2026/27 BUDGET AND FUTURE MEDIUM-TERM FINANCIAL STRATEGY

Cabinet Member & Portfolio	Cllr Eddie Lavery, Cabinet Member for Finance and Transformation
Responsible Officer	Steve Muldoon, Corporate Director of Finance & S151 Officer
Report Author & Directorate	Andy Goodwin, Head of Strategic Finance & Deputy Section 151 Matt Davis, Director of Strategic & Operational Finance
Papers with report	Appendices A to F

HEADLINES

Summary	This report sets out the council's draft budget for 2026/27 and the medium-term financial strategy through to 2028/29 for revenue and to 2030/31 for capital. The council continues to face significant financial pressures, driven by rising demand for services, high inflation, and the phased implementation of the government's new funding formula. Despite a substantial uplift in funding over the next three years, the council remains reliant on Exceptional Financial Support (EFS) to set a balanced budget, as the funding is only phasing in over 3 years, and reserves have been depleted by previous years' overspends and underfunding. The draft proposals include savings and growth measures, a 4.99% Council Tax increase, and a robust approach to risk management. The capital programme has been reprioritised to focus on essential projects, while maintaining investment in community assets. The council will consult widely on these proposals, seeking feedback from residents, businesses, and stakeholders before finalising the budget in February 2026.
Putting our Residents First **Delivering on the Council Strategy 2022-2026**	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 This report supports our commitments to residents of: A Digital-Enabled, Modern, Well-Run Council
Financial Cost	This report sets out the draft budget for 2026/27 including savings and growth proposals, and the outline medium-term financial strategy through to 2028/29 for revenue and to 2030/31 for capital expenditure. The projected position requires a substantial level of EFS from central government in order to deliver a balanced budget and which will have financial implications into future years to repay this support. The financial implications are discussed throughout the report.

Select Committee	All
Ward(s)	All

RECOMMENDATIONS

That the Cabinet:

1. **Notes the circumstances that have led to the council's current financial position and the assumptions used in producing the medium-term financial strategy (MTFS) as set out in this report;**

2. **Notes the key risks and mitigations associated with this budget strategy as set out in this report;**

3. **Approves the draft General Fund and Housing Revenue Account budgets, including growth and savings proposals, fees and charges, and Capital Programme proposals for 2026/27 and beyond (as detailed in Appendices B to F) as the basis for consultation with Select Committees and other stakeholders;**

4. **Authorises officers to commence consultation on the budget and notes that this will commence on 24th December for a period of 6 weeks, with the results to be reported for consideration by Cabinet at the February 2026 Cabinet meeting;**

5. **Notes that the final General Fund Revenue Budget, Capital Strategy, Capital Programme, HRA 2026/27 Budget and Business Plan and Treasury Management Strategy Statement will be presented to Cabinet on 19 February 2026 to be recommended for approval to the Full Council meeting taking place on 26 February 2026.**

Furthermore:

6. **Authorises officers to action where possible any efficiency and invest to save proposals at the earliest opportunity in 2025/26 where operational savings are not public facing and so not subject to formal consultation and where assessed not to have any equality impacts. All other proposals subject to public consultation and equality impact assessment will only be implemented after Cabinet considers the consultation feedback, and subject to Full Council approval;**

7. **Notes that the Final Local Government Finance Settlement (LGFS) is awaited from HM Government and that officers will continue to review and update the 2026/27 MTFS up until the point that EFS is confirmed and the final budget setting report is submitted to Cabinet in February 2026;**

8. **Notes the material scale of the increase in rateable values for Hillingdon businesses and that officers are taking proactive and urgent communication with relevant parties to determine the veracity of those increases and risks to future income and cashflow of the council if those increases are successfully appealed;**

9. **Authorises the Corporate Director of Finance, in consultation with the Cabinet Member for Finance & Transformation, to respond on behalf of the council to the consultation on the Provisional LGFS and to the Mayor of London's budget consultation;**

10. **Notes that support will be required from government in the form of Exceptional Financial Support in order to set a balanced budget for 2026/27, and indicatively for later years in the MTFS period, and authorises officers to continue to work with MHCLG representatives to make the appropriate arrangements to get this in place.**

In respect of the 2025/26 budget:

11. **Approves the new fees and charges for the council's leisure centres operated by GLL with effect December 2025, as set out within Appendix F.**

Reasons for recommendations

The council has a statutory duty to set a balanced budget each year, as set out under the Local Government Finance Act 1992 and this report forms a key part of the budget setting process by setting out the approach to delivering this and a refreshed medium-term financial strategy. It also highlights key updates in terms of funding, expenditure, risks and issues emerging since the last report in February 2025. With regard to being able to set a balanced budget, the council requires EFS to be approved by central government. Discussions have been ongoing with representatives of MHCLG in order to secure this and the council is optimistic that this will be agreed in due course and in time for the final budget approval in February.

The recommendations have been framed to comply with the council's Budget and Policy Framework rules. They require the presentation to Council of recommended budgets for 2026/27. This includes the impact on Council Tax, alongside housing rents and service charges.

The council has powers only to approve revenue budgets and set Council Tax and housing rents for the following financial year. Medium-term revenue budgets are presented to aid future financial planning and support good decision-making, with this document outlining Cabinet's budget strategy for the next three years. The Capital Programme is approved over a five-year period as the statutory framework and the Prudential Code provides greater freedoms to encourage a longer-term approach to capital financing and borrowing decisions.

If approved by Cabinet, these budget proposals will be presented to Select Committees, the business community and residents for consultation before being updated and presented to Cabinet on 19 February 2026 for recommendation to Full Council. Once approved by Council on 26 February 2026 the proposals will become effective immediately.

Alternative options considered / risk management

The council faces a highly challenging financial position and must reduce, not increase, its dependency on EFS. It should be noted that a material proportion of the EFS requirement over the next two years is because the funding increase due to the council will be fed in over three years, not from 2026/27 in full due to damping arrangements set out in the LGFS. Closing the budget gap quickly is critical to restoring financial resilience. While this will be difficult, there remain opportunities that can be explored, subject to robust review and risk assessment.

Council Tax is currently modelled at the maximum level permitted under the government's referendum regime: 2.99% for general Council Tax and 2.00% for the Social Care Precept. Increasing Council Tax beyond 4.99% would require either a resident referendum or special dispensation from MHCLG. Neither option is currently planned. It should be noted that Hillingdon's Council Tax remains around 14% lower than the average for outer London boroughs who are also likely to apply at least a 4.99% increase.

Alternative proposals could include adding to or extending existing savings plans, generating additional income, or reducing growth assumptions. However, any new proposals must undergo rigorous review to ensure deliverability and avoid unintended consequences. Reducing the £10m risk contingency would be an option, but this would weaken budget robustness and increase the likelihood of overspends. In 2025/26, the council faced the challenge of delivering £38.8m of savings, including undelivered savings carried forward from 2024/25, and it has been a challenge to deliver to this scale. For 2026/27, service savings of £22.3m are proposed, alongside an estimated £4.8m carried forward from 2025/26.

Members could also consider reprioritising or removing capital schemes from the programme. While this would reduce future borrowing costs and revenue pressures, any new schemes would likely require prudential borrowing, increasing costs to the General Fund over the asset's life. A prioritisation review has already been undertaken, so further reductions would involve difficult decisions.

Finally, Members could vary the proposed Fees and Charges set out in Appendix F. While a substantial uplift has been applied, further increases or removal of discounts could generate additional income. However, this must be balanced against the risk of reducing demand if changes are too steep or implemented too quickly.

Further risks inherent in the proposed budget and the approach to the mitigation of these are set out later in this report (see section 11)

Democratic compliance / previous authority

This is the first budget report in the 2026/27 budget-setting cycle and is a key report that will enable the council to undertake consultation with residents and the business community before the final budget for 2026/27 can be approved. Consultation responses and any further updates will be factored into the budget report to February 2026 Cabinet.

Select Committee comments

A full report on the budget process, financial strategy and detailed budget proposals for the relevant Cabinet portfolios will be taken to Select Committees for review in January 2026, with feedback presented to Cabinet alongside the final budget report to Cabinet on 19 February 2026.

SUPPORTING INFORMATION

1. Executive Summary

1.1. The council has to manage over one billion pounds' worth of budgeted spend, as illustrated in the table below:

Table 1: Total Council Budgeted Spend

Budgeted Spend	2025/26 £000	2026/27 £000
General Fund gross expenditure	530,068	578,886
Housing Revenue Account	85,406	89,891
Schools Budget gross expenditure	236,133	236,133 (TBC)
Total budgeted revenue expenditure	**851,607**	**904,910**
General Fund Capital	138,418	74,838
Housing Revenue Account Capital	219,130	133,458
Total capital budget expenditure	**357,548**	**208,296**
Total budget under management	**1,209,155**	**1,113,206**

NB – The above 2026/27 figures are estimates and will be refined in the February budget report. The Schools total budget for 2026/27 is not yet available.

1.2. Under the Local Government Finance Act 1992, the council has a statutory duty to set a balanced budget each financial year. This means that the planned expenditure for the year must be matched by estimated income, including funding from government, Council Tax, Business Rates, and other sources or transfers to/from reserves. The budget must also be robust and supported by adequate reserves to ensure financial sustainability and compliance with CIPFA's Financial Management Code.

1.3. This report sets out the proposed savings, growth, and other adjustments identified to date to work towards a balanced revenue budget for 2026/27 and gives an indication of the profile over the three years to 2028/29. The full list of proposed savings is included in Appendix B1 and amounts to £22.3m in 2026/27, while service growth and other service adjustments of £69.5m are detailed in Appendix B2, and corporate budget adjustments of £11.8m in Appendix B3.

1.4. The council continues to face increasing demand for services such as Adult and Children's social care and temporary accommodation and, like many other councils, these pressures are compounded by rising costs driven by higher inflation. This is creating pressure on the council finances despite the council benchmarking as low cost in comparison to other comparable London boroughs. Due to the scale of financial pressures the council is facing, it has not been possible to balance the budget without the need to request EFS, as explained in section 7. The council will continue to seek further opportunities for reducing pressures and increasing savings as it continues through the budget setting process.

1.5. In addition, the report outlines in Appendix A the journey over recent years to explain how the council has arrived at this challenging financial position, providing context for the decisions now required. It also provides details of the overall financial environment facing local government and how the council benchmarks by comparison to peers.

1.6. The most recent funding position announced by government in the Provisional Local Government Finance Settlement (LGFS) is reflected, although there are some grants which are still to be confirmed and the full ramifications of the Business Rates reset will need more time to be worked through. The Final LGFS will not be announced until early February 2026, shortly before the February Cabinet meeting. The settlement shows Hillingdon gaining substantially over the next three years, however the council is coming from a position of exhausted reserves following a number of years of underfunding, a low income base, service costs rising at above inflation rates, increased pressure from asylum seekers and British nationals repatriation as a port authority and under-delivery against ambitious savings programmes set with insufficient rigour. The additional funding will only phase in over the next three years, not landing in full in 2026/27, and so the council will continue to carry the burden of supporting those councils which are now recognised to be overfunded, but which are only being asked to relinquish this excess funding over the same three-year period. This implicitly means the council will suffer a further under-funding of more than £40m over the next two years. This will add to the EFS burden of the council and become a burden in future years as the council strives to pay this off.

1.7. A key challenge arising for the council in the Provisional LGFS is in respect of the business rates revaluation and funding reset. One of the largest rate payers in the country, Heathrow Airport, is situated in the borough and faces an exceptional increase in business rates charges. We believe that the airport is likely to robustly challenge this increase and if successful would be due a refund that could potentially run into the hundreds of millions of pounds. The risk to the council if unadjusted for would be in respect of 1) the cash flow impact in repaying a successful appeal, and 2) the share of the impact of this on the retained level of business rates assumed in the LGFS. This is not a risk that can be carried by the council and so a substantial appeals provision will need to be maintained. The business rates safety net mechanism will limit the downside risk on the council's funding, but will likely mean that the funding announced by government for Hillingdon will not be as great as portrayed.

1.8. Council Tax is currently modelled at the maximum level permitted under the government's referendum regime: 2.99% for general Council Tax and 2.00% for the Social Care Precept. This is anticipated to generate circa £7.7m per year in additional Council Tax revenues for Hillingdon. With reference back to the LGFS, the government models the potential Council Tax income differently to how the council actually experiences this based on the actual tax base and collection rate, so again government modelling of the benefit to the council is essentially overstated.

1.9. The Capital Programme has been reviewed in light of the council's financial position and the General Fund programme over the next five years amounts to a gross spend of £228.792m, of which £122.618m is funded through borrowing. This compares to the previous five-year programme of a gross £342.046m, of which £200.736m was planned to be funded by borrowing. A similar approach has been taken with the HRA capital programme, whereby the proposed five-year programme is a total gross spend of £522.2m, of which £268.2m from borrowing. Previously the total was £514.3m and £235.1m.

1.10. It has been recognised that weaknesses in previous rounds of budget-setting have been to under-estimate the growth faced by the council, both in the current and future years, over-estimate the new savings and their deliverability, and under-estimate the value and deliverability of savings carrying forward from the previous year. There has therefore been weakness in terms of carrying forward budget shortfalls inherent in the current year as well as in the new year's budget, leading to the substantial overspends experienced over the past two years. The process this year has sought to rebuild realism into the assumptions, ensure that proposals are operationally sound and balanced, that they are underpinned by evidence and workings, and finally that they are sustainable and transparent. There is a significant amount of growth built back into the base budget in 2026/27 to ensure that the starting point heading into the year minimises any unaddressed ongoing pressures from 2025/26 that would repeat. Trends on growth have been reviewed and so these should also be more closely aligned. Savings have been subjected to challenge by both officers, Corporate Directors and members, and there are no savings which are not owned by a senior officer in the council. Taking the necessary action to deliver the savings on time and to scale will therefore be key to assure and press on through the year.

1.11. Regardless of the work that has gone into the setting of the budget, there will still be scope given the scale of the budget as set out above for there to be shortfalls in the delivery of savings or income, or unplanned growth and inflation above expectations. To this end, the council has rebuilt a contingency to provide some cover for this. The greater the contingency, the more reassurance there is in the delivery of the budget, however this would come at the cost of additional EFS, cost savings or service reductions.

1.12. Reserves are another key area for the council to rebuild and stabilise, and in the current circumstances this can only be achieved through the use of EFS. The council has formally applied for approval of a retrospective application of EFS from government in respect of 2024/25 and 2025/26 and awaits news on this request.

1.13. In setting this MTFS, the council's objectives are:

- To continue to drive value for money for our residents in our services;
- To continue to be a comparatively low Council Tax charging borough;
- To review our operating model to deliver even more efficient and effective services and make significant savings, maintaining our status of being low-cost;
- To invest in and maintain council assets, build out our infrastructure and seeking invest to save opportunities through our capital programme;
- To invest in improving the quality of our homes for our housing residents;
- To increase our income levels and charge appropriate levels of fees;
- To continue to respond to inadequate levels of government funding including lobbying central government and the GLA for more funding for our residents;
- Rebuilding our financial resilience; and
- To assess our levels of efficiency and delivery and benchmark against other low-cost councils whilst maintaining good outcomes for residents.

1.14. In spite of the challenges set out above, the council is a low-cost (with highly regarded levels of service and quality) and low-tax authority (having the lowest Council Tax Band D charge amongst the sixteen local authorities CIPFA classifies as our statistical nearest neighbours). Like all local government, the council has seen consistently rising cost pressures yet falling real-terms government funding. As a low-cost, low-tax authority this makes balancing the budgets that much harder than for many others. Council reserves have fallen as the council has been using these to protect services and money in the pockets of its residents.

1.15. Whilst priding itself on being a low-tax authority (the lowest amongst Outer London boroughs), the council also prides itself on being able to deliver good quality services efficiently. Some key metrics demonstrating this position are set out in Section 2.

1.16. As noted in Section 2, local government has seen funding constraints impact on its finances for over a decade. Hillingdon has not been exempt from these pressures. We have long argued that the basis of core funding levels had not been updated to reflect growing need since 2013/14 and Hillingdon had been penalised as a result. Section 4 outlines the impact of this under-funding and provides a summary of the government's approach to rebasing the Formula Funding from 2026/27 – albeit with a continuation of further damping adjustments that will not see the council fully receive the government-assessed fair share of funding until 2028/29.

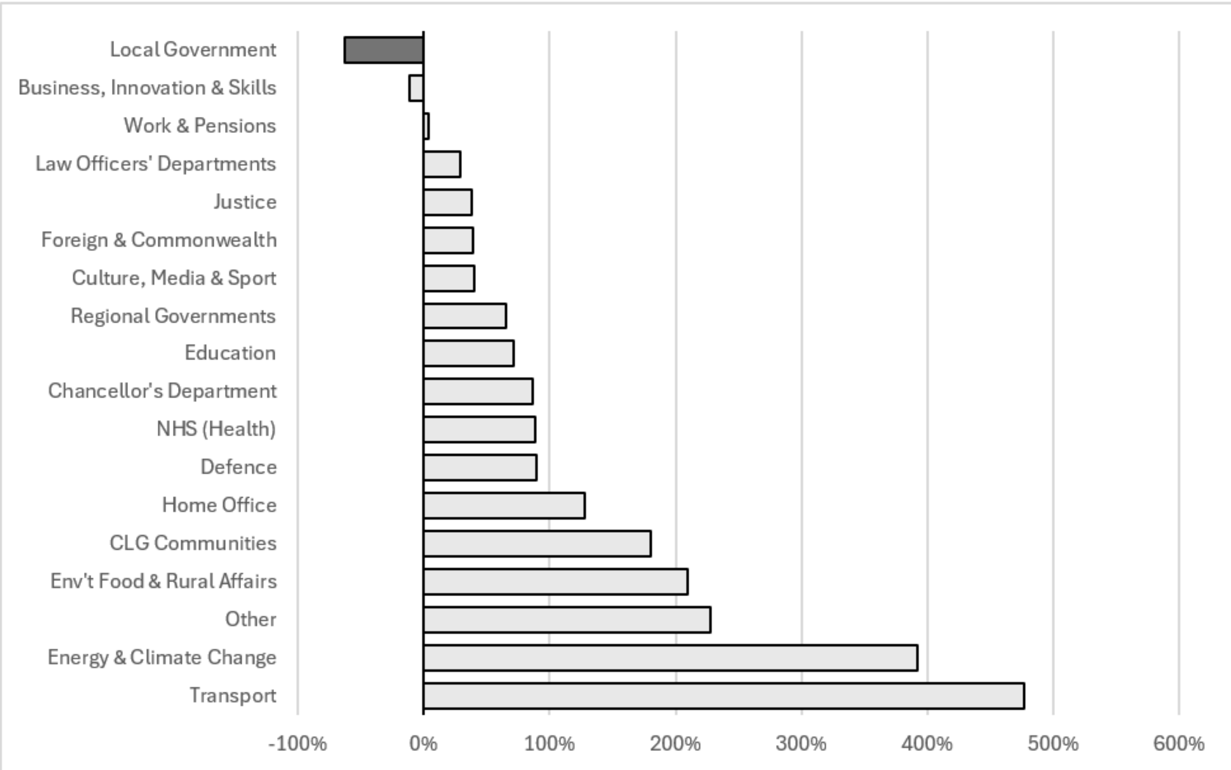
1.17. The MTFS as it is currently modelled indicates that there is substantial work still to do to get back to a balanced position. The uplift coming through the settlement will have been received in full by 2028/29 and so the target will be to reduce this to a balanced position by that point. Officers will continue to work over the coming months to identify further initiatives to generate efficiencies, cost reductions and additional income in order to close the gap by 2028/29, whilst seeking to ensure that statutory and highly valued services continue and vulnerable residents are supported.

