower than the cash being expended, leading to increased finance costs, however, the forecast borrowing costs have reduced at Month 5 leading to the favourable movement in this area. This position is compounded by staffing pressures within Finance from agency staffing costs and the associated premium above the Council's own workforce budget.
 - ii. **Adult Social Care & Health** – are reporting an overspend of £9.8m, with adult care placements forecasting a pressure of £12.4m offset by mitigations of £2.4m through reductions in staff forecasts and holding vacant posts. This position is driven by the ongoing and unrelenting growing demand for the service since the pandemic, with all client groups reporting ongoing exceptional demand in 2025/26. To date, client numbers continue to grow above the budgeted position, particularly in Learning Disabilities and Mental Health services.
 - iii. **Children & Young People's Services** – As at Month 5, services within this directorate are reporting a pressure of £4.1m, representing an adverse movement of £0.2m from Month 4. The pressure in this area is driven by additional demand for care, with this position being in part impacted by the Temporary Accommodation pressure leading to a lack of General Needs properties within the Housing Revenue Account (HRA) that is available for move-on.
 - iv. **Place** – Are reporting an overspend of £1.9m at Month 5, representing a favourable movement of £0.1m. £2.2m of this relates to income, the largest driver for which is the forecast shortfall against the Garden Waste subscription fee of £0.8m, with further pressures across other income streams including the delivery of the Trade Waste income target rolled forward into 2025/26. Further shortfalls against the income budget include pressures in Property Services against lease income. Part of this is linked to the Civic Centre Transformation saving and compounded by assumptions made about staffing costs incurred and the associated recharge into the capital programme, and buyers premium. The underspend against expenditure is largely driven by staff vacancies being held to support the position where possible.
 - v. **Homes & Communities** – Are reporting a net overspend of £7.9m, representing an adverse movement of £2.4m, driven by a gross expenditure pressure of £17.0m offset by additional income of £11.5m. The gross pressure is largely driven by temporary accommodation and homelessness support pressures. This reflects a national pressure, but with Hillingdon particularly impacted by Heathrow having a material impact on local supply and demand economics. The additional income is linked to the same driver whereby the additional demand for temporary

accommodation attracts Housing Benefit Subsidy payments and grant funding where applicable. The movement in this area is wholly driven by this pressure, with further risks reported in the summary of this report, particularly relating to those arriving from the Chagos Islands.

Collection Fund

43. At Month 5, the Council continues to report a minor deficit of £0.1m within the Collection Fund against 2025/26 activity, before the prior year deficit variance of £10.1m takes the total deficit to £10.2m. Within the Collection Fund, an adverse position is reported within Council Tax of £2.8m against in-year activity, offset by a favourable position within Business Rates of £2.7m. This position remains unchanged from Month 4 and is driven by the following key factors:
- i. Council Tax is presenting an in-year pressure of £2.8m against a £154.1m budget as a result of slow growth in the taxbase, with a further £9.2m being driven by the adverse movement on 2024/25.
 - ii. Business Rates is presenting an in-year surplus of £2.7m against a £72.1m budget, with this position being driven by pressures within collection, predominantly linked to empty properties, offset by a reduction in the Council's levy against retained business rates above the Government determined baseline level.
 - iii. The Business Rates position is then compounded by an adverse £0.8m against the 2024/25 outturn position.
 - iv. The Council continues to monitor the outstanding debt associated with Council Tax and Business Rates and provide cover against this debt, with this position remaining under review.
44. Any surpluses or deficits within the Collection Fund impact on the Council's future year budgets, with the position reported up to Month 9 impacting on the 2026/27 saving requirement. This leads to an adverse impact of £10.2m set to be incorporated in the Council's refresh of the budget strategy for 2026/27, with any further updates thereafter between Month 10 and outturn impacting on 2027/28. This position therefore will increase the Council's 2026/27 budget gap by £10.2m.
45. The Council will be carrying out a deep dive review for Month 6 on the current debt position within the Collection Fund and reviewing Check, Challenge & Appeal data to assess the adequacy of the Business Rates appeals provision.