2. Context for the Budget

2.1. Local Authority Financial Environment and Funding

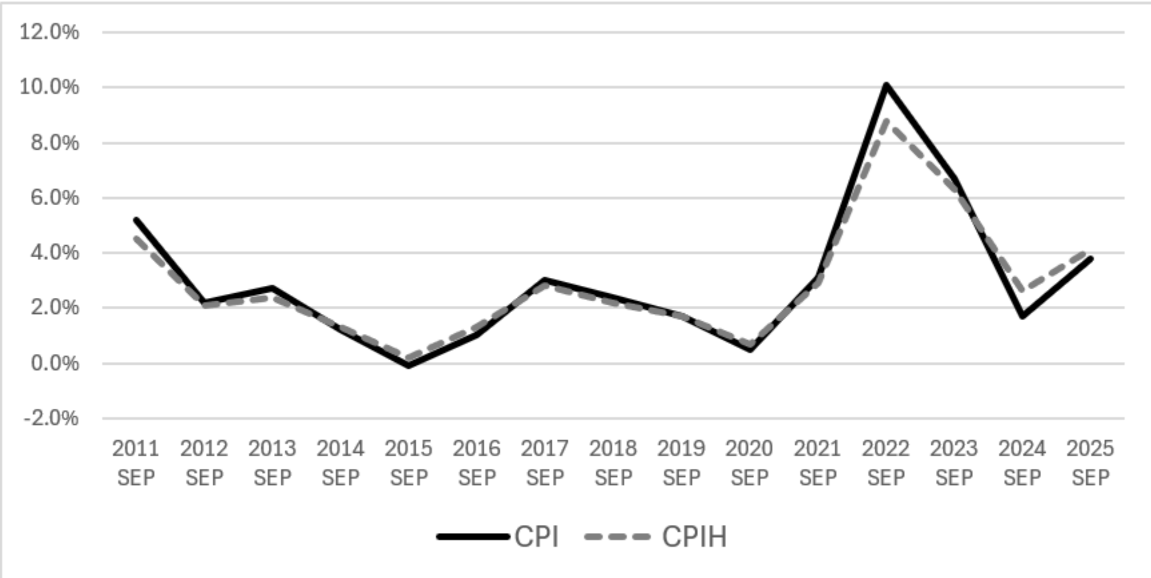
2.2. Local government has been at the forefront of bearing the burden of austerity as the national economy has suffered the shocks of the banking crisis, Covid, and most recently the impacts of global conflicts. An analysis of government Departmental Expenditure Limits (DEL) between 2010/11 and 2025/26 shows how Local Government funding has seen a disproportionate change compared to most departmental budgets. Compared to an average (cash) increase of 71%, Local Government has seen a reduction of 63%. This change in purchasing power would be much larger if inflation were taken into account.

Chart 1: Change in Government DEL Budgets 2010/11 to 2025/26



2.3. Inflation has added to the pressure faced by the local government sector over the same period. While averaging around 3% between 2011 and 2025, Local Government has faced above average inflationary pressures since 2020 as illustrated in the chart below:

Chart 2: Annual CPI & CPIH Inflation (as at September each year)

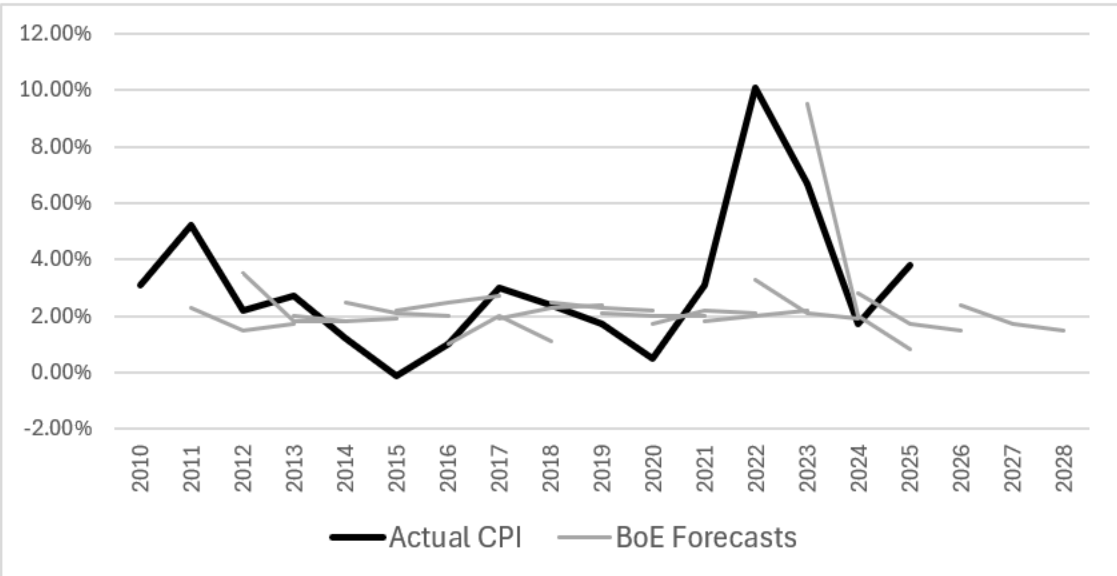


CPI = Consumer Prices Index; CPIH = Consumer Prices Index including owner occupiers' housing costs

2.4. Latest projections contained in the Chancellor's Autumn Budget anticipate inflation to peak and return to the Bank of England (BoE) target rate of 2% by the beginning of 2027.

2.5. BoE or HM Treasury inflation forecasts are useful in projecting the impact of inflation on future year budget and MTFS assumptions, but they remain only forecasts and can differ significantly to what is ultimately experienced. The chart below compares past BoE three-year CPI forecasts to actual CPI and shows that their projections assume hitting the 2% target more closely than is actually experienced.

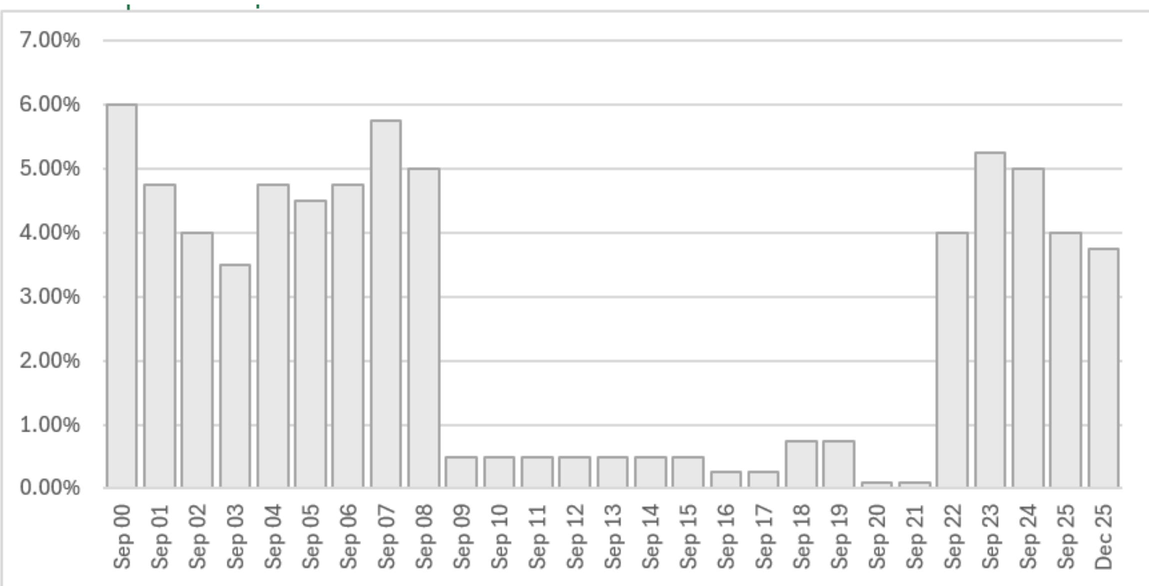
Chart 3: Bank of England CPI Three-Year Forecasts Compared to Actual CPI



2.6. Specific market pressures applicable to local government expenditure mean that the true inflationary pressures faced by local government may not be reflected in the general CPI measure discussed above. Changes to Employers National Insurance rates, above inflation rises in the Living Wage and market conditions have all particularly impacted on the cost of children's and adults social care services over and above general CPI.

2.7. Councils invest heavily in assets to provide services, facilities and local infrastructure, whilst at the same time investing surplus cash ahead of future spend. Nationally, local government was borrowing £137bn at the end of March 2025, whilst investing £32bn. Changes in interest rates on both these quanta can have significant impacts on revenue cost and income. The chart below shows the changes in the Official Bank Rate over time:

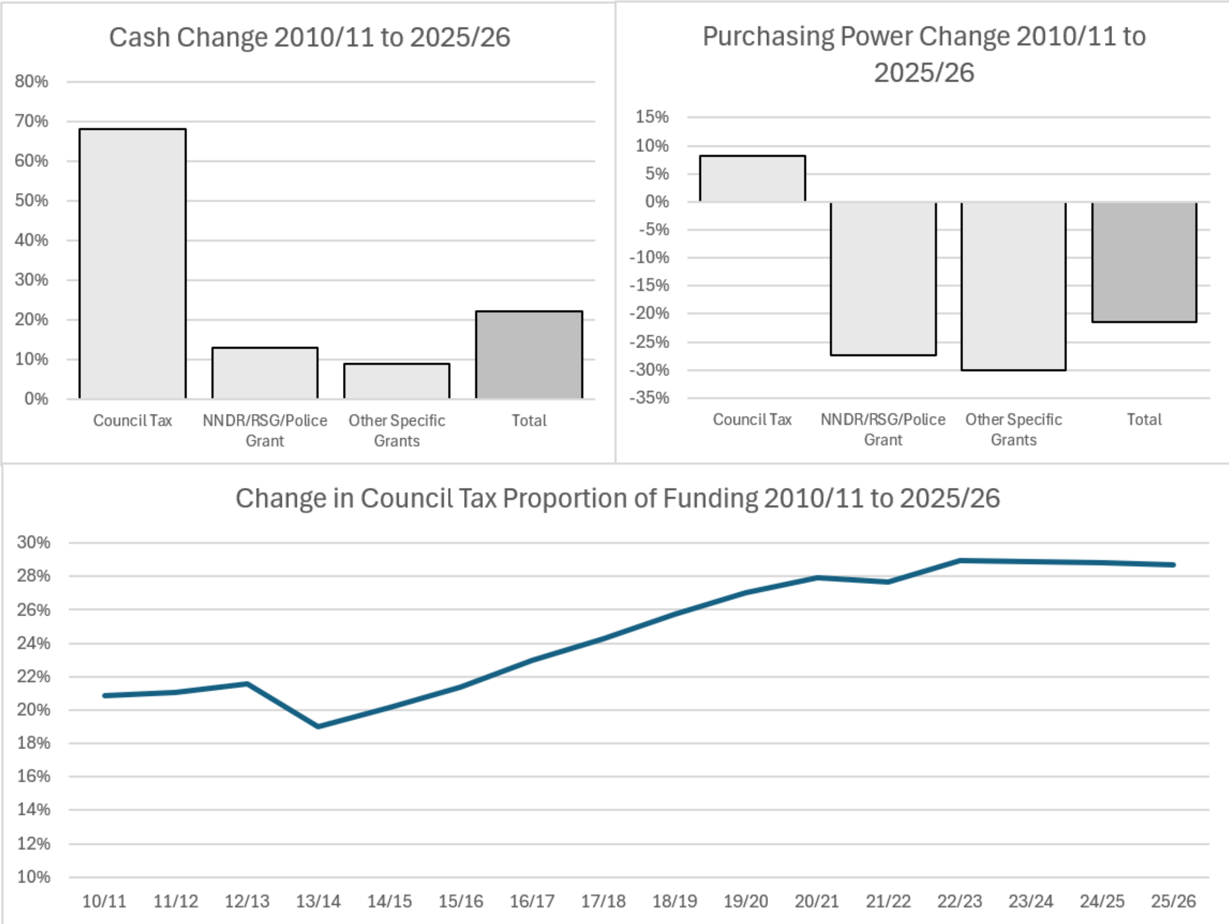
Chart 4: Bank of England Bank Rate



2.8. The last Monetary Policy Report (December 2025) predicted a modest reduction in the Bank Rate over the coming two years.

2.9. Government funding is a key component in the financing of local authority expenditure, whilst government retains significant control over council income from business rates (National Non-Domestic Rates (NNDR)) and council tax. Analysis of local authority annual budget setting statistics published by MHCLG shows that whilst the main funding streams have increased between 2010/11 and 2025/26, that has largely been paid for by residents as council tax payers. Indeed, if the impacts of CPI inflation are taken into account, it is only council tax income that has risen nationally above the rate of inflation, with real terms cuts in government funding and overall purchasing power. These changes and the rise in the importance of council tax in overall funding are illustrated in the chart below:

Chart 5: National Change in Funding



2.10. Whilst facing real terms funding reductions over the past fifteen years and pressures arising from inflation, the local government sector has also seen specific rising demand which it has a statutory obligation to meet.

- Nationally the budgeted cost of providing adult social care services has risen from £14.4bn in 2010/11 to £26.7bn in the current year;
- Nationally the budgeted cost of providing children's social care services has risen from £6.5bn in 2010/11 to £15.5bn in the current year;
- Nationally the budgeted cost of providing homelessness services has risen from £292m in 2010/11 to £2,014m in the current year;
- In 2010 there were 220,890 pupils with Special Educational Needs and EHC Plans (2.7% of the total school roll). By 2025, this has risen to 482,640 (5.3%);
- In 2010 there were 1,470,900 pupils with Special Educational Needs without an EHC Plan (18.2% of the total school roll). By 2025, this has fallen to 1,284,284 (14.2%) – this fall reflect the growing number of pupils having an EHC plan above;

3. Hillingdon's Services and Council Tax

3.1. The council prides itself on providing good and extensive services to its residents. Examples of this include the following:

- The council was awarded the second highest grading by the Housing Regulator (C2) which highlighted strengths in ensuring tenant safety, understanding of the condition of homes and an effective and efficient repairs service
- Hillingdon was rated 'Good' in July 2024 by the Care Quality Commission, with the borough in the top quarter of London boroughs inspected. The cost of the borough's adult social care service is the second lowest in London and 20 per cent lower than the national average
- The council's adult education service was rated 'good' in all areas following an Ofsted inspection
- The council held its second Old Vinyl Factory Festival in September, welcoming more than 1,600 people to the event celebrating Hayes' musical heritage
- We held our first Age-Friendly Festival, a celebration of our older residents, featuring a series of events in libraries and community venues offering free activities, information and support
- The council secured £1.1 million UK Shared Prosperity Funding to deliver projects that support residents into work, help local businesses grow and make improvements to the borough's high streets and town centres
- The council joined the West London Economic Prosperity Board to unlock new opportunities for growth, investment and innovation
- Subscription-based garden waste collections were introduced to make the service more sustainable while delivering better value for money than neighbouring boroughs
- In 2024/25 our counter fraud team recovered £10.9 million, with £6.8 million recovered so far in 2025/26
- Following a successful bid by the council, Hayes became one of 12 London high streets to receive £50,000 funding as part of the Mayor of London's new High Street Place Labs initiative. This scheme is designed to help town centres attract investment, improve public spaces, and boost the local economy
- We celebrated the 10th anniversary of Hillingdon Dementia Action Alliance, founded to improve the lives of residents living with the condition and their carers, and a Hayes resident who benefits from the council's range of support for those living with dementia accompanied the England football team onto the pitch for one of their friendly matches

3.2. The council has continued with its programme of investment in community facilities with most notably:

- A new, modern Uxbridge Library opened at the Civic Centre as part of the council's strategy to co-locate services to enhance access and deliver value for money for residents
- Six new residential homes for local children were built so they can remain in the borough close to family and friends
- A new care facility, The Burroughs, was purchased to secure local provision to meet the growing demand for residential care and reduce private provider costs
- The council is proposing to dispose of its car park site adjacent to the Civic Centre, known locally as the Lobster Pot, to be transformed into a nursing care facility with a total of 162 beds and reduce reliance on costly private sector provision to meet growing demand
- The council has nearly completed its new state-of-the-art Platinum Jubilee Leisure Centre in West Drayton, which is managed by Greenwich Leisure Limited and will help more residents stay fit and active. Due to open in early 2026.

3.3. Benchmarking of Hillingdon's cost of services based on formal statistical RO data from 2024/25 outturns supplied by all local authorities, shows that compared to a portfolio of 10 statistically near neighbours, the council is in many cases low or even very low cost. The following analysis has been independently produced to compare unit cost figures between Hillingdon and all London boroughs and the 10 near neighbours:

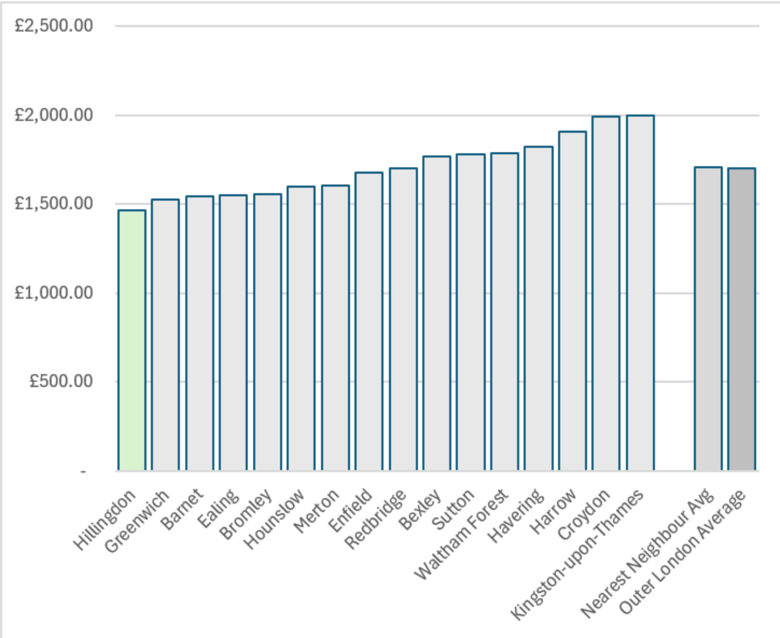
Table 2: Benchmarking of Hillingdon service costs to peer authorities

Service line	£000s	Unit cost	Benchmark comparison	
			London Boroughs context	NN Context
Housing Services (GFRA Only)	£30,926	£93.95	Low	Average
Children Social Care	£72,701	£962.62	Very Low	Low
Highways & Transport Services	£7,108	£21.59	Average	Low
Environmental & Regulatory Services	£19,502	£59.24	Very Low	Low
Cultural & Related Services	£13,962	£42.41	Average	High
Central Services	£8,832	£26.83	Very Low	Very Low
Adult Social Care	£106,714	£420.70	Very Low	Very Low
Planning & Development Services	£96	£0.29	Very Low	Very Low
Education Services	£255,379	£3,205.66	Very Low	Low
Public Health Services	£17,888	£54.34	Low	Average
Total Services	£533,108	£1,619.48	Very Low	Low

3.4. As demonstrated in the table above, delivering good quality services does not mean charging residents more – indeed, and despite an under-allocation of government funding, the council has continued to have one of the lowest Council Tax charges across London and the country as a whole. The council has the lowest Band D charge amongst its CIPFA-identified nearest neighbour authorities and Outer London boroughs of 14%, providing evidence of the efficiency and low-cost ethos – keeping more money in the pockets of residents. The chart below shows the council's £1,462.00 element of the Band D charge (excluding the GLA charge of £490.38 standard across all) compared to the nearest-neighbour authorities' charges:

Chart 6: Comparison of Nearest Neighbour Own Band D Charge 2025/26

Hillingdon	£1,462.00
Greenwich	£1,521.43
Barnet	£1,545.14
Ealing	£1,550.64
Bromley	£1,552.08
Hounslow	£1,595.44
Merton	£1,604.05
Enfield	£1,673.64
Redbridge	£1,699.29
Bexley	£1,767.65
Sutton	£1,779.34
Waltham Forest	£1,787.27
Havering	£1,823.17
Harrow	£1,905.48
Croydon	£1,990.10
Kingston-upon-Thames	£1,998.96
Nearest Neighbour Avg	£1,703.48
Outer London Average	£1,697.48



3.5. Had the council charged the average nearest neighbour Band D charge in the current year, a Band D taxpayer would have paid an extra £241.48 in 2025/26. The council has historically set a low Council Tax and not just in the current financial year. The average Band D taxpayer in Hillingdon has saved £1,719 compared to taxpayers across the other nearest-neighbour average over the last 10 years.

3.6. The ability to deliver this saving to residents has been achieved by driving efficiencies in the delivery of services and at the same time keeping charges to service users at the minimum. The analysis of government published local authority budget and outturn statistics demonstrates the success of this underlying ethos.

4. <u>Hillingdon's Funding and the Local Government Finance Settlement</u>

4.1. Government funding for Hillingdon is significantly driven by the LGFS. Prior to 2026/27, the methodology and data were last fundamentally updated in 2013/14 when business rate income, rather than being pooled nationally, was localised (30% being retained locally but subject to a Tariff or Top-Up). In 2013/14 Hillingdon's estimated required allocation of £114.4m was top-sliced by £4.8m to limit reductions in other councils' funding which would otherwise have seen lower funding.

4.2. This top-slice has effectively remained in place between 2013/14 and 2025/26, and a fair allocation of resources has been further eroded over time by growth in population and other needs data not been updated.

4.3. Whilst two previous governments have consulted on updating the formulae and data used for Settlement Funding, the government has last week refreshed the underlying model for allocating resources in the Provisional LGFS for 2026/27 to 2028/29.

4.4. Preliminary modelling, based on analysis produced by London Councils, has proved to be largely in line with the Provisional LGFS announcement. The government's preferred measure of the resources available to councils is Core Spending Power (CSP) and (after re-basing the 2025/26 CSP value to reflect grants now included or excluded from Formula Funding) is forecast to rise by 13% in 2026/27, 25% in 2027/28, and 36% in 2028/29. The table below summarises the quanta for each of those years, and projects CSP to rise by £105.2m by 2028/29:

Table 4: Calculation of Core Spending Power

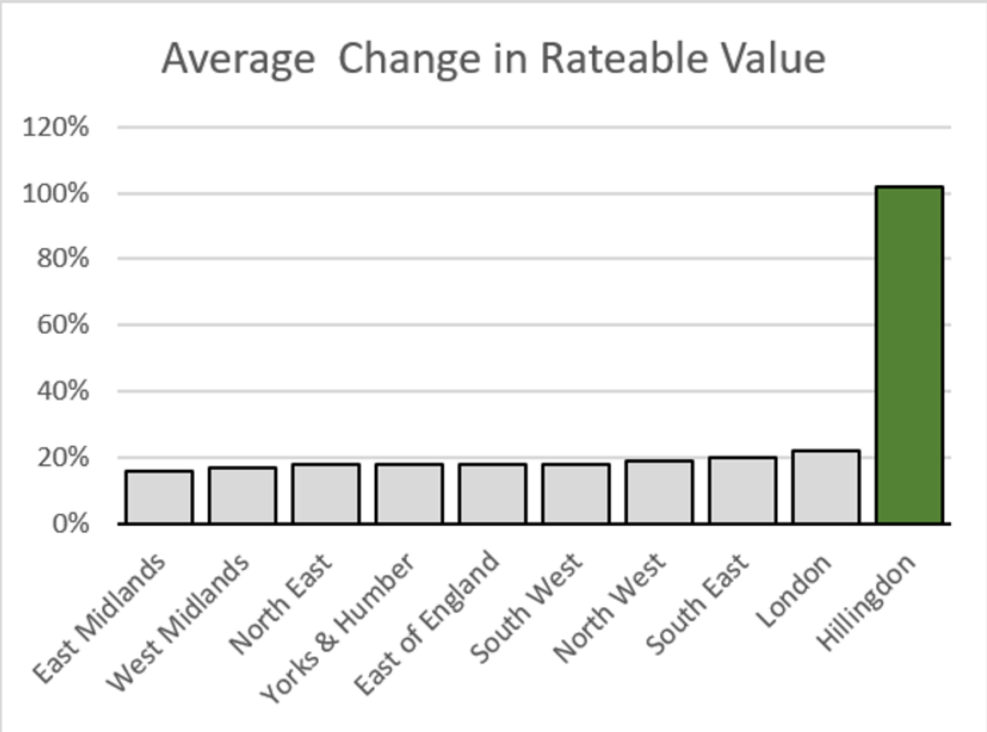
	2026/27 (Dec 25) *(£m's)*	2027/28 (Dec 25) *(£m's)*	2028/29 (Dec 25) *(£m's)*
Expected Total NNDR Yield	782.8	800.8	817.0
Less 70% GLA/MHCLG Share	(548.0)	(560.6)	(571.9)
Retained Locally (30%)	234.9	240.2	245.1
Less Tariff	(143.6)	(146.9)	(149.9)
Net Retained NNDR / Legacy NNDR	91.2	93.3	95.2
Revenue Support Grant	53.3	84.4	106.9
Local Authority Better Care Grant	9.2	-	-
Settlement Funding Assessment [SFA]	153.8	177.7	202.1
Local Council tax requirement	163.1	172.7	182.8
Homeless, Rough Sleeping & DA Grant	5.9	6.1	6.2
Families First Partnership Grant	5.2	5.2	4.4
Core Spending Power	**328.0**	**361.7**	**395.6**
Change from 25/26 Rebased CSP	37.7	71.4	105.2
%age Change from 25/26 Rebased CSP	13%	25%	36%

4.5. The above Core Spending Power projections set out in the LGFS includes £28.7m which government assumes will be funded by Council Tax increases. Government assumptions of being able to collect 100% of amount billed is likely to reduce the gain as we anticipate a 1% Bad Debt provision (£1.8m adverse to the £105.2m exemplified above). The CSP forecasts also assume a higher taxbase in 2026/27 than our own modelling suggests which will also reduce the overall gain.

4.6. We are disappointed, but unsurprised, that government chose to phase in the increase in Hillingdon's Core Spending Power over three years. Had the full fair funding requirement for Hillingdon been met in 2026/27, we calculate that we would have received more than an additional £40m over the following two years

4.7. Of particular concern are government's assumptions around the National Non-Domestic Rates payable by Hillingdon businesses. The Valuation Office Agency (VOA) have published draft assessments for the 2026/27 Business Rate Revaluation. These indicate Hillingdon's business rate taxbase will see an extraordinary average 102% increase (albeit the median increase is only 22%). The chart below illustrates Hillingdon's position compared to each region:

Chart 7: Change in rateable values by region



4.8. Our analysis of the changes identifies that the proposed change in the rateable value Heathrow Airport by itself is a key driver of the above total change. That valuation is rising from £210m to £951m – a rise of 353%. Of the local authority areas seeing the highest rateable value rises, most have airports or ports within their region. These include:

- Hillingdon (Heathrow) 102%
- Crawley (Gatwick) 85%
- Dover (Port) 76%
- Uttlesford (Stanstead) 59%
- Luton (Airport) 45%

4.9. In using the draft VOA Valuations and consequent expected yield for 2026/27 to determine Hillingdon's 2026/27 Tariff charge (the amount our notional 30% retention of business rates is further reduced by), a significant risk exists that these exceptional increases will be appealed and the council will need to determine an appropriate provision for that likelihood and the resultant impact on NNDR yield over the next few weeks. Given the potential scale of possible effect, this will have cashflow as well as Core Spending Power implications. Whilst government have provided for a 100% Safety Net protection scheme in 2026/27, this falls back to 92.5% by 2028/29.

4.10. Whilst transitional arrangements for business rate increases limit Heathrow's increase to a maximum 30% in 2026/27 (£63m increase) and 25% increases for the following two years, these increases may need to be eventually refunded and are significant to the Council's business rate retention position. Careful consideration will be given to the scale of appropriate provision for 2026/27 ahead of submitting our business rate retention budget to MHCLG before the end of January 2026, and that position will be included in the February Budget setting report. As the Tariff is fixed for the next three years and is based on government's assumptions as to the NNDR yield from local businesses, any subsequent falls as the result of successful appeals would materially disadvantage the Council.

5. The 2026/27 Budget and Medium-Term Financial Strategy

5.1. The Budget Setting Process

5.2. The development of the 2026/27 budget has followed a rigorous and transparent process to ensure compliance with statutory requirements and alignment with the council's strategic priorities. Key steps undertaken over the summer and autumn include:

- Strategic Challenge Sessions: Two "Star Chamber" rounds were held to critically review growth and savings proposals, ensuring robust challenge and alignment with corporate objectives;

- Iterative Updates: Regular updates on proposals and the overall MTFS position were provided throughout the planning timeframe to maintain transparency and inform decision-making;

- Cross-Directorate Engagement: Challenge sessions led by the Corporate Director of Finance with Corporate Directors and Cabinet Members explored underlying demand drivers and validated assumptions;

- External Review: Independent scrutiny by Grant Thornton built on their earlier Zero-Based Budget Review, validating major proposals and identifying further opportunities for cost reduction.

5.3. To ensure clarity and accountability, a standardised pro-forma template was introduced for all budget change proposals. This captures evidence, ownership, and key governance requirements, including stakeholder impacts, risks and barriers, equalities considerations, investment needs, and delivery milestones.

5.4. Savings certainty has been assessed through a review of all 2025/26 proposals not yet fully delivered to ensure any savings carried forward can still be delivered;

5.5. A corporate MTFS Tracker has been implemented to capture, analyse and report on all proposal forms submitted and is used as the basis for producing all the subsequent reports, ensuring that there is consistency between what has been submitted by Directorates and their end budgets.

5.6. The budget variances reported at Month 7 have been compared to the budget pressures submitted as part of the budget process and growth bids have been categorised to capture the level of budget rebasing being built back in for current ongoing pressures.

5.7. The use of "flexible capital receipts" has been reviewed to reduce the dependency on this as part of service budgets, when the availability of capital receipts is not assured. There may be a requirement to use this on a more limited basis to fund the direct incremental cost of implementing savings through interim staffing or external advisory support but this will be strictly controlled.

5.8. Weaknesses in the budget setting process in the past have been identified as including unrealistic assumptions around growth and savings in the current forecast year which then carries into the budget year, inclusion of savings which are not properly owned by the directorates to ensure delivery and in particular where these are cross-cutting in nature, unrealistic assumptions of growth and inflation rates for demand-led services, the use of reserves to balance, and insufficient contingency and reserves.

5.9. The budget process this year has sought to address as many of these issues as possible through increased focus on reviews to address the above issues, both applied to the in-year position as well as the savings and growth proposals. The process began in earnest later than would normally be expected and so this will be addressed in future years so that key work can be started/completed earlier and spread more through the year.

5.10. A further planned step will be to request more detailed business plans to be prepared in respect of those savings which are deemed to be inherently more challenging, risky, or higher value and hence present a greater risk to the delivery of the budget.

5.11. Finally, it is recognised that the council still has work to do to close the gap by the end of the settlement period and so officers will continue to review and refine both the existing proposals as well as consider how further savings and efficiencies can be brought forward at the earliest opportunity. As part of this, officers will review benchmarking for service areas that indicate opportunities exist for the council to increase income or reduce unit cost further.

6. <u>Budget Proposals and the Future Budget Position</u>

6.1. A summary of the Service Area budget proposals Cabinet is asked to consider is set out in the table below (full details are set out in Appendix B1 (savings) and Appendix B2(growth)):

Table 5: Summary of 2026/27 and MTFS Net Budget Proposals – Service Areas

	2026/27 Annual Change (£,000's)	2027/28 Annual Change (£,000's)	2028/29 Annual Change (£,000's)	2026/27 Cumulative Change (£,000's)	2027/28 Cumulative Change (£,000's)	2028/29 Cumulative Change (£,000's)
Children and Young People's Services	9,257	(82)	1,786	9,257	9,175	10,961
Adult Services and Health	14,682	10,713	14,224	14,682	25,395	39,619
Residents Services	16,633	(1,295)	(1,693)	16,633	15,338	13,645
Chief Operating Officer	3,853	(1,166)	(245)	3,853	2,686	2,441
Finance	2,762	(837)	(647)	2,762	1,925	1,278
Chief Executive's Office	30	(160)	70	30	(131)	(61)
	47,216	7,172	13,495	47,216	54,388	67,883

6.2. In addition to the service area budget proposals summarised above are changes in Corporate Budgets. A summary of those changes is set out in the table below and is set out in further detail in Appendix B3:

Table 6: Summary of 2026/27 and MTFS Net Budget Proposals – Corporate

	2026/27 Annual Change (£,000's)	2027/28 Annual Change (£,000's)	2028/29 Annual Change (£,000's)	2026/27 Cumulative Change (£,000's)	2027/28 Cumulative Change (£,000's)	2028/29 Cumulative Change (£,000's)
Corporate Expenditure	23,893	15,791	14,698	23,893	39,685	54,382
Corporate Funding	(26,143)	(41,715)	(33,811)	(26,143)	(67,858)	(101,669)
Corporate Income	(318)	(500)	(500)	(318)	(818)	(1,318)
Transfers +/- Reserves & Provisions	14,164	5,000	5,000	14,164	19,164	24,164
Unallocated Budgets and Corporate Funding	226	(174)	-	226	52	52
Corporate Budgets Total	11,823	(21,598)	(14,613)	11,823	(9,775)	(24,388)

6.3. Taken collectively, both service and corporate budget change proposals result in a budget gap as set out in the table below:

Table 7: Summary of all Proposed Budget Changes and Gap:

	2026/27 Annual Change (£,000's)	2027/28 Annual Change (£,000's)	2028/29 Annual Change (£,000's)	2026/27 Cumulative Change (£,000's)	2027/28 Cumulative Change (£,000's)	2028/29 Cumulative Change (£,000's)
Growth	69,495	12,049	16,726	69,495	81,544	98,270
Savings	(22,278)	(4,877)	(3,231)	(22,278)	(27,156)	(30,387)
Service Area	47,216	7,172	13,495	47,216	54,388	67,883
Corporate	11,823	(21,598)	(14,613)	11,823	(9,775)	(24,388)
Total Gap	59,039	(14,425)	(1,118)	59,039	44,613	43,495

6.4. The council's level of available reserves are such that the cumulative gaps set out above cannot be funded from the drawing down of reserves. The council will require a combination of additional income sources and reductions in expenditure to eliminate this gap. In the absence of such measures the council needs EFS to be approved by government and has made an application in this regard. This is explained further in section 7 to this report.