Schools Budget

46. As of Month 5 (August 2025), the Dedicated Schools Grant (DSG) is forecasting a deficit of £12.5m with no change from Month 4, representing an improvement from the £15m outturn for 2024/25. This in-year shortfall is entirely driven by continued demand and cost pressures in High Needs placements, which remain significantly underfunded in the DSG allocation from the Department for Education (DfE). These pressures are not unique to the local authority; nationally, local authorities are facing similar challenges. Rising demand for specialist provision, a shortage of maintained special school places, and increasing reliance on costly independent non-maintained placements are contributing to widespread overspends in the High Needs Block. Despite efficiency targets and mitigation efforts, the structural underfunding of High Needs provision continues to place significant strain on DSG budgets across the country. The table below provides a summary of the Schools Budget and the current forecast.
47. Whilst the Safety Valve funding with the Department of Education (DfE) is currently suspended, work has continued and the Council is very successfully taking control of the market, managing unit costs down and beginning to see a significant reduction in the in-year deficit as a consequence.

Table 6: DSG Income and Expenditure Summary

Dedicated Schools Grant (DSG) Blocks	Budget 2025/26			Forecast £m	Variance £m	Month 4 £m	Change £m
	DSG Settlement	Academy Recoupment	LBH Maintained				
	£m	£m	£m				
Schools Block	297.9	(187)	110.9	110.9	0	0	0
Early Years Block	48.3	0	48.3	48.3	0	0	0
Central Schools Block	2.5	0	2.5	2.5	0	(0.1)	0.1
High Needs Block	86.8	(13.1)	73.7	73.7	0	0.1	(0.1)
Budgeted Use of Reserves	(12.5)	0	(12.5)	(12.5)	0	0	0
Total	423.0	-200.1	222.9	222.9	0	0	0
Balance Brought Forward 1 April 2025					65.9		
Budgeted Use of Reserves					12.5		
Pressure					0		
Total Deficit at 31 March 2026					78.4		

48. A core target for the revised High Needs Safety Valve Plan is to actively reduce unit costs by concentrating SEN support in-borough within our maintained schools and thereby reduce dependence on high cost independent and out-of-borough placements. Trend data shows clear evidence that the approach which has been in place since early 2024/25 is now beginning to have a positive impact.

49. The mounting DSG deficits remain a significant national issue, with projections indicating a substantial funding gap for English councils. Specifically, English councils face a £2.3 billion funding gap in 2025/26, rising to £3.9 billion by 2026/27, creating a £6.2 billion shortfall over two years, according to the Local Government Association (LGA). This deficit is primarily driven by increased demand for services for children with special educational needs and disabilities (SEND).

Housing Revenue Account

50. The Housing Revenue Account (HRA) is currently forecasting a breakeven position, with ongoing market and demand risk being closely monitored throughout the year. The 2025/26 closing HRA General Balance is forecast to be £15.0m, in line with the target level set out in the Council's budget strategy. The table below presents key variances with a £0.5m pressure against operating costs being compounded by a £0.4m against rental income. This position is kept to breakeven by a reduction in the capital financing costs, with the Council opting to reduce the revenue contribution to capital schemes in order to maintain the target level of balances, whilst ensuring the HRA remains in a financially sustainable position. This position therefore represents a £0.5m adverse movement since Month 4 offset by a £0.5m reduction in revenue contributions to capital.

Table 7: Housing Revenue Account

Service	Budget £m	Forecast Outturn £m	Variance £m	Prior Month £m	Change £m
Rent & Other Income	(85.7)	(85.3)	0.4	0.0	0.4
Net Income	(85.7)	(85.3)	0.4	0.0	0.4
Operational Assets	16.0	16.0	0.0	(0.3)	0.3
Director of Housing	10.3	10.8	0.5	0.7	(0.2)
Other Service Areas	1.0	1.0	0.0	0.0	0.0
Contribution to Shared Services	17.4	17.4	0.0	0.0	0.0
HRA Operating Costs	44.7	45.2	0.5	0.4	0.1
Capital Programme Financing	18.9	21.9	3.0	(0.4)	3.4
Interest and Investment Income	22.1	18.2	(3.9)	0.0	(3.9)
Total Capital Programme Financing	41.0	40.1	(0.9)	(0.4)	(0.5)
(Surplus) / Deficit	0.0	0.0	0.0		
General Balance 01/04/2025	15.0	15.0	0.0		
General Balance 31/03/2026	15.0	15.0	0.0		

51. At Month 5, rental income and other income is forecasting a pressure of £0.4m. The Council's budget strategy to deliver a net increase of 209 new homes is anticipated to be on track to deliver but weighted towards the latter part of the year. The budgets are based on a void rate of 1.02%, with any material variation from this level feeding into rental projections as appropriate.
52. The HRA Operating Costs budget is £44.7m and at Month 5 is forecasting a minor £0.5m overspend against the budget, due to staffing pressures, B&B costs associated with emergency housing and leaseholder insurance premiums. These budgets are based on supporting the Council's housing stock as at 1 April 2025, with growth added in line with the increase in stock numbers and to support the additional costs associated with this increase and ensuring regulatory compliance. This area remains under review, with growth in these budgets included in the approved budget from February 2025 being deployed as and when new homes are brought online.