Savings proposals

6.5. The council is proposing Service Area savings amounting to £22.3m in 2026/27, rising to a cumulative £30.4m by 2028/29. The analysis of these savings by Directorate by year are as follows:

Table 8: Savings by Directorate

	2026/27 Annual Change (£,000's)	2027/28 Annual Change (£,000's)	2028/29 Annual Change (£,000's)	2026/27 Cumulative Change (£,000's)	2027/28 Cumulative Change (£,000's)	2028/29 Cumulative Change (£,000's)
Children and Young People's Services	(2,876)	(1,758)	(27)	(2,876)	(4,634)	(4,661)
Adult Services and Health	(3,265)	(12)	(83)	(3,265)	(3,277)	(3,360)
Residents Services	(14,433)	(2,426)	(2,875)	(14,433)	(16,859)	(19,734)
Chief Operating Officer	(579)	(581)	(186)	(579)	(1,160)	(1,346)
Finance	(640)	(50)	(45)	(640)	(690)	(735)
Chief Executive's Office	(485)	(50)	(15)	(485)	(535)	(550)
	(22,278)	(4,877)	(3,231)	(22,278)	(27,156)	(30,387)

6.6. An overview of the savings presented by each directorate is as follows:

Children and Young People

6.7. The Children and Young People directorate is proposing new savings and income of £2.876m in 2026/27 from 4 savings proposals. £1.4m is to come from as a result of the opening of six new residential homes and a reduction in the reliance on costly external placements. £0.899m is in the form of income from a ringfenced grant for Best Start in Life, which will be used towards expenditure to improve outcomes for 0-5 year olds. £0.344m will be delivered as a result of a service saving already delivered in August 2025 when the SEND key working service was disbanded. The remaining £216k relates to a previously agreed saving from a review of semi-independent and shared accommodation.

Adult Social Care

6.8. The Adults directorate is projecting savings of £3.265m in 2026/27. £1.3m of this relates to a reduction in SEND transport demand, mirroring the reduction in demand in the DSG budget, £0.4m relates to a review of the Telecare model, £387k as a continuation of the savings from changes made in 2025/26 to the post-16 transport policy and the introduction of personal travel budgets, and £736k from the creation of a further care company to support Council service delivery.

Residents Services

6.9. The largest contribution to savings in 2026/27 comes from the Residents Services, which is proposing £14.433m of savings next year. Within this, £8.5m is proposed from Housing alone, through targeted savings to mitigate demand and the expensive pathways of support. There are initiatives cutting across annual lettings plans, supported housing, private rented sector and initiatives to mitigate temporary accommodation need. £3.443m is projected from Environment, £2.653m (one-off) of which is through use of the Extended Producer Responsibility Grant and an uplift of the budget to meet the expected grant income. Community Safety and Enforcement plans savings in 2026/27 of £1.192m, which will come from a change in parking tariff structures. Property Services will seek savings of £0.623m through the generation of increased income from commercial leases, garages and council asset savings. There will also be savings from increases in fees and charges, efficiencies in street lighting, recycling bags and reductions in the number of waste weekends.

6.10. Due to the complexity and difficulty in determining and assuring the growth in cost and demand for temporary accommodation, it has been decided that the projections for this service into 2027/28 and 2028/29 be subjected to further review through January and an updated view on this be provided in the February budget report.

Corporate Services (Chief Operating Officer)

6.11. The savings in the Corporate Services directorate are spread across HR, Digital, Business Intelligence, Technology, Counter Fraud and the Residents Hub. The overall saving proposed amounts to £0.579m in 2026/27, with the most notable savings being: £0.173m from contract savings relating to Teams telephony and the EYES system, and £0.161m from removing vacant posts in the transformation team. Corporate Services are also critical in enabling cost reductions across the organisation.

Finance

6.12. The Finance directorate is proposing savings of £0.640m in 2026/27, mainly from the Revenues and Benefits and the Transformation departments. Of this, £0.135m will be from extending supplier incentive programmes designed to generate discounts for early payment, £0.130m from an increase in the charges applied in the recovery of court costs, £0.178m from the deletion of vacant posts in the Revenues and Benefits team, and £0.098m from an increase in the housing benefit subsidy grant now expected.

CEO

6.13. The Chief Executive's Officer includes the Communications, Legal and Democratic Services. The Legal department has proposed £0.485m of savings, mainly from a staffing reorganisation that has now been completed, generation of income and reduced costs through the introduction of a new prosecution lawyer, and using AI licences to reduce junior research costs. The Democratic Services department will bring in additional income from civic and ceremonial and registration services, planned at £0.154m, while the Communications department will release a vacant post, generate increased income through the outsourcing of its film service, and by reducing the number of editions of Hillingdon People produced each year.

<u>Growth Proposals</u>

6.14. There is a significant requirement for budget growth relating to the service areas in 2026/27. A substantial proportion of this is recognising the need to rebase budgets for the pressures and undeliverable savings targets implicit in the 2025/26 budget build and as borne out by the significant budget overspend currently forecast. Implicit in this is the £36.0m overspend, stated after the release of £10.5m of contingency which will need to be rebuilt, and recognising the reversal of an assumed use of £4.2m in general reserves.

6.15. The council is proposing Service Area growth amounting to £69.5m in 2026/27, rising to a cumulative £98.3m by 2028/29.

6.16. The major areas of growth relate to demand and inflation, in particular relating to the largest areas of Council spend, being Adults' and Children's Social Care and Temporary Accommodation.

6.17. The growth proposals over the latter years of the MTFS become more speculative as over recent times there have been factors such as changes to employers National Insurance, above inflation Living Wage increases, foreign and British national resettlement schemes, changes in legislation that made it more difficult for landlords, leading to increased costs being passed on, and general supply issues in the housing market – none of which were predictable.

6.18. It is in particular very difficult to assess at this stage what the potential growth impact will be in some of these areas into 2027/28 and beyond, in particular for Housing which is less predictable than say social care which can at least look to demographics for sense-checking. The Housing growth costs and related savings opportunities are therefore the hardest to provide certainty on and will need ongoing review and refinement of demand and costs analysis over the coming months to build greater levels of assurance. To this end, both growth and savings relating to Housing in 2027/28 and 2028/29 are excluded from this consultation budget pending further review through January and will be updated on in the February budget setting report. The significant growth applied in 2026/27 to this area, combined with the rebuilt corporate contingency will provide a reasonable level of assurance over the coming year.

Corporate Budgets

6.19. The Corporate Budget proposals, as set out in Appendix B3, comprises all those areas of funding and expenditure which are not directly attributed to the service areas. A central provision for inflation is made and held centrally which will be allocated in the course of the year. Capital financing costs relating to the capital programme and EFS borrowing, council tax and funding settlement allocations are also recorded here. The previous budgeted drawdown from reserves has been reversed, unallocated cross-cutting savings reversed, and the corporate contingency rebuilt. An adjustment relating to a deficit on the 2024/25 collection fund lands in 2026/27 as a one-off impact, while a favourable adjustment to the long term pension fund deficit contribution rate is also applied.

7. **The Remaining Gap and EFS**

7.1. The number of councils seeking EFS has increased significantly in recent years, with 30 being granted EFS in 2025/26 and speculation that this could rise to anywhere between 50 and 100 in 2026/27, with half of London boroughs needing EFS by 2028/29 (Local Government Chronicle). While the financial troubles of a number of councils that entered S114/EFS in past years may have been viewed as self-inflicted, the wave of councils now entering into "exceptional" measures surely cannot be viewed in the same light, and this trend looks set to continue despite the announcement of Fair Funding 2.0.

7.2. As set out in Table 7 above, the council has been unable to close the gap in order to balance the budget and does not have the benefit of reserves to be able to cushion the deficit, having used these up in previous years. It is therefore recognised that in order to meet the statutory requirement of setting a balanced budget, the council will need to apply for EFS from the government, and a submission has been made. This can be provided in one or more of the following forms:

7.2.1. 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. A council in this position is likely to have to borrow to support their cash flow and so this would also incur interest costs.

7.2.2. Additional Grant Funding – In certain circumstances, a council may receive direct grant support to help manage exceptional financial pressures.

7.2.3. 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 as a rise mid-year is not feasible

7.3. Officers have modelled the impact of increasing Council Tax above the allowable 4.99%. Each additional 1% increase on Council Tax would raise an additional circa £1.54m per year. Outcomes under different scenarios have been modelled and shared with lead members but at this current time an increase in Council Tax for 2026/27 has not been requested from MHCLG. On this basis, the council is requesting £60m in EFS backed by borrowing to close the budget gap for 2026/27. A decision on future years' tax increases has not been made at this point and will depend on what further savings the council can identify to close the gap but could make a significant contribution towards closing the gap.

7.4. The above EFS request is in addition to requests for both 2024/25 and 2025/26. The amount requested for 2024/25 is £40m with the purpose of bringing the general fund reserves up to a level in the region of £40m, having ended the year 2024/25 with £1.5m (unaudited). A further £50m has been requested in respect of 2025/26 to cover the

£36.0m forecast deficit as reported at month 7, together with a level of contingency to cover any potential risk in the closing position and risks or pressures that may materialise by the time of the final outturn and audited position. This additional contingency figure is considered to be a prudent measure on the basis that the council's accounts are currently disclaimed by the auditor and will take time to build back to a clean position with all areas of the accounts verified through the audit. It should be noted that the request will not be drawn down in full if not required.

7.5. As the position currently stands, the council will also need EFS for later years in the MTFS period. Despite additional funding being awarded through the Provisional LGFS, this is being phased in by government over 3 years and so the council will continue to be underfunded in both 2026/27 and 2027/28. This results in more than £40m of the EFS requirement arising as a result of the delay to the full allocation of the funding due. It is the council's intent to work through further opportunities to identify savings that benefit 2027/28 onwards and reduce the budget gap in these years. The uplift coming through the settlement will have been received in full by 2028/29 and so the target will be to reduce this to a balanced position by that point. Significant effort will be required involving reviews of departments across the organisation to find further efficiencies and reduce the footprint of the council.

7.6. The impact on the revenue budget of requiring EFS through borrowing, as stated above, is that this creates the need to amortise the balance over a period of 20 years. The council would apply this MRP charge using the annuity method, meaning that the charge applied in earlier years is lower than in later years, accounting for the time value of money. Depending on cash flow needs, much of this will also need to be borrowed against in order to stay within prudential borrowing limits and hence incur interest costs on top. In 2026/27 this combined figure is projected to cost the council £1.6m, rising to £11.5m in 2028/29. This impact could be reduced by an above-referendum increase in Council Tax, which would be an ongoing uplift in the income received by the council (not currently modelled into the projections), as well as any surplus capital receipts but which would only be one-off in nature. The model currently assumes a £7m receipt in 2028/29 towards this.

7.7. The council cannot determine a decision on EFS on its own and a submission requesting approval has been made to MHCLG for this, on which a decision is pending. Approval at this stage would be in the form of a "minded to" decision on the basis of which the council would be able to determine a balanced budget as well as be able to borrow against this figure. A final capitalisation direction would be issued by government at the time of finalising the audited accounts, well after the end of the financial year. MHCLG will expect councils to submit to a review process, likely to start early in 2026, and the decision may be subject to the council agreeing to certain conditions, yet to be determined.

7.8. The timeline for such a decision on 2026/27 is likely to culminate in February 2026 around the time of the Final LGFS announcement, before the Cabinet and Council finally convene to consider and approve the budget.

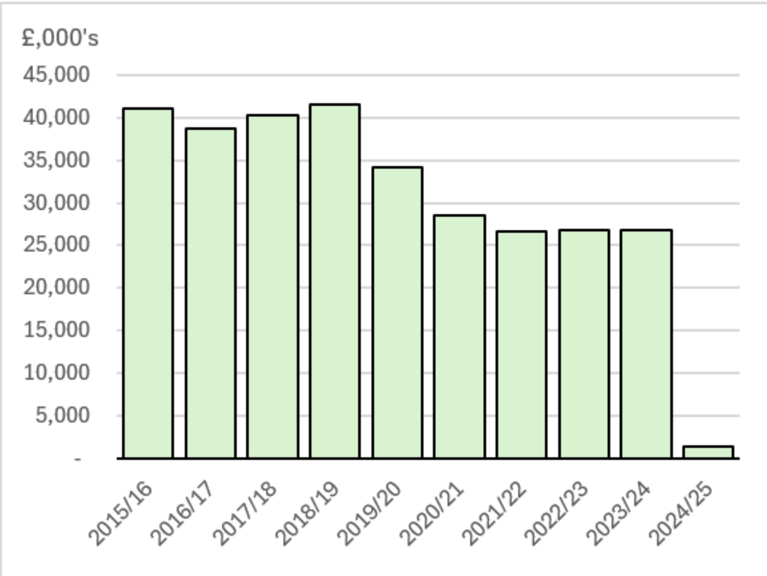
8. <u>Reserves</u>

8.1. Local authorities are required under the Local Government Act 2003 and CIPFA's Financial Management Code to maintain adequate reserves to safeguard financial resilience and ensure the continued delivery of statutory services. Reserves provide a critical buffer against unforeseen events, demand fluctuations, and timing differences in funding. While short-term use of reserves to manage volatility is permissible, reliance on them to fund recurring expenditure or balance the budget is unsustainable and contrary to best practice. Persistent dependency on reserves erodes financial stability and limits flexibility in managing risks. The council's MTFS therefore prioritises rebuilding and maintaining reserves at a prudent level, alongside delivering structural savings and transformation to reduce reliance on one-off measures.

8.2. Despite savings being identified, general fund reserves have had to be drawn down over time to bridge the gap in funding faced by the council. The chart below shows the movement in General Reserves since 2015/16. Note that an exercise to review balance sheet values in 2024/25 identified £14.1m of accounting adjustments, of which £7.5m would have impacted in earlier years.

Chart 8: Movement in General Fund Reserves

	General Reserves *(£,000's)*
2015/16	41,050
2016/17	38,738
2017/18	40,323
2018/19	41,620
2019/20	34,240
2020/21	28,517
2021/22	26,712
2022/23	26,839
2023/24	26,845
2024/25	1,450



8.3. An analysis of the published draft accounts for 2024/25 across London boroughs illustrates the relatively low level of reserves currently held by Hillingdon. Hillingdon ended 2024/25 with £1.45m of general reserves together with £9.40m of earmarked reserves (both useable and ringfenced), a total of £10.85m, which compares to an average across Outer London boroughs of £17.00m and £92.31m respectively, totalling

£109.31m. Hillingdon's General Reserves represent 0.35% compared to Net Cost of Service whereas the Outer London average is 6.76%.

8.4. This position reflects several years of erosion caused by overspends, underfunding, reliance on reserves to balance in-year budgets, and setting budgets dependent on earmarked reserves for service costs. While the 2025/26 budget assumed £4.2m of reserve use, this is no longer feasible and has been reclassified as growth for 2026/27. The projected overspend of £36.0m for 2025/26 would push reserves into a significant negative position, which is unsustainable and requires urgent intervention.

8.5. As highlighted earlier, the council is seeking EFS for 2024/25 to restore reserves to a prudent level, requesting £40m to replenish the general reserve. A further £50m request for 2025/26 will cover the forecast overspend and provide contingency for audit adjustments and unforeseen risks. Without this support, the council would face immediate financial instability, severely constraining its ability to deliver statutory services.

8.6. If approved, the revised reserve level will offer limited protection against adverse in-year movements such as increased demand, non-delivery of savings, or other unplanned adjustments. Given recent volatility, this buffer may only provide assurance for the short term. The council's intention is to maintain a general reserve of approximately £40m, subject to delivering the budget within contingency limits and implementing structural changes to reduce reliance on reserves going forward. Regular monitoring and transparent reporting will be maintained to ensure compliance with statutory guidance and to support long-term financial sustainability.

9. Council Tax and Business Rates

9.1. Corporate Funding is heavily reliant on Council Tax and locally retained Business Rates, both of which are driven by the size of the underlying taxbase and the level of the annual charge (Band D Council Tax or the business rates multiplier) and any discounts or premia. While both income streams are sensitive to changes in economic conditions, they differ materially in their stability, growth profile and risk exposure, which is reflected in the council's MTFS.

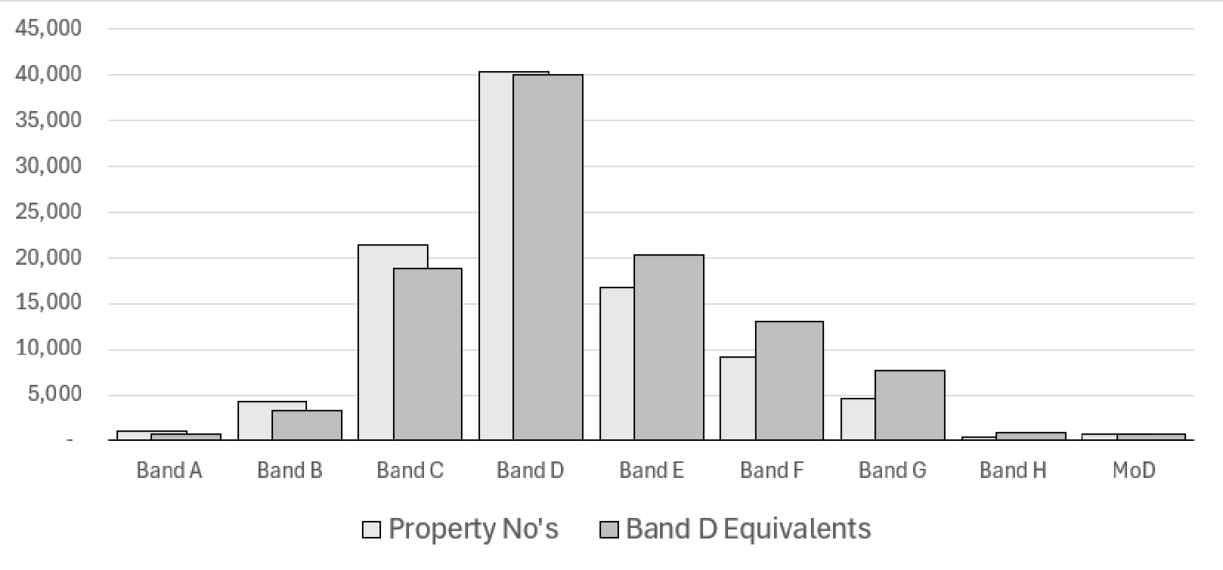
Council Tax

9.2. The Council Tax taxbase represents the number of Band D equivalent dwellings and is determined annually as at 31 January, forming the basis for amounts billed to residents and distributed to major preceptors, including the Greater London Authority. The 2025/26 taxbase was approved by Full Council on 16 January 2025, with a summary of the calculation and a graphical illustration set out below:

Table 9: The 2025/26 Taxbase

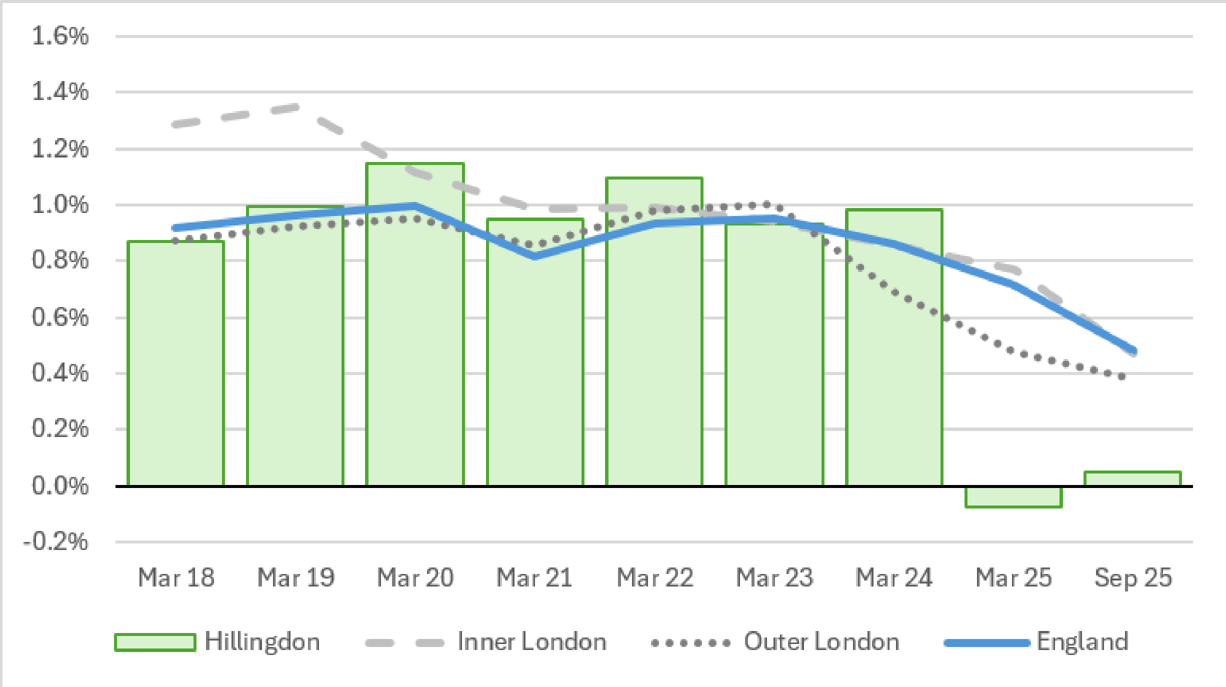
	No of Properties after Discounts/Exemptions	Council Tax Reduction Scheme	Net Total	Ratio to Band D	Equivalent Band D Properties	2025/26 Council Tax Charge (LBH Element)	2025/26 Council Tax Yield
	(No.)	(No.)	(No.)	9 ths	(No.)	(£'s)	(£,000's)
Band A	1,185	(190)	995	6 9ths	663	974.67	970
Band B	5,469	(1,190)	4,279	7 9ths	3,328	1,137.11	4,866
Band C	25,164	(3,682)	21,482	8 9ths	19,095	1,299.56	27,917
Band D	44,359	(3,985)	40,374	9 9ths	40,374	1,462.00	59,027
Band E	17,514	(793)	16,721	11 9ths	20,437	1,786.89	29,879
Band F	9,307	(191)	9,116	13 9ths	13,168	2,111.78	19,251
Band G	4,685	(43)	4,642	15 9ths	7,737	2,436.67	11,311
Band H	464	(4)	460	18 9ths	920	2,924.00	1,345
	108,147	(10,078)	98,069		105,719		154,562
			1% Non Collection Rate		(1,057)		(1,546)
			MoD Properties	9 9ths	760	1,462.00	1,111
			Estimated 2025/26 Council Tax Taxbase		**105,422**		**154,127**

Chart 9: 2025/26 Taxbase Property Numbers and Band D Equivalents



9.3. While the taxbase changes daily through new properties, demolitions, re-banding and changes in eligibility for support, the longer-term trend is a clear slowdown in growth. Despite national policy interventions to increase housing supply, residential construction has slowed nationally, across London and within Hillingdon. This has had a direct impact on forecast Council Tax growth and is illustrated in Chart 10 below:

Chart 10: Decline in Annual Property Number Growth



9.4. Historically, Hillingdon experienced annual taxbase growth of around 1.0% in 2019/20, declining progressively to 0.8% by 2022/23 and 2023/24. Growth in 2024/25 fell sharply to 0.1%, largely due to a Valuation Office Agency decision to re-band Houses in Multiple Occupation (HMOs) from multiple Band A dwellings to a single assessment per property. This change reduced the reported taxbase and masked underlying growth.

9.5. For 2025/26, the taxbase is forecast to grow by 0.4%, with no further re-categorisation effects, confirming a genuine structural slowdown. As a result, the MTFS assumes growth of 0.4% in both 2026/27 and 2027/28, before returning to 0.8% in the medium term. Due to the correction required following the HMO re-banding, the net movement between the 2025/26 and 2026/27 taxbase is a reduction of 0.8%

Council Tax Reduction Scheme and Collection

9.6. The taxbase is further influenced by the council Tax Reduction (CTR) Scheme, with changes approved in February 2025 and further amendments proposed as part of the 2026/27 budget. Taken together, these changes reduce the overall cost of the scheme and partially mitigate the impact of slowing taxbase growth.

9.7. The council continues to assume a long-term collection rate of 99%, with approximately 96.5% collected in-year and the remainder recovered over subsequent years. This assumption remains prudent and consistent with historical performance.

9.8. Based on these factors, the council forecasts a net taxbase of 106,874 Band D equivalents in 2026/27, rising to 108,170 by 2028/29, as set out in Table 10 below:

Table 10: Council taxbase projections

Taxbase Projections	**2025/26 £'000**	**2026/27 £'000**	**2027/28 £'000**	**2028/29 £'000**	***Three Year Outlook £'000***
<u>Council Tax Base (Band D)</u>					
Residential Properties	127,019	126,561	127,111	128,111	*1,092*
MOD Properties	760	760	760	760	*0*
Discounts & Exemptions	(11,940)	(12,403)	(12,457)	(12,555)	*(615)*
Empty Property Premium	283	283	283	283	*0*
Second Homes	0	50	50	50	*50*
Gross Council Taxbase	**116,122**	**115,251**	**115,747**	**116,649**	***527***
Gross Council Taxbase Change		**-0.8%**	**0.4%**	**0.8%**	
Council Tax Reduction Scheme	(10,326)	(9,919)	(7,329)	(7,386)	*2,940*
Council Tax Reduction Scheme Changes Feb 2025	691	1,809	0	0	*(691)*
Council Tax Reduction Scheme Changes Feb 2026	0	812			*0*
Collection Rate (%)	99.00%	99.00%	99.00%	99.00%	*0*
Allowance for Losses in Collection	(1,065)	(1,080)	(1,084)	(1,093)	*(28)*
Net Council Tax Base	**105,422**	**106,874**	**107,334**	**108,170**	***2,748***
Increase in Council Tax Base	**754**	**1,452**	**460**	**836**	***2,748***

<u>Council Tax Charge and Income</u>

9.9. The council is proposing to make full use of the council Tax referendum limit announced as part of the LGFS over the next three years, increasing Council Tax by 4.99% per annum, comprising a 2.99% core increase and a 2.00% Adult Social Care Precept.

9.10. This approach is forecast to generate £7.8m of additional income in 2026/27, with a cumulative impact of £28.9m over the three years of the MTFS. As most London boroughs and councils nationally are expected to apply the maximum increase, Hillingdon is forecast to remain the second lowest Band D Council Tax charge in Outer London.

Table 11: Council Tax Increase

Taxbase Projections	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	*Three Year Outlook £'000*
<u>Resources</u>					
Increase in Council Tax (%)	2.99%	2.99%	2.99%	2.99%	
Increase in Social Care Precept (%)	2.00%	2.00%	2.00%	2.00%	
Band D Council Tax (£)	**£1,462.00**	**£1,534.95**	**£1,611.55**	**£1,691.97**	***£229.97***
Increase in Council Tax Base (Band D)	754	142,124	142,124	142,124	
Council Tax Base (Band D)	105,422	106,874	107,334	108,170	*2,748*
Change from Taxbase (£'000)	*1,050*	*2,122*	*2,795*	*4,017*	*2,967*
Change from Tax Increase (£'000)	*7,326*	*7,797*	*16,052*	*24,876*	*17,550*
Council Tax Revenues	**154,127**	**164,046**	**172,974**	**183,020**	***28,893***
Total Change		**9,919**	**8,928**	**10,046**	

<u>Business Rates</u>

9.11. Business rates were originally set and collected locally, but from 1990 the national business rates multiplier was set by government and income pooled and redistributed through the Rate Support Grant. In April 2017, a system of localised business rates was introduced, under which upper- and lower-tier authorities generally retained 50% of locally collected income, with the remainder pooled and redistributed nationally.

9.12. Each authority was assigned a Baseline Funding Level (BFL), based on average business rates income in 2014/15 and 2015/16. To address disparities in local tax bases, authorities with higher yields pay Tariffs, which are used to fund Top-Ups for lower-yielding authorities. Authorities are incentivised to support growth by retaining 50% of income above their BFL, while losses are only compensated once income falls below a Safety Net threshold of 92.5% of BFL. The government's share of growth is used to fund Safety Net payments.

9.13. In the latest LGFS, the government has reformed the business rates retention system, including changes to the operation of the Safety Net as part of the wider reset of the scheme. Historically, authorities were protected only once retained income fell below 92.5% of their Baseline Funding Level, with no protection for losses above this threshold. Under the reformed arrangements, the Safety Net operates on a graduated basis, with 100% protection in 2026/27, 97% of baseline in 2027/28 and 92.5% from 2028/29, with full protection of losses below this level.

9.14. Hillingdon has a high business rates yield due primarily to Heathrow Airport being located within the borough and therefore pays a Tariff to central government after first allocating shares to the GLA (37%) and government (33%). Based on the 2025/26 settlement, after the Tariff is applied the council ultimately only retains around 14% of the business rates assessed, and 15% on any surplus achieved.

Business Rate Revaluation and Fair Funding Review

9.15. Business rate valuations will be refreshed from the start of 2026/27 following the national revaluation. Data published by the Valuation Office Agency in November 2025 indicates that the total national rateable value will increase from £68.4bn to £82.6bn, an increase of around 19%. In line with legislation, the revaluation will be fiscally neutral at a national level, with the Non-Domestic Rating (NNDR) multiplier adjusted so that the overall level of business rates income collected nationally remains unchanged before and after revaluation.

9.16. Although fiscally neutral in aggregate, revaluation redistributes liability between areas and individual properties. Regional impacts vary materially, with London and the South East experiencing above-average increases in rateable values (around 22% and 20% respectively), while other regions see lower increases. As a result, businesses in London will bear a higher proportion of the national business rates burden following revaluation.

9.17. The impact is particularly pronounced in Outer London, where average rateable values have increased by around 31%, and is most acute in Hillingdon, which has the highest mean average increase nationally at 102%. However, the median increase of 22% indicates that this uplift is driven by a relatively small number of very large hereditaments. National analysis shows that authorities hosting major airports or ports are disproportionately affected, reflecting significant valuation uplifts for specialist infrastructure.

9.18. The scale of revaluation in Hillingdon materially increases the risk of valuation appeals, particularly from large and complex properties subject to substantial increases. While appeals ultimately adjust rateable values prospectively, they give rise to cash-flow risk for the council, as successful appeals can result in refunds of business rates already collected. In light of the revaluation and the concentration of valuation increases within a small number of high-value properties, the council will need to review and, where appropriate, strengthen its appeals provision within the Collection Fund to ensure that potential liabilities are adequately provided for and financial risk is appropriately managed.

9.19. This will be a material risk to the council given the size of the increase in Heathrow's rateable value in particular – a successful appeal would likely lead the council to hitting Safety Net levels due to the resulting impact, which could potentially amount to a loss of £10m over the course of the 3-year MTFS. Meanwhile, the cash flow risk to the council under the mechanism – of having to reimburse business rates to Heathrow on behalf of government and the GLA before the council can recover their contribution the following year – is not one the council can sustain. This will need further review before the finalised budget can be set in February.

10. Supporting Information - Assumptions

10.1. **Fees and Charges**

10.2. To help close the budget gap over the medium term, the council must consider measures to increase income alongside delivering service efficiencies and cost reductions. It is therefore proposed that discretionary fees and charges will be uplifted by 10% where appropriate. This increase will be applied with regard to prevailing market rates and anticipated demand sensitivity to price changes. This core assumption underpins the majority of the council's fees and charges. Any proposals that fall outside this approach have been presented separately above and included as distinct savings initiatives, the most significant of which relates to parking charges.

10.3. This strategy is expected to generate an additional £0.4m of income, as detailed in the table below. It should be noted that some service areas continue to experience demand below budgeted levels, resulting in a net pressure on income despite the proposed uplift. There are no net changes in respect of the Children's or Finance directorates.

Table 12: Fees & Charges net (uplifts)/pressures

Directorate	£'000
Adult Social Care & Health	10
Place	18
Homes & Communities	(415)
Corporate Services	(16)
Total	**(403)**

10.4. A full schedule of the proposed fees and charges uplifts is included in Appendix F.

10.5. It should be noted that the uplift in charges at the council's leisure facilities operated by GLL are proposed to be applied from December 2025. The council is not consulting on these particular increases as they have been worked up in conjunction with the provider.

10.6. **Inflation**

10.7. The council's forecast inflation impact adds £12.6m to the 2026/27 budget requirement, rising to £28.0m by 2028/29. Any price increases above the council's core assumptions are included in the budget proposals set out above.

Table 13: Corporate Inflation Assumptions

Inflation Provision	Base Budget	Annual Movement in Budget Requirement			*Three Year Outlook*
		2026/27	2027/28	2028/29	
	£'m	£'m	£'m	£'m	£'m
Inflation Rates (%)					
Contracted Expenditure		2.8%	2.0%	2.0%	
Workforce Expenditure		3.0%	2.0%	2.0%	
Added Years Pension Costs		3.0%	2.0%	2.0%	
Energy		5.3%	5.0%	5.0%	
Vehicle Fuel		0.0%	2.0%	2.0%	
Homecare Provision (Adult Social Care)		4.8%	4.0%	4.0%	
Care Placements (Adult Social Care)		4.8%	4.0%	4.0%	
Care Placements (Children's Services)		2.8%	2.0%	2.0%	
SEND Transport		2.8%	2.0%	2.0%	
Business Rates & Council Tax		0.1%	2.0%	2.0%	
Levies		2.8%	2.0%	2.0%	
Inflation Projections (£'m)					
General Contracted Expenditure	147.3	4.5	3.1	3.2	***10.7***
Workforce Expenditure	1.9	0.1	0.0	0.0	***0.1***
Added Years Pension Costs	3.5	0.2	0.2	0.2	***0.6***
Energy	1.2	0.0	0.0	0.0	***0.0***
Vehicle Fuel	48.5	1.5	1.1	1.1	***3.7***
Homecare Provision (Adult Social Care)	14.5	0.4	0.3	0.3	***1.0***
Care Placements (Adult Social Care)	112.9	5.7	2.5	2.5	***10.8***
Care Placements (Children's Services)	31.3	0.8	0.6	0.6	***2.1***
SEND Transport	10.5	0.3	0.2	0.2	***0.7***
Business Rates & Council Tax	3.6	0.0	0.1	0.1	***0.1***
Levies	8.9	0.3	0.2	0.2	***0.7***
Gross Inflation Requirement	**384.2**	**13.7**	**8.3**	**8.5**	***30.6***
Budgets Out of Scope of Inflation	(159.4)				
Less: Externally Funded Items	(224.8)	(1.1)	(0.7)	(0.7)	***(2.6)***
Total Inflation Provision	**0.0**	**12.6**	**7.6**	**7.8**	***28.0***

10.8. The council's core inflation assumption is an average Consumer Prices Index (CPI) of 2.8% in 2026/27, reducing to the Bank of England target rate of 2.0% over the medium term. The latest published CPI for November 2025 was 3.2%, down from 3.6% in the previous month, supporting a continued downward trajectory. This core assumption is applied to general contracted expenditure, including Children's Social Care and SEND transport. The assumption increases the budget requirement by £2.6m in 2026/27, rising to £6.5m by 2028/29.

10.9. In respect of pay, and with national negotiations ongoing, the council has assumed a 3.0% increase in the salary bill for 2026/27. This sits marginally above forecast CPI to reflect the ongoing impact of the National Minimum Wage on lower-graded roles, together with the need to partially address historic pay awards that have tracked below inflation. The assumption is applied consistently to employee costs and added years pension liabilities and is forecast to add £4.5m in 2026/27, increasing to £10.7m by 2028/29

10.10. Adult Social Care placement costs are particularly sensitive to inflation, as provider pricing is heavily driven by workforce costs. The council has therefore assumed that placement fee uplifts will track 2% above CPI, reflecting continued pressure from increases in the National Minimum Wage within the care sector. As a result, Adult Social Care placement budgets are forecast to increase by 4.8% in 2026/27 and 4.0% per annum thereafter, adding £6.1m in 2026/27 and £11.8m by 2028/29

10.11. Energy costs are forecast to increase by 5.4% in 2026/27, largely driven by higher electricity prices, partially offset by more modest increases in gas costs. A further annual increase of approximately 5.1% is assumed thereafter. As the council procures energy in advance of the financial year, the 2026/27 position will be more certain by the time the budget is finalised in February 2026. These assumptions increase costs by £0.2m in 2026/27, rising to a cumulative £0.6m by 2028/29.

10.12. In addition, increases in levies and the council's own Council Tax and business rates liabilities are forecast to add £0.3m to the budget requirement in 2026/27, rising to a cumulative £0.8m by 2028/29.