53. Operational Assets are forecast to breakeven. This incorporates a number of minor pressures, the most material of which is a reduction in the cost of subsidence surveys, offset by in-year mitigations, predominantly linked to a reduction in boiler repairs driven by the replacement programme. Inflation was added to HRA Operating Costs in the Council's budget strategy, with forecasts indicating the uplift is sufficient to meet inflationary demands on the service.
54. The detail behind the service delivery of the blocks included in table 7 are as follows:
- i. Operational Assets budget funds the services provided for repairs and maintenance, void repairs, compliance and inspections.
 - ii. The Director of Housing budget includes tenancy management and tenants' services. The budgets include utility costs, and these will continue to be monitored given the volatility of the electricity and gas markets in recent times.
 - iii. The Other Service Areas budget includes the Careline contract, HRA specific ICT costs and the revenue regeneration costs.
 - iv. The Contribution to Shared Services budget includes the development and risk contingency, overheads and corporate and democratic core charges, and the bad debt provision.
55. The Medium Term Financial Strategy (MTFS) savings target is £1.0m which is expected to be delivered by virtue of the Council's general fund savings against support services, leading to a reduction in the recharge to the HRA for these services.
56. As at Month 5 the capital programme financing budget of £41.0m was forecast to underspend by £0.9m. This budget forecast includes £21.9m (depreciation and revenue contributions) to fund the HRA capital programme, the position also includes £18.2m for repayments of loans and interest on borrowing. This position will be closely monitored throughout the year with clear linkages to the commissioning plan.

Treasury Management Update as at 31st August 2025

Table 10: Outstanding Deposits

Period	Actual (£m)	Actual (%)	Movement from M4 (£m)
Call Accounts and MMF's*	21.5	45.9%	(13.4)
Up to 3 Month Fixed-Term Deposits	10.3	22.0%	10.3
Total	31.8	67.9%	(3.1)
Strategic Pooled Funds	15.0	32.1%	0
Total	46.8	100.0%	(3.1)
Average Investment Balances Jan 2025	59.5		9.1

*Money Market Funds

57. Deposits are held with UK institutions, all of which hold a minimum A- Fitch (or lowest equivalent) long-term credit rating and AAA rated Money Market Funds (MMFs). UK deposits are currently held in NatWest Bank plc and the DMADF. There is also an allocation of £15m to three externally managed strategic pooled funds.
58. The average rate of return on day-to-day operational treasury balances since the beginning of the new financial year is 4.27%. As part of the Council's investment strategy for 2024/25, the Council continues to hold a total of £15m in three long-dated strategic pooled funds (£5m in each). The strategic pooled funds have a long-term investment horizon with dividends being distributed periodically. When including projected dividend income on these strategic pooled funds, the overall rate of return decreases to 4.23% based on the previous six months income average. As the fair value of these strategic pooled funds is currently lower than the sum initially invested it is not proposed to disinvest at this time.
59. The Bank of England base rate fell to 4.25% in May which will result in lower returns expected on day-to-day operational investments in money market funds and the DMADF.
60. The Council aims to minimise its exposure to bail-in risk by utilising bail-in exempt instruments and institutions whenever possible. However, due to the significant amount held in instant access facilities, which is needed to manage daily cashflow, it is not possible to fully protect Council funds from bail-in risk. As at the end of August, 68% of the Council's day-to-day operational treasury investments had exposure to bail-in risk, compared to a June benchmark average of 78% for London and metropolitan boroughs, as investments were partly held in money market funds which were returning a higher yield than DMADF. However, money market funds reduce the risk of bail-in compared to bank deposits as they provide wide diversification of investment risks with professional fund manager services.
61. Liquidity was maintained by placing surplus funds in instant access accounts and making short-term deposits, including overnight deposits, in the DMADF. Cash flow was managed by ensuring maturities of any short-term deposits with the DMADF were matched to outflows. Average investments over the month (including strategic pooled funds) were £59.5m, an increase of £9.1m from Month 4 and balances at the end of August were £3.1m lower than at the end of July.

Table 11: Outstanding Debt

	General Fund	HRA	Total	Average Interest Rate (Total)
	£m	£m	£m	%
PWLB Long Term	134.2	306.6	440.8	3.89%
Market	10.0	28.0	38.0	4.11%
Temporary Borrowing:				
Local Authorities	93.0	0.0	93.0	4.66%
PWLB	0.0	0.0	0.0	0.0%
	237.2	334.6	571.8	4.03%
Movement from Prior Month	10.0	(5.25)	4.75	(0.38%)

62. During August 2025, a HRA £5m market loan was called, which was replaced by a GF new local authority loan totalling £10m.
63. PWLB rates fluctuated throughout August, ending in a higher position to the beginning of the month – an overall increase of 5bps from the end of July.

PART B: FINANCIAL RECOMMENDATIONS

That the Cabinet:

- a. Approve the forward phasing of £24m of HRA Capital Programme General Contingency into 2025/26 and to vire this budget to the HRA Acquisitions Programme Budget.
- b. Approve the transfer of £20m of capital budget relating to Housing Developments from the General Fund Capital Programme to the Acquisitions Programme within the HRA Capital Programme.
- c. Approve the transfer of £8.0m from the 2025/26 HRA Capital Contingency budget to the HRA Capital Acquisitions budget.
- d. Note and endorse the implementation of enhanced revenue spend controls across all service areas in order to reinforce financial discipline, ensure alignment with the Council's MTFS and mitigate further deterioration of the Council's financial position.
- e. Note and endorse a comprehensive review of the General Fund Capital Programme to identify schemes where expenditure is not critical and may be delayed, reduced, or discontinued.
- f. Agree to increase the Council's No Recourse to Public Funds (NRPF) policy rates to match the Home Office asylum support rates, ensuring compliance with legal standards and safeguarding the welfare of families supported under Section 17 of the Children Act 1989.

Reasons for recommendation

64. **Recommendation a** – The purpose of this is to ensure that the Council is able to take advantage of opportunities to acquire accommodation for use in mitigating the Council's Temporary Accommodation pressures in the General Fund. This will help to reduce the financial burden in comparison to paying private sector landlords expensive nightly rates to house homeless households.
65. **Recommendation b** - As resolved by the full Council on 25 February 2021, Cabinet may utilise the general reserves or balances or approve virements between the General Fund budget, Housing Revenue Account budget or Capital budgets during the MTFF financial years 2021/22 to 2025/26 in respect of those functions which have been reserved to the Cabinet. It has been determined that it would be more efficient for the Council to undertake the acquisitions via the HRA in the first instance, therefore the budget is required in the HRA rather than the General Fund.
66. **Recommendation c** – Seeks approval from Cabinet for the transfer of £8.0m from the HRA Contingency Capital Contingency budget to the HRA Capital Acquisitions budget to allow the Council to acquire additional units for the HRA that generate positive Net Present Value (NPV) results and offer a pay back period within agreed parameters (35 years for flats and 50 years for houses), whilst also supporting the Council's homelessness support pressure.

67. **Recommendation d** - These measures are intended to reinforce financial discipline, ensure alignment with the Medium Term Financial Strategy, and mitigate further deterioration of the Council's financial position. It is anticipated that the projected mitigation through interventions will largely need to come from this approach to avoiding unnecessary spend.
68. **Recommendation e** - The outcome of this review will inform the Medium Term Financial Strategy and support the Council's commitment to financial resilience and value for money. The focus will in particular be on those schemes which are funded by General Fund borrowing or S106/CIL monies already held by the Council and thereby reduce cash outflows while EFS is sought from Government.
69. **Recommendation 2f** - The Council's current NRPF rates fall below the minimum standard established by the Home Office for asylum support. For example, the Council currently provides £44 per week for a single person, whereas the Home Office asylum support rate is £49.18 per week. In the case of *R (BCD) v Birmingham Children's Trust [2023] EWHC 137 (Admin)*, the High Court clarified that the absolute minimum level of financial support payable to families with NRPF status must be equivalent to the Home Office asylum support rates, plus the cost of utilities and council tax. Providing less than this amount is deemed unlawful. Failure to align our policy rates with this legal benchmark exposes the Council to legal risk and undermines our statutory duty to meet the essential living needs of vulnerable families