11. <u>**Uncertainties, Risks and Mitigations**</u>

11.1. Business Rates – There is a significant cashflow risk arising from business rates appeals and non-collection. While the council is responsible for collecting business rates, it must pay the government and the Greater London Authority (GLA) their predetermined shares based on the settlement, regardless of actual collection levels. If businesses successfully appeal or fail to pay, the council bears the shortfall, creating pressure on working capital and increasing the likelihood of in-year funding gaps.

11.2. Council Tax – There is a risk that Council Tax income may fall short of forecast due to lower collection rates or slower growth in the tax base. Economic pressures, such as rising cost of living, can lead to increased arrears and higher levels of Council Tax Reduction claims, reducing net income. Additionally, slower housing development or delays in new property completions can limit anticipated tax base growth

11.3. Adults/Children's Social Care demand – growth rates going forward have been based on the experience of recent years but were growth to exceed these assumptions this would lead to additional pressure.

11.4. There is a risk that the 2025/26 forecast assumptions may prove inaccurate. In previous years, budgets were set using growth estimates that did not fully capture the actual increase seen at outturn. This resulted in two compounding issues: a catch-up effect from prior year growth that was understated, and an additional shortfall caused by underestimating growth for the new year. Together, these factors contributed to significant overspends.

11.5. Temporary Accommodation – the costs and rate of growth in Temporary Accommodation and Housing are highly unpredictable, dependent on economic performance, changes in lettings legislation and viability. Significant growth has been built back into the MTFS for rebasing existing growth not budgeted for, but past trends and analysis may be unreliable in this high-cost and impact statutory service. This may be the single hardest element of the budget to predict or control due to the limited supply in the market, the lack of correlation to demographic or other data to predict demand, and a cost model that does not simply align to inflation. This is further added to by demographic factors external to the borough which are outside of the council's control. Officers will continue to work on the projections relating to this with an update to be made in the final February budget and consequently the savings and growth for the Housing division have been excluded from this report pending further detailed assessment.

11.6. Non-delivery of capital projects - The present capital programmes have been reviewed but over the 5 years planning horizon this still leaves a general fund programme of £229m of which £106m is externally funded and £123m funded by prudential borrowing. The revenue impact may be affected by changes in assumptions in slippage, asset life, interest rates, funding sources etc.

11.7. Savings non-delivery – the council has demonstrated in recent years that the savings can be subject to optimism bias in what savings are deliverable and when they can be implemented from. There has also been a tendency to roll undelivered savings forward without these being sufficiently challenged.

11.8. Differences between our assumed future rate of inflation and actual rates have the potential to impact on our future budget modelling. Whilst we have modelled for inflation above CPI in a number of sector specific areas, market conditions may result in rates higher than assumed. In particular, any further changes to employment taxation or living wage could impact those budgets that include a high wage element. Inflation rates may influence future levels of Council Tax rises or Business Rate yield as well as the assumed CPI plus 1% assumed HRA rent rises.

11.9. Increases in fees and charges have been modelled to derive savings in the 2026/27 MTFS, using 10% as the starting principle for any proposed changes. The impact that this may have on demand however could mean that the cumulative increase in income generated does not transpire, or that total income could reduce if demand falls further.

11.10. Dedicated Schools Grant (DSG) continued growth – The 2024/25 accounts set out that the council had a DSG deficit of £65.9m and this is currently forecast to increase by another £10.6m in 2025/26. This deficit is not funded, with the government only signalling that it will pick up in-year deficits from April 2028 (which for the council is forecast to be the point of breakeven). Up to this point, the council is having to cash flow the cumulative deficit from its own cash balances. The bank interest cost of having to finance this deficit through general fund borrowing is now circa £3.5m a year.

11.11. Capital receipts generation – these may either be used to repay EFS, pay for capital projects or use as flexible capital receipts (FCR) to pay for the cost of implementing the savings. The cost of supporting implementation is built into savings proposals in some cases but there may be some costs missing which will need to be addressed through FCRs and there will need to be sufficient receipts available and/or generated for use in this way.

11.12. Interest rates – The General Fund, at Month 7 2025/26 was forecasting the use of £267m of debt (£193m long term and £74m short term) to fund the capital programme at an average interest rate of 4.22%. The present 5-year capital programme forecasts an additional £191m of prudential borrowing. Debt Management Office 40-year debt is presently 6.13%. Therefore, new debt will be 2% more expensive to service than the council's existing debt portfolio.

Risk Mitigation

11.13. The council has the ability to employ a number of mitigations in order to reduce the financial impact of any of the above or other potential risks from materialising. These include:

- Reserves – the reinstatement of £40m of general fund reserves will be the most significant buffer but only acts as a financial offset rather than mitigating the pressures that arise
- Contingency - £10m has been built into the base budget for 2026/27 and on the basis that this may get depleted, a further £5m has been built into future budget years. This acts as a first line financial defence before the reserve would start to be eroded and may be called upon in the event that savings are not fully delivered, growth and inflation exceed expectations, or other unforeseen costs materialise.
- Energy inflation – the council fixes the energy rate in advance to ensure a stable price and eliminate the risk of a volatility in prices over the coming year, leaving the only variable as volume in the form of energy usage
- To manage the volatility in business rates, the council will maintain a robust appeals provision within its financial planning. This provision ensures that anticipated reductions from successful appeals are accounted for, reducing the risk of overpayment to government and the GLA. In addition, proactive

monitoring of high-risk accounts, and regular review of outstanding appeals will be implemented.

- Collection rates – the council will continue its debt collection review project which will enhance recovery strategies, monitor the tax base growth, assess the impact of variations on income and cash flows.

- Closer monitoring of sales, fees and charges income levels to identify trends and the impact from price increases, to help assess elasticity of demand and inform future pricing strategy. If the impact is severe, a decision could be taken in-year to reverse or reduce any specific charges.

- Monthly forecasting and review of year-to-date actuals through the course of the year will increase the ability to spot emerging trends and issues

- Further development and refinement of growth models which track unit costs, demand and costs through the year which can be reviewed monthly or weekly and provide insight into the current situation and financial implications thereof.

- The council has implemented enhanced spend controls to mitigate financial risk and prevent unplanned expenditure. These measures include stricter approval processes for non-essential purchases, temporary restrictions on discretionary spend and prioritisation of resources towards statutory and business-critical services. These controls provide restraint on cash outflows and create insight on expenditure and so capacity for corrective action to support delivery of a balanced budget.

- The council plans to strengthen governance over capital investment by introducing a more robust business case process. All new capital proposals will require comprehensive justification, including assessment of funding sources, viability and affordability. Enhanced scrutiny and approval stages will ensure that projects deliver value for money, minimise financial risk, and avoid unnecessary pressure on borrowing and revenue budgets.

- The council is introducing an asset review governance process which is now in design for implementation in early 2026, with a view to clearly determining which assets will be retained, disposed of, or optimised in some other way. Reliance on the capital receipts will be minimised so there can be freedom to use these to help reduce the EFS requirement, or to cover savings implementation costs if appropriate.

11.14. The 2024/25 Statement of Accounts set out that the council has limited reserves to call upon. In addition, the council's working capital balances have been eroded over the past 3 years in ensuring that the DSG deficit requirement is funded. Both these points, along with the 2026/27 position as set out in this report have impacted the council's treasury position. The council's Treasury Management Strategy sets out that the council should carry a minimum level of investments of £25m (comprising £10m required to manage day-to-day cash flow plus £15m held in Strategic Pooled Funds). Without the approval of EFS this requirement cannot be met.

Other Key Budgets

12. General Fund Capital Programme 2026/27 to 2030/31

12.1. Capital investment of £228.8m over the 5-year period 2026/27 to 2030/31 has been incorporated in the General Fund budget strategy, with Major Projects accounting for £66.4m of the programme and £147.5m in relation to Programme of Works activity supported by a proposed contingency of £15.0m. The programme is funded by £122.6m (54%) of prudential borrowing and £106.2m (46%) from other sources including grants, contributions and Section 106/Community Infrastructure Levy (CIL) income.

12.2. The breakdown by directorate is set out in the table below:

Table 14: General Fund Capital Programme

Category & Directorate	2026/27 £'m	2027/28 £'m	2028/29 £'m	2029/30 £'m	2030/31 £'m	5-Year Total £'m
Major Projects						
Residents Services	18.7	13.9	17.1	3.2	0.1	52.9
Children's & Young People's Services	12.8	0.6	0.0	0.0	0.0	13.4
Major Projects Total	**31.5**	**14.5**	**17.1**	**3.2**	**0.1**	**66.4**
Programme of Works						
Residents Services	19.0	21.4	18.5	21.8	16.4	97.1
Children's & Young People's Services	9.2	3.0	3.0	3.4	3.4	22.0
Adult Services & Health	4.0	4.0	4.0	4.0	4.0	19.9
Corporate Services	4.2	4.0	0.1	0.2	0.0	8.4
Programme of Works Total	**36.3**	**32.4**	**25.5**	**29.4**	**23.8**	**147.4**
Contingency Total	**7.0**	**2.0**	**2.0**	**2.0**	**2.0**	**15.0**
Grand Total	**74.8**	**48.9**	**44.6**	**34.6**	**25.9**	**228.8**
Funded By:						
Prudential Borrowing	(40.9)	(26.8)	(23.0)	(20.2)	(11.7)	(122.6)
Other Funding	(34.0)	(22.0)	(21.6)	(14.4)	(14.2)	(106.2)
Total Funding	**(74.8)**	**(48.9)**	**(44.6)**	**(34.6)**	**(25.9)**	**(228.8)**
MTFS February 2025	95.9	56.4	43.0	32.4		227.6
Change	(21.0)	(7.5)	1.6	2.1		(24.7)

12.3. As part of the budget setting process for the Capital Programme, officers reviewed and prioritised all proposed capital schemes to determine those that were in flight and needed to be completed, those which were critical for service delivery, savings delivery, fully funded by third parties or external grant income, or are a health and safety requirement. Schemes such as these were deemed to be of most importance. Schemes which have not yet started, are avoidable and are not of critical importance to the delivery of core council services are not being progressed in order to focus attention and spend on the most important schemes and to minimise the financial impact on the revenue budget through MRP and interest from borrowing.

12.4. Following the implementation of such control measures, compared to the last approved capital programme budget in February 2025, the 4-year period from 2026/27 to 2029/30 sees a reduction in programme of £24.9m from £227.6m to £202.9m. Furthermore, the 2026/27 capital programme budget of £74.8m reflects a reduction of £20.2m compared to the 2025/26 forecast spend of £95.0m. Based on past experience, the Treasury Management forecast then assumes a further 25% in slippage each year for cash flow purposes.

12.5. The Major Projects investment of £66.4m includes £52.9m within Residents Services and a further £13.4m within Children & Young People's Services, with the key drivers behind these programmes being set out below.

12.6. Residents Services (£52.9m) is driven by 5 key programmes in excess of £1m each accounting for £47.8m and 12 smaller programmes below £1m making up the balance of £5.1m, with the key projects in this area set out below:

12.6.1. Hillingdon Water Sports Facility & Activity Centre (£21.7m) – following the displacement of the site by HS2, this programme moves the site to a new location, 100% funded by HS2.

12.6.2. Cedar & Grainges (£10.2m) – two of the council's car parks connected to the Pavilions shopping centre are in need of structural works to ensure continued use of the car parks, with the investment ensuring town centre parking for residents and protecting the income stream for the council. This project is wholly funded by borrowing.

12.6.3. Refurbishment of the Crematorium (£9.6m) – The cremators at the crematorium have a life span of 15 years, with this investment required to replace the cremators with new units, which will also be more efficient and generate a saving for the council against its energy bill. This investment is funded one third by Harrow Council and two thirds by borrowing.

12.6.4. Civic Centre Transformation (£3.5m) – With 2026/27 being the final year of this programme, this investment brings improvements to the Civic Centre and is linked to the generation of lease income from renting out sections of the building as the council reduces its footprint of the building.

12.6.5. Garage Site Refurbishment (£2.9m) – The council's garage sites are in need of investment in order to protect the income stream generated from renting these sites out, with this expenditure being required to protect the council's income stream.

12.6.6. The remaining smaller items of £5.1m largely complete in 2026/27 including the completion of the Jubilee Leisure Centre (£0.6m), Yiewsley/Otterfield Library site (£0.8m), Carbon Initiatives (£0.5m) alongside smaller programmes mainly associated with health and safety works.

12.7. The £13.4m within Children's & Young Peoples Services relates to a combination of Schools programmes, social care provision and youth services with details including:

12.7.1. Specialist Resource Provision (SRP)/ Special Educational Needs & Disabilities (SEND) Meadow High School - Northwood Road (£9.0m) – The investment in this school will increase SRP / SEND provision and support the reduction of the Schools Budget deficit driven by underfunding of the High Needs block by increasing provision within the borough with this programme wholly funded by prudential borrowing.

12.7.2. Secondary School Expansions (£4.0m) – The expansion of secondary school placement in the borough is wholly funded by the Department for Education (DfE) and will see placements being increased to support population growth for the borough.

12.7.3. Three other programmes are included in the capital programme budget for 2026/27 including the final stages for both the SRP / SEND Meadow School - Royal Lane provision and the completion of new Children's care provision, alongside a £60k investment in Youth Provision funded by the UK Shared Prosperity Fund.

12.8. A proposed Programme of Works budget of £147.5m is put forward for the capital programme driven by a number of ongoing programmes across a range of service areas with Residents Services (£97.1m), Children's & Young Peoples Services (£22.0m), Adult Services & Health (£19.9m) and Corporate Services (£8.4m).

12.9. Within Residents Services, 7 programmes over £3.0m each account for £91.6m of this spend, with 5 smaller programmes adding a further £5.5m by 2030/31. The details behind this investment are set out below:

12.9.1. Highways Structural Works (£30.8m) – Ongoing structural works are planned for the next 5 years at c£6.2m per annum funded by £5.8m of Department for Transport (DfT) funding with the remaining balance of £25m to come from prudential borrowing.

12.9.2. Vehicle Replacement Programme (£22.2m) – The Fleet Service have a cyclical replacement programme with the majority of vehicles expected to be in use for 7 years. The increase in expenditure planned for 2029/30 relates to the replacement of refuse trucks. This investment will help to reduce ongoing maintenance costs within the revenue budget with the council balancing the maximisation of asset life against the ongoing maintenance costs of an ageing fleet.

12.9.3. Disabled Facilities Grant (£10.7m) – This investment is fully funded grant and represents the cost associated with adapting private property for residents in need, providing a preventative service that enables people to live in their properties for longer.

12.9.4. Devolved Capital to Schools (£10.0m) – This investment allows schools to receive capital funding for improvement works, with the scheme fully funded by a DfE grant which the council passports to local schools to make improvements.

12.9.5. Property Works Programme (£7.6m) – The council owns a large corporate estate and so this programme budget is to fund remedial works and enhancements to Council owned property as and when needed. This investment is wholly funded by borrowing.

12.9.6. Transport for London (£7.3m) – This capital expenditure pays for initiatives funded by TfL and can include works to highways, cycle paths and pavements.

12.9.7. Replacement of Street Light Columns (£3.0m) – This expenditure allows the council to replace aging street lighting for safety reasons whilst also replacing old technology with new, generating an ongoing revenue saving from the investment.

12.9.8. A number of other smaller programmes are included against Resident Services mainly linked to ongoing health and safety investment as well as refurbishing our leisure centres.

12.10. Programme of Works capital programme proposals in other directorates include:

12.10.1. Children's & Young People's Services (£22.0m) for Schools Building Conditions Works which are 100% grant funded by the DfE, with the council passporting this money on to schools within the borough.

12.10.2. Adult Social Care Equipment (£19.9m) to fund equipment used by clients that acts as a preventative service and allows residents to remain independent for longer, funded though the Better Care Fund.

12.10.3. Corporate Services are investing £8.4m in improvements linked to the council's Digital Strategy approved by Cabinet in October 2024. This investment is linked to ongoing efficiencies for services, supporting the delivery of some of the savings listed in this report.

12.11. The proposed capital programme requires £40.9m of prudential borrowing in 2026/27 rising to £122.6m by 2030/31. Based on current interest rates, every £10.0m costs the council £0.827m of capital financing to cover principal and interest, meaning this programme ultimately drives a capital financing requirement of c£10.1m over the life of the programme. The impact of the capital programme is included in the Corporate Budgets position.

12.12. For full details of the proposed capital programme, see Appendix C which includes the full five-year programme and a complete breakdown of the 2026/27 expenditure and funding sources.

13. **Housing Revenue Account**

13.1. The Housing Revenue Account (HRA) is a ringfenced, self-financing account whereby rental income from the Council's c10,200 social housing units are reinvested in the management, maintenance and expansion of stock for the benefit for tenants. The budget strategy for the HRA for the 2026/27 financial year in the context of the five-year plan is set out in this report, underpinned by a 30-Year Business Plan which demonstrates that over the longer term the HRA is financially sustainable and that the proposed capital investment will maintain this position.

13.2. In 2025 the Regulator of Social Housing inspected the Hillingdon housing landlord service for the first time and awarded the service a 'C2' grade, the second highest grade possible. The Regulator found a number of strengths in the service, including an effective and responsive repairs service and set out in their Regulatory Judgement key areas for further improvement to ensure full compliance in line with the highest 'C1' grade. This included delivering the approved planned works programme to increase the number of compliant decent homes and strengthening tenant engagement and scrutiny in service design and delivery. These improvement areas are reflected in the 5-year MTFS business plan for the HRA.

13.3. The priorities for the HRA business plan over the next five years and under review with tenants are:

- Achieving the decent homes target
- Energy efficient homes and carbon reduction
- Tenant engagement and empowerment
- Regeneration and housing development
- Operational transformation
- Robust financial management and governance

13.4. The HRA Capital Programme that forms part of the budget strategy is structured around the following key elements:

13.4.1. Housing Supply – delivering a net 209 new homes in 2025/26, with a further 936 by 2029/30 to support increasing demand for social housing in a growing borough.

13.4.2. Recognising the impact from the changes to the Right to Buy (RTB) Scheme in 2024, when the Government reduced the discount to Council Tenants from £136.4k to £16k for all applications received after 21 November 2024. As a result, the Council experienced a spike in applications at the time and anticipates a significantly reduced demand in new applications going forwards. This in turn is expected to reduce the capital receipts from RTB sales.

13.4.3. Estate Regeneration – delivery of 376 new homes across the Avondale and Hayes Town Centre estates, a net increase of 72 during the MTFS period on the current configuration.

13.4.4. Decent Homes – an enhanced programme of works to take into account the results of a housing stock review, anticipating 30% of the housing stock over the period of the programme will require further work to maintain the required decency standard, with further investment to ensure that properties are refreshed on a rolling programme.

13.4.5. Being accessible to residents: A capital investment of £65k in 2026/27 to facilitate hybrid working. This provides the necessary infrastructure for staff to remain mobile and responsive, supporting modern service delivery across the housing estate in line

13.5. Development of HRA budgets over the five-year period has been undertaken in the context of significant pressures on housing demand in the borough, across London and nationally, which is being compounded by the relatively high proportion of construction and building-related expenditure to meet housing regulatory requirements and to increase housing supply. The Government continues to cap/permit rent increases at CPI+1% throughout the five-year strategy period.

13.6. The Government has recently conducted a Rent Convergence Consultation. In alignment with the collective response from all London councils, we have formally advocated for a +£3 per week convergence mechanism to get properties to target rent quicker. This additional flexibility is viewed as a critical requirement to address the unique financial pressures in the capital programme, protect HRA sustainability, and ensure the continued delivery of high-quality, safe housing. The proposed £3 per week convergence increase, modelled on top of the existing CPI+1% annual uplift, would generate an additional c£1.59m per annum for the Council's Housing Revenue Account. This substantial and cumulative uplift in income is crucial not only for long-term growth but also for immediate and substantial short-term sustainability. The outcome of the consultation is to be confirmed by Government.

13.7. Building on the strategic £1.5m growth investment in 2024/25 for regulatory compliance and maintenance, the HRA budget reflects a further £1.9m increase in 2025/26 and a targeted £0.82m in 2026/27 to drive service improvements, staff training, reconciliation of budgets and tenancy sustainment (as set out in Growth and Saving section 13.14 to 13.23) These investments are partially offset by £0.38m in efficiencies from revised Service Level Agreements and reduced overtime in 2026/27, with a further budget reduction of £0.50m profiled for 2028/29 due to a sheltered housing service review and the service improvements required to meet the C1 regulatory standard are fully embedded as business-as-usual.

13.8. Forward looking financial plans are based on solid foundations, with a forecast balanced budget for 2025/26 and unallocated reserves projected to total £15.0m at 31 March 2026. Given that £15.0m reserves are judged to provide sufficient capacity for risk management purposes and considering the economic context, the budget strategy maintains unallocated reserves at this target level. The Council will be reviewing the level of reserves in the future given the rising stock number over the medium-term.

Table 15: Housing Revenue Account Budget Strategy

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	2030/31 £m
Total Resources	84.9	89.9	94.3	98.3	103.4	108.0
Total Service Expenditure	(60.7)	(63.6)	(65.4)	(67.1)	(69.1)	(71.1)
Contribution to Finance Capital Programme	(24.2)	(26.3)	(29.0)	(31.2)	(34.3)	(37.0)
Cumulative Budget Gap	0.0	0.0	0.0	0.0	0.0	0.0
Closing General Balances	15.0	15.0	15.0	15.0	15.0	15.0

13.9. Capital investment plans will result in the HRA Capital Financing Requirement reaching £592.5m in 2030/31. The debt-to-income ratio will be lower than the recommended limit of 5:1 in throughout the planning period from 2026/27 to 2030/31. Therefore, the programme is sustainable in the short to medium term. Further commentary on the HRA budget strategy is provided below, with detailed schedules included in Appendices D and E.

Rental Income

13.10. HRA Dwelling rental income is projected to grow from £84.9m in 2025/26 to £108.0m by 2030/31, with this £23.1m increase in funding driven by a combination of inflationary rent increases and net growth of 936 dwellings as investment in delivery of new stock outstrips projected losses through Right to Buy sales and the Hayes Estates Regeneration Scheme properties come into operation. This also reflects rental increases based on the Government's rental increase cap of CPI+1%.

13.11. The table below provides an overview of projected changes in stock numbers, with new units being delivered through the capital investment plans expanded upon later in this report while units are sold under Right to Buy.

Table 16: HRA Stock Numbers

	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	Change
Projected Opening Stock	10,518	10,670	10,676	10,928	11,075	11,225	N/A
Net Movement	152	6	252	147	150	381	936
Projected Closing Stock	10,670	10,676	10,928	11,075	11,225	11,606	936
Average Stock	10,594	10,594	10,673	10,802	11,002	11,150	N/A

Inflation

13.12. Inflationary cost pressures of £2.9m are projected within the HRA for 2026/27, rising to £10.42m by 2030/31, with contracted expenditure forecast to grow in line with the General Fund projections at 3.0% in 2026/27, then 2% thereafter in line with the Bank of England target rate. The pay award for the HRA is similarly in line with the General Fund at 3% in 2026/27, reducing to 2% per annum thereafter, with the employer's pension contributions set to increase by 3% in 2026/27 and 2% thereafter, and energy forecast to increase by 6.4% in 2026/27, before returning to a 5% increase thereafter. Further analysis of the inflation requirement is presented in Appendix D.

Capital Charges

13.13. Capital investment plans expanded upon later in this report necessitate £268.2m of new borrowing over the period to 2030/31, the ongoing servicing and repayment of which will add £13.0m to HRA service expenditure over the MTFS period. These financing charges reflect current borrowing costs, with underlying investment continuing to meet the thresholds for affordability, sustainability and prudence.

Growth

13.14. Growth of £4.9m from 2026/27 to 2030/31 has been included in the budget proposals to fund additional costs within tenancy management and repairs and maintenance in line with the growing stock numbers.

13.15. Compliance Officers - Gas & EICR Access: A targeted investment of £103k has been built in to fund specialist Compliance Officers. Their primary focus is securing access to properties for statutory gas safety inspections and Electrical Installation Condition Reports (EICRs). This is a critical "invest-to-save" measure to ensure 100% compliance with health and safety regulations and to mitigate the legal and safety risks associated with "no-access" to properties to undertake safety checks and maintenance.

13.16. Service Improvement Resource: we are making best use of resources within the service to fully delivery service improvement. A front-loaded investment of £350k in 2026/27 will ensure sustained improvement in service outcomes for tenants. This is a fixed term, ‘task and finish’ resource to drive service transformation, with the budget scheduled to be removed in 2028/29 once improvements are embedded and C1 achieved (meeting the minimum RSH Standard).

13.17. Annual Mandatory Subscriptions & Tenant Satisfaction Measures Data: Combined investment of £143k to ensure compliance with requirements of the Regulator of Social Housing. This includes mandatory professional subscriptions and the external collection of Tenant Satisfaction Measures (TSMs) to ensure transparent reporting.

13.18. Tenancy Sustainment & Training: A dual-pronged investment of £100k each for Tenancy Sustainment (to prevent homelessness and support vulnerable tenants) and Staff Training (to ensure the workforce has the skills to meet new regulatory consumer standards). Creating a highly skilled workforce and sustained succession planning.

13.19. Resident Engagement: Allocation of £125k to reconcile resident engagement costs and move into the HRA to ensure correct financial governance, ensuring the "voice of the tenant" is central to HRA governance.

Savings

13.20. Included in the budget proposals is a £2.6 saving for the HRA to deliver, with £0.4m to be delivered through efficiencies within back-office functions in the general fund impacting on the recharge to the HRA for these services, including maximising digital opportunities.

13.21. Service Level Agreements: An efficiency saving of £354k is to be achieved through the review of internal recharges and SLAs, ensuring the HRA continues to receive best value for money for the services it buys on behalf of tenants.

13.22. Sheltered Housing Review & Overtime: Total savings of £240k to be realised through a comprehensive service review of Sheltered Housing and a reduction in reliance on staff overtime.

13.23. Rent Arrears Reduction: A strategic target to reduce debt by £700k in 2026/27. While this shows as a reduction in expenditure (debt provision), the plan notes a corresponding adjustment in 2028/29 to normalise the budget once the backlog is cleared.

HRA Capital Programme

13.24. Capital investment of £522.2m in expansion and enhancement of the housing stock over the period 2026/27 to 2030/31 has been fully reflected with this budget, including £336.9m funding to deliver 936 net increase in dwellings and £185.3m investment in existing housing stock. Further detail on these investment plans can be found in Appendix E, with a brief overview set out below.

13.25. Should opportunities arise in-year, the Council will review these against the HRA investment criteria and where an opportunity has a positive NPV and repays within reasonable timeframes, the Council will review these on a case-by-case basis and look to increase the capital investment in bringing on new housing stock, particularly where this also benefits the General Fund revenue position through a reduction in temporary accommodation costs.

13.26. Investment in new housing includes £212.5m over the period 2026/27 to 2030/31 for the flagship regeneration projects on the Avondale and Hayes estates which are expected to deliver 376 new homes. A further £124.4m has been allocated to deliver 560 net increase in units through internal development and acquisitions, with project timelines set out to maximise use of retained Right to Buy receipts over the MTFS period.

13.27. £185.3m has been budgeted for an enhanced programme of works to stock, based around a five-year cycle and including renewal of key components such as kitchens, bathrooms, roofs, windows and boilers, with this budget significantly increase since February 2024 to increase the standard of tenants' homes. This investment includes for further investment in insulation measures and green investments, with this programme of investment intended to increase energy efficiency and thereby contribute towards tackling fuel poverty. Additionally, investment in major adaptations to properties will continue, ensuring that the wider needs of HRA tenants can be supported in their own homes where appropriate

HRA Capital Financing

13.28. Planned capital investment is to be financed from a range of sources, including external grant funding, capital receipts, direct contributions from the rental income and borrowing. Overall financing plans are summarised below, with a brief overview and further commentary on the sustainability of borrowing plans.

Table 17: HRA Capital Financing

	2026/27 £'m	2027/28 £'m	2028/29 £'m	2029/30 £'m	2030/31 £'m	Total £'m
Prudential Borrowing	(98.7)	(45.3)	(89.0)	(34.8)	(0.3)	(268.2)
Revenue Contributions	(29.8)	(30.1)	(27.1)	(24.4)	(21.9)	(133.3)
New Grants	(1.0)	(49.1)	(2.0)	(1.3)	(11.2)	(64.7)
Existing Grants	(20.0)	(21.0)	(15.0)	0.0	0.0	(56.1)
Right to Buy Receipts	(20.0)	0.0	0.0	0.0	0.0	(20.0)
Total	**(149.6)**	**(145.5)**	**(133.2)**	**(60.5)**	**(33.5)**	**(522.2)**

13.29. External grant funding will be secured in support of the estate regeneration schemes and a number of smaller development projects, together with external funding to support energy efficiency measures across the estate and Department of Health and Social Care monies being applied to support an element of the adaptations programme. Capital receipts are deployed where feasible generated from the retained element of Right to Buy sales.

13.30. A substantial element of the cyclical investment in works to stock is financed directly from rental income, with borrowing focused on delivery of new housing units, whereby servicing and repayment of this debt can be managed from additional rental income on the new units. Provision for the servicing and repayment of existing HRA borrowing and the £249.2m planned borrowing has been factored into the 30-year business plan. The Council has received a stock condition survey in February this year and this has been used to further develop the Council's plans as part of the budget from 2026/27 onwards. The outlook for debt levels of the MTFS period are shown below.

Table 18: HRA Borrowing

	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000	2030/31 £'000
Capital Financing Requirement	421	470	560	593	593
Projected External Borrowing	(406)	(455)	(545)	(578)	(578)
Projected Internal Borrowing	(15)	(15)	(15)	(15)	(15)

14. Schools Budgets / DSG

14.1. The council continues to face significant financial challenges arising from the Dedicated Schools Grant (DSG) deficit, primarily driven by sustained demand pressures within High Needs provision and the structural underfunding of the DSG settlement from the Department for Education (DfE). As at 31 March 2025, the cumulative DSG deficit stood at £65.9m, exceeding the level of General Fund reserves. Despite this, the council has successfully reduced in-year expenditure against the Schools Budget by £4.4m between outturn 2024/25 and the current forecast, reflecting the impact of targeted interventions and strengthened financial controls.

14.2. Looking ahead, the statutory override that currently ringfences the DSG deficit from impacting the General Fund has been extended until 31 March 2028. This provides temporary relief but does not resolve the underlying issue. Projections indicate that the cumulative deficit will rise to approximately £90.8m (without any further safety valve contributions from the DfE or Council) by the time the override ends, even with ongoing efforts to contain annual overspends. While the council's deficit management plan is delivering incremental improvements, the scale of the challenge remains considerable.

14.3. The annual deficit is forecast to reduce gradually, with modelling suggesting that by 2028/29 the in-year position could move to being in balance. In 2026/27 the deficit is anticipated to further reduce to £8.3m. However, the cumulative deficit will continue to exert pressure on cashflow and liquidity. If the override is removed without a national solution, the council would face the requirement to absorb this liability into its own reserves or capitalise the deficit over a 20-year period, generating an annual Minimum Revenue Provision (MRP) charge of £2.6m–£2.8m initially. This scenario would significantly constrain the council's ability to invest in services and maintain financial resilience.

14.4. To mitigate these risks, the council is pursuing a multi-faceted approach. Actions include rigorous demand management within High Needs placements, enhanced commissioning strategies, and close engagement with Schools Forum to ensure alignment on budget priorities. Additionally, transformation programmes funded through capital receipts are being deployed to deliver sustainable service models and reduce cost pressures over the medium term.

14.5. The DfE has acknowledged the significant progress being made locally, particularly in reducing in-year overspends, and continues to monitor delivery against the council's deficit recovery plan. While this feedback for Hillingdon has been very positive, the absence of a clear national resolution remains a critical uncertainty for medium-term financial planning.

14.6. At a national level, the issue of mounting DSG deficits remains acute, with projections of a £6.2bn shortfall across local authorities by 2026/27. Sector bodies such as the LGA and London Councils continue to lobby for a comprehensive solution. In the November 2025 Budget, government confirmed that from 2028/29, future SEND costs will be managed within the central government spending envelope, shifting responsibility away from local authorities. However, no definitive plan has been provided for addressing historic deficits, which are expected to reach £14bn nationally by March 2028. In a December House of Commons written statement (HCWS1197), it was said: "*We recognise that the size of deficits that councils are accruing while the Statutory Override is in place may not be manageable with local resources alone, and will bring forward arrangements to assist with them. The Government will provide further details on our plans to support local authorities with historic and accruing deficits and conditions for accessing such support later in the Local Government Finance Settlement process. Support provided to local authorities will be linked to assurance that they are taking steps to make a reformed, inclusive education system a reality, in conjunction with government confirming the detail of SEND reform. Local authorities should not wait for these details to assess their current plans to ensure they are realising best outcomes and value for young people. Like all areas of spending, we continue to expect local authorities to make sure they are doing all they can locally to manage their system effectively, ensuring the money is being spent in line with best practice. This is a joint effort, with shared responsibility between government, local authorities, health partners, and schools.*"

14.7. In the Ministerial Statement on the LGFS it was also said: "*We recognise that the size of deficits that some councils may accrue while the Statutory Override is in place may not be manageable with local resources alone, and will bring forward arrangements to assist with them as part of broader SEND reform plans. <u>Whilst we do not expect local authorities to plan on the basis of having to meet deficits in full, any future support will</u>*

not be unlimited. Councils must continue to work to keep deficits as low as possible. We will provide further detail on our plans to support local authorities with historic and accruing deficits and conditions for accessing such support later in the Settlement process." Thus at this stage it is not yet clear how the existing DSG deficit will be addressed, there may be money to reduce the impact on councils but it may also be limited. The council is clearly demonstrating good progress and may be hopeful that there will be further support from the DfE towards its deficit. In light of this, and pending further information, the council is not currently modelling any impact in 2028/29, such as additional EFS, from the deficit accrued to that point.

14.8. Turning to Schools' budgets, maintained schools are required under the Scheme for Financing Schools to submit a balanced budget plan each year, approved by their governing body. However, a growing number of schools are facing significant financial pressures, including declining pupil numbers and rising staffing costs. In exceptional circumstances, the council may agree to licence a deficit budget for a defined period, typically one year, though in extreme cases this can extend up to three years.

14.9. Currently, several schools have requested licensed deficits for 2025/26, as set out in a report to the December 2025 Cabinet meeting. The council's Schools Finance team works closely with these schools, implementing formal monthly monitoring and recovery plans to ensure progress towards financial sustainability.

14.10. Failure to achieve recovery targets may result in formal warning notices being issued where there are schools causing concern, which could ultimately lead to the withdrawal of financial delegation in extreme cases. The council remains committed to supporting schools through robust financial oversight and strategic interventions to prevent further escalation of deficits.

RESIDENT BENEFIT & CONSULTATION

15. The benefit or impact upon Hillingdon residents, service users and communities?

15.1. The draft budget and MTFS are designed to safeguard the services residents rely on most while seeking to set the council on a path towards financial stability. It prioritises core statutory services, protects the most vulnerable, and invests in community assets, all within a framework that continues to maintain a low tax burden on Hillingdon households.

15.2. The proposals maintain a focus on Adult Social Care and Children's Services, where demand and cost pressures have risen nationally. The council will continue to fund care placements and support packages responsibly so residents with the greatest needs are supported, drawing on realistic demand and inflation assumptions set out in this report.

15.3. The budget assumes use of the referendum limits (core 2.99% plus 2.00% Adult Social Care Precept), to sustain frontline services. Even at these levels, Hillingdon's Band D charge remains around 15% lower than the outer London average, meaning residents continue to benefit from comparatively low Council Tax.

15.4. The council recognises the exceptional change in local rateable values – particularly at Heathrow – and the associated risk of appeals that could reduce funding and create cash-flow pressure. The MTFS therefore plans for a robust appeals provision and relies on national safety-net protections over the next three years, so the downside risk to service funding is contained while the council seeks a fair settlement from government.

15.5. The capital programme targets critical schemes that improve day-to-day life and support long-term efficiency. Examples include: structural works to town centre car parks (safeguarding parking and income), crematorium refurbishment (more reliable, energy efficient service), continued improvements at libraries and leisure centres, and expansion of local SEND provision to reduce out of borough placements. These investments enhance local amenities, reduce running costs, and improve outcomes for residents.

15.6. Given the phasing of the national funding reset, the council will require EFS to set a balanced budget in 2026/27 while we deliver structural savings, rebuild reserves and seek further opportunities to close the gap over the medium term. This approach protects critical services today from being cut too severely too quickly, spreads one-off costs over time, and strengthens financial resilience for the future.

15.7. Equalities Impact Assessments will be prepared and accompany relevant proposals to inform final decisions. This ensures that changes are designed and implemented in ways that are inclusive and that any differential impacts on protected groups are identified and mitigations sought.

16. Consultation & Engagement carried out (or required)

16.1. Following consideration at Cabinet, this report will form the basis of consultation with Select Committees during January 2026. Comments from the Select Committees will be reported back to the Cabinet meeting on 19 February 2026. Cabinet will then agree a set of budget proposals for recommendation to the annual Council Tax setting meeting of Full Council on 26 February 2026.

16.2. The council also has a statutory responsibility to consult on its budget proposals with business ratepayers in the Borough, which will be undertaken alongside a wider public consultation of these proposals during the remainder of December 2024 and January 2025. Where appropriate, individual service areas will also be undertaking consultation with service users, staff and other stakeholders on the key elements of their service proposals prior to full implementation in the new financial year. There is a separate process to consult with Schools Forum on any implications for the DSG and school budgets in 2026/27 and this is underway.

16.3. The council will be undertaking a 6-week consultation on the budget proposals with the closure date for responses set for 4 February 2026. This then allows time for officers to review and compile analysis of the responses for inclusion in the budget report to the Cabinet meeting on 19 February 2026.

CORPORATE CONSIDERATIONS

Corporate Finance

This is a Corporate Finance report, and corporate financial implications are noted throughout.

Legal

The Local Government Finance Act 1992 mandates that councils must set a balanced budget. This involves ensuring that projected expenditures do not exceed projected revenues. The 1992 Act sets out what the Council has to base its budget calculations on and requires it to set its budget with regard to the advice of its Chief Financial Officer (the Section 151 Officer).

Sections 25 to 28 of the Local Government Act 2003 impose duties on the council in relation to how it sets and monitors its budget. These provisions require the council to make prudent allowance for the risk and uncertainties in its budget MTFS and regularly monitor its finances during the year.

Section 25 also requires the council's Section 151 Officer to make a report to full Council when it is considering its budget and Council tax. The report must deal with the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals, so that members will have authoritative advice available to them when they make their decisions.

This report deals with the preparation of a draft budget and the consultation that must follow on the same. Cabinet is then scheduled to meet on 19 February 2026 to settle the draft budget that it wishes to present to Council on 26 February 2026 for adoption.

BACKGROUND PAPERS

Report to Cabinet (20th February 2025) and Council (27th February 2025) - The council's Budget: Medium-Term Financial Forecast 2025/26 - 2029/30

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APPENDIX A – BACKGROUND TO THE CURRENT FINANCIAL POSITION

1. 2025/26 General Fund Approved Budget

1.1. Full Council approved the budget for 2025/26 and the 2025/26 to 2029/30 MTFS on 27th February 2025. Full details of those budgets and approval can be found on the council's website by searching for the committee meeting and agenda papers or following the link in the footnote below [1].

1.2. A summary of the originally approved General Fund 2025/26 Revenue budget and future years MTFS is set out in the table below:

Table 19: Originally Approved 2025/26 Budget and MTFS

Cabinet Portfolio:	2024/25 Budget (£,000's)	2025/26 Budget (£,000's)	2026/27 Budget (£,000's)	2027/28 Budget (£,000's)	2028/29 Budget (£,000's)	2029/30 Budget (£,000's)
Children, Families & Education	71,439	72,598	71,605	71,322	73,083	75,903
Health & Social Care	126,642	129,614	132,901	138,210	144,183	150,971
Residents' Services	31,375	32,495	33,882	35,794	37,480	40,737
Property, Higways & Transport	8,376	8,065	7,639	7,972	8,313	8,947
Corporate Services	25,040	23,498	22,257	22,334	22,764	24,006
Finance	39,297	43,571	47,575	53,505	58,290	61,988
	302,169	309,841	315,859	329,137	344,113	362,552
Corporate Budgets	(22,110)	320	(9,846)	(11,546)	(14,546)	(17,046)
	280,059	310,161	306,013	317,591	329,567	345,506
Funded By:						
Grant Income	(66,782)	(79,741)	(78,618)	(78,094)	(77,546)	(77,210)
Business Rate (NNDR) Income	(69,026)	(72,129)	(72,129)	(72,129)	(72,129)	(72,129)
Council Tax Income	(145,751)	(154,127)	(165,530)	(175,374)	(186,088)	(195,120)
	(281,559)	(305,997)	(316,277)	(325,597)	(335,763)	(344,459)
Net Transfer (To) / From Reserves	(1,500)	4,164	(10,264)	(8,006)	(6,196)	1,047
Forecast Reserves Brought Fwd	37,384	24,469	20,305	30,569	38,575	44,771
Net Transfer (To) / From Reserves	1,500	(4,164)	10,264	8,006	6,196	(1,047)
Forecast Reserves Carried Fwd	38,884	20,305	30,569	38,575	44,771	43,724
Forecast Variance - February 2025	(14,415)					
Revised Forecast Reserves Carried Fwd	24,469					

1.3. Whilst a general risk and contingency provision of £10.5m was included within Corporate Budgets, the forecast level of reserves at the end of 2025/26 was considered to be close to the minimum level required for a council of this size and complexity, especially given the scale of savings being proposed and therefore it was planned at that time to rebuild reserves to £44m over the life of the MTFS.

[1] London Borough of Hillingdon - Agenda for Council on Thursday, 27th February, 2025, 7.30 pm

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1.4. The above budget was predicated on the latest 2024/25 revenue forecast at the time which was projecting an in-year overspend of £14.415m – reserves at year end were hence expected to fall to £24.469m rather than the £38.884m intended when the 2024/25 budget was set back in February 2024.

1.5. The budget changes approved in February 2025 are summarised by category in the table below:

Table 20: Summary of Budget Change Categories

Budget Changes:	2024/25 Budget (£,000's)	2025/26 Budget (£,000's)	2026/27 Budget (£,000's)	2027/28 Budget (£,000's)	2028/29 Budget (£,000's)	2029/30 Budget (£,000's)
Inflation Changes	16,625	5,487	2,634	6,511	6,631	11,839
Demand-Led Growth	14,286	17,763	5,420	4,745	4,343	4,343
Corporate Items Changes	1,568	40,885	5,612	5,075	6,002	4,757
Savings Proposals	(15,752)	(34,033)	(17,814)	(4,753)	(5,000)	(5,000)
	16,727	30,102	(4,148)	11,578	11,976	15,939
Changes to Funding:						
Grant Income	(3,095)	(12,959)	1,123	524	548	336
Business Rate (NNDR) Income	(8,356)	(3,103)	-	-	-	-
Council Tax Income	(8,311)	(8,376)	(11,403)	(9,844)	(10,714)	(9,032)
	(19,762)	(24,438)	(10,280)	(9,320)	(10,166)	(8,696)
(Surplus)/Deficit in Year	(3,035)	5,664	(14,428)	2,258	1,810	7,243
Change Transfer To / (From) Reserves	3,035	(5,664)	14,428	(2,258)	(1,810)	(7,243)
	-	-	-	-	-	-

1.6. As clearly set out in the Section 25 Statement of the Director of Finance at the time of budget setting, the council had been under-funded by government since 2010, faced a challenging funding environment, and so in order to balance the 2025/26 budget set itself a challenging savings delivery programme. The savings target of just over £34m represented one of the largest programmes the council had attempted to deliver in any one year.

1.7. The council further planned to draw down on reserves awaiting the re-basing of government Formula Funding – fundamentally unchanged since 2013/14 and originally promised to be re-based by 2018/19 but only now being re-based for 2026/27.

2. <u>2024/25 General Fund Revenue Outturn</u>

2.1. The 2025/26 General Fund budget was set in February 2025 prior to the end of the 2024/25 financial year. The forecast closing reserves for 2024/25 of £24.469m, assumed in the 2025/26 Budget Setting report, was predicated on there being no further changes to that forecast.

2.2. However, further demand-led pressures emerged in the last quarter of 2024/25 coupled with a shortfall in the delivery of savings and one-off balance sheet adjustments identified as part of a year-end balance sheet review. These changes impacted on the closing level of General Fund and useable earmarked reserves – reducing them to a combined £6.7m by the time the draft outturn was presented to Cabinet (see Table 22). [2]

2.3. A summary of the 2024/25 General Fund outturn taken from the draft Accounts is set out below, showing the updated overspend to budget of £31.5m:

Table 21: General Fund 2024/25 Revenue Outturn

	2024/25 Budget *(£m's)*	2024/25 Outturn *(£m's)*	2024/25 Variance *(£m's)*	Assumed in 2025/26 Budget Setting *(£m's)*	Outturn Change From Assumed *(£m's)*
Service Operating Budgets	302.1	310.6	8.5	5.8	2.7
Development & Risk Contingency	0.5	-	(0.5)	(0.5)	-
Earmarked Reserve Funding	-	5.5	5.5	-	5.5
Pay Award Inflation	0.6	-	(0.6)	(0.6)	-
Unallocated Savings	(4.7)	-	4.7	4.7	-
Budget Rebasing	(14.1)	-	14.1	14.1	-
Total Net Expenditure	284.4	316.1	31.7	23.5	8.2
Corporate Funding	(284.4)	(284.6)	(0.2)	(1.5)	1.3
	-	31.5	31.5	22.0	9.5
Planned Interventions	-	-	-	(11.0)	11.0
Net Total	-	31.5	31.5	11.0	20.5
Reserves Brought Fwd	37.4	35.2	(2.2)	35.2	-
Net Transfer (To) / From Reserves	1.5	(31.5)	(33.0)	(11.0)	20.5
Movement in Earmarked Reserves	-	3.0	3.0	0.3	(2.7)
Reserves Carried Fwd	38.9	6.7	(32.2)	24.5	17.8

2.4. The £8.5m Service Operating variance is largely the result of continued rising demand for Adult, Children and Housing services which the council has a statutory duty to meet. The Chart below illustrates these service variances:

[2] https://modgov.hillingdon.gov.uk/documents/s64334/To%20Be%20Published%20Cabinet%20Outturn%2024-25%2025-26%20M2%202.pdf

Chart 11: Service Operating Budgets 2024/25 Outturn Variances

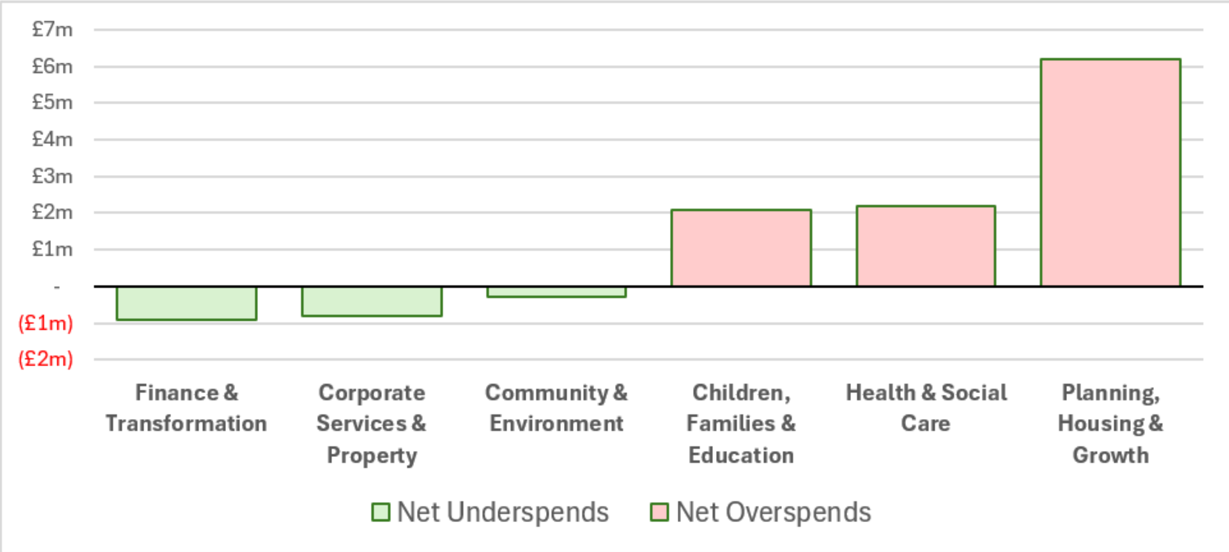
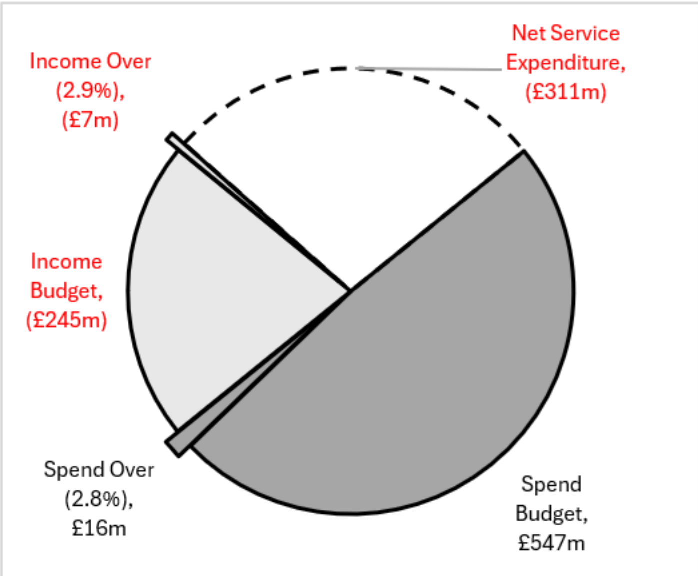


Chart 12: Variances to 24/25 Budget



2.5. With Service Budgets totalling £547m and associated income budgets of £245m even very small percentage variances can result in significant net variances. The net £8.5m service variance comprised a 2.8% overspend on expenditure and an over-achievement on income of 2.9% as illustrated opposite.

2.6. £4.7m of savings held corporately as cross-cutting initiatives failed to be delivered in year.

2.7. The 2024/25 closing useable general fund and earmarked reserves of £6.7m exclude a number of ring-fenced grants which have conditions or restrictions that prevent their use to fund general expenditure. The £6.7m of generally-usable reserves are as summarised below:

Table 22: Summary of Available Reserves at the end of 2024/25

General Fund Available Reserves:	Available Earmarked March 25 (£,000's)	General Reserves March 25 (£,000's)	Total Available Reserves (£,000's)
Unapplied Grants Reserve	2,154	n/a	2,154
Business Rates Reserve	1,767	n/a	1,767
Hillingdon Local Plan Reserve	594	n/a	594
Strategic Planning Reserve	348	n/a	348
Member Initiatives Reserve	303	n/a	303
Housing Need Incentives Reserve	100	n/a	100
Available Earmarked Reserves	5,266	n/a	5,266
General Reserves	n/a	1,450	1,450
Total Available Reserves	5,266	1,450	6,716
Other Earmarked Reserves	4,145		
Total Earmarked Reserves	9,411		

3. **2025/26 General Fund Budget Monitoring and Forecast**

3.1. The latest budget monitoring position to Period 7 (October 2025) is set out in detail in a separate report on this Cabinet meeting's agenda. It is summarised here for completeness in understanding its implication for the 2026/27 budget setting and MTFS planning process.

3.2. A summary of the General Fund forecast deficit of £36.0m is set out in the table below:

Table 23: Period 7 (October) Revenue Forecast

Directorate:	Budget (£,000's)	Forecast (£,000's)	Forecast Variance (£,000's)
Children & Young People's Services	57,218	63,158	5,940
Adult Services & Health	100,892	105,643	4,751
Resident's Services	52,150	62,386	10,236
Chief Operating Officer	21,238	21,647	409
Finance	34,055	39,399	5,344
Chief Executive's Office	6,454	6,561	107
	272,007	298,794	26,787
Corporate Budgets	(272,007)	(261,337)	10,670
	-	37,457	37,457
Expected Interventions	-	(1,500)	(1,500)
	-	35,957	35,957

3.3. The Service Operating Budget variance of £26.8m is largely driven by 3 key factors, being demand pressures (£15.9m), savings slippage (£8.0m), and treasury impacts including borrowing costs (£2.2m). Alongside this there are £0.7m of other pressures including transformation costs offset by underspends in SEND Transport (£1.6m) and staffing underspends within Social Care (£1.5m). For a directorate breakdown, please see the service operating budgets section of the Month 7 Budget Monitoring report (starting at paragraph 41 thereof).

3.4. The Corporate Budgets pressure of £10.7m includes £7.1m of unallocated savings that are being proposed to be written out in this budget report, with a further pressure against corporate funding of £1.3m in respect of the treatment of the Children's Prevention Grant. The remaining £2.3m of pressures reflects the planned use of general fund reserves which are no longer available (£4.2m), offset by the release of the remaining general contingency (£1.9m).

3.5. A summary by Corporate Directorate of the Period 7 2025/26 Approved Budget and forecast position to year end is set out in Table 23 above.

3.6. With reserves at very low levels at the end of 2024/25, the above forecast outturn would result in a negative reserve position at the end of 2025/26 of £31m.

3.7. It has been necessary to take the ongoing impact of the above forecast variances into account in our consideration of pressures in the 2026/27 and longer-term MTFS in order to rebase the starting position upon which further savings and growth for the coming budget year are then built.

3.8. With only £6.716m of available useable reserves (i.e. excluding ringfenced earmarked reserves), this forecast for 2025/26 would result in negative reserves by year end of £31.159m, as summarised below:

Table 25: Forecast Useable Reserves as at Period 7

	Budget *(£,000's)*	Forecast *(£,000's)*	Forecast Variance *(£,000's)*
Reserves Brought Forward	24,469	6,716	(17,753)
Transfers from Reserves	(4,164)	(35,957)	(31,793)
Transfers from Earmarked Reserves	-	(1,918)	(1,918)
Reserves Carried Forward	20,305	(31,159)	(51,464)

3.9. The council has requested EFS in order to rebuild reserves and to offset the £36.0m forecast deficit to enable it to deliver a balanced budget for 2026/27. Further details on this are set out in the main body of the report.