

## **Section 25 Statement – Robustness of Estimates, Adequacy of Reserves and Chief Finance Officer’s Statutory Opinion**

1. In accordance with Section 25 of the Local Government Act 2003, I am required, as the Council’s Chief Finance Officer, to report to the authority on
  - the robustness of the estimates made for the purposes of calculating the budget; and
  - the adequacy of the proposed level of financial reserves.
2. This statement sets out my statutory assessment of the Council’s proposed budget for 2026/27, within the context of the Medium Term Financial Strategy. In preparing this opinion, I have considered the Council’s governance arrangements, financial management framework, risk management processes, the outcome of budget challenge sessions and assurance activity, and the most up-to-date information available at the time of drafting. Members are required to have due regard to this statement when considering and determining the Council’s budget and council tax for the forthcoming financial year.
3. This is a professional and independent assessment. It does not replace Members’ responsibility to determine the budget; rather, it is intended to ensure that decisions are taken with a clear understanding of the financial risks, uncertainties and dependencies inherent within the Council’s financial position.

### **Basis of the Chief Finance Officer’s Opinion**

4. The Council enters 2026/27 having experienced a period of weakened financial resilience. The scale of recent financial pressures, including demand volatility, under-delivery of savings, and erosion of reserves, means that the 2026/27 budget is being set within a context of continued material risk.
5. My assessment of both the robustness of the estimates and the adequacy of reserves for 2026/27 is therefore contingent upon a number of critical assumptions and mitigating actions. In particular, this opinion is predicated on:
  - the confirmation by Government of Exceptional Financial Support for both 2025/26 and 2026/27, on terms sufficient to address the remaining forecast deficits and to enable the Council to stabilise and

begin to rebuild its reserves to a level that is commensurate with its financial risk profile; and

- the delivery, to the scale and to the required timescales, of the savings and income proposals already incorporated within the 2026/27 budget and Medium Term Financial Strategy, in particular those that are assessed as higher value, higher risk or more complex to implement;
- a step change in the Council's track record of savings delivery, including strengthened grip and governance, clearer accountability, earlier in-year corrective action where slippage emerges, and sustained senior leadership oversight;
- the continued operation of robust in-year financial management, monitoring and escalation arrangements to identify and respond to emerging pressures at the earliest opportunity.

6. The Council's current financial position means that the successful implementation of the above assumptions is critical to the achievement of a balanced and sustainable financial position. Should these assumptions not be realised, the Council would need to consider further corrective action within the financial year. The implications of these dependencies, and the principal risks that could affect their achievement, are set out in the sections that follow.

### **Wider Statutory Framework**

7. The requirement for the Chief Finance Officer to report to the authority on the robustness of the estimates made for the purposes of the budget and the adequacy of the proposed level of reserves is set out in Section 25 of the Local Government Act 2003. The purpose of this statutory report is to ensure that elected Members are fully informed of the financial risks, uncertainties and dependencies inherent within the budget proposals prior to taking decisions on the Council's budget and council tax.
8. Members are required by statute to have regard to the advice contained within this Section 25 statement when considering and approving the budget. This does not remove the discretion of the Council to set a budget different from that advised by the Chief Finance Officer; however, where this is the case, Members should be clear about the financial risks and consequences of doing so, and about the actions that would be required should those risks materialise.

9. The Chief Finance Officer also has separate and distinct statutory responsibilities under the **Local Government Finance Act 1988**, including the duty to make a report to the authority under Section 114 where it appears that the expenditure of the Council is likely to exceed the resources available to it. Nothing in this statement constitutes a Section 114 report; however, it is prepared within the context of the Council's overall statutory framework and the requirement to maintain a balanced and sustainable financial position.

### **Summary Position**

10. The Council is setting its 2026/27 budget following a period of materially weakened financial resilience. Over recent years, a combination of structural funding pressures, demand and socio-economic volatility, under-delivery of savings and erosion of reserves reduced the Council's financial flexibility to critically low levels. The Internal Audit opinion for 2024/25 was "No Assurance", external audit opinions have been disclaimed for three consecutive years, and the Council has required Exceptional Financial Support (EFS) to stabilise its position.
11. Significant corrective action is now underway. The Governance Review Improvement Plan and the Finance Modernisation Programme are strengthening financial controls, accountability and oversight. The 2026/27 budget incorporates substantial rebasing of previously underfunded cost pressures, strengthened inflation assumptions in high-risk services, clearer savings ownership and a reinstated £10m contingency. Flexible use of capital receipts has been materially reduced, and governance over savings and forecasting has been tightened. The proposed reserve level, assuming confirmation of EFS, restores some limited resilience from the critically low position at March 2025.
12. Notwithstanding this progress, the Council remains in a recovery phase. The control environment is demonstrably stronger but not yet fully mature. The effectiveness of recently implemented governance measures must be demonstrated over a sustained period. The 2026/27 budget is therefore being set within a context of continued material risk, particularly in demand-led services such as temporary accommodation, and is dependent upon disciplined delivery of approved savings.
13. Having considered all relevant factors, I am satisfied that, for 2026/27, the estimates used in setting the budget are as robust as can reasonably be achieved given the information available and the strengthened governance now in place. I am also satisfied that, subject to confirmation of EFS, the

proposed level of reserves is adequate for the purpose of setting a balanced budget for the year.

14. These conclusions apply to the 2026/27 financial year only. The Medium Term Financial Strategy identifies a significant residual funding gap in 2027/28 and 2028/29, and further structural action will be required to secure long-term sustainability. Continued improvement in savings delivery, demand management and financial governance will be essential to maintaining and strengthening the Council's financial resilience

### **How the Council arrived at the current financial position**

15. The Council's financial resilience has weakened materially over the period from 2022/23 to 2025/26. This did not arise from a single decision or event, but from the cumulative effect of structural funding pressures, ambitious savings assumptions, demand volatility, erosion of reserves, and weaknesses in financial systems and control.
16. Understanding how the Council reached this position is important not for attributing responsibility, but to inform the corrective actions now underway and to ensure that similar weaknesses are not repeated.

### **Long-term structural underfunding and income base**

17. For a sustained period, the Council has operated within funding settlements that did not fully reflect the scale and complexity of local demand pressures. When funding was last reviewed in 2013/14, the Council's funding was damped by £4.825m, whereby the required funding as assessed based on needs was not allocated in full and was not subsequently reset until the recent Fair Funding Review (FFR). Over the years, this shortfall implicitly grew to the extent of funding that has now been assessed in the FFR and settlement. While it is now acknowledged that the Council was relatively underfunded, the benefit of that recognition is being phased over three years rather than received immediately.
18. In addition, Hillingdon's local tax base has historically been comparatively low. Council tax increases in previous years were, on occasion, frozen or set below the referendum limit permitted by Government. While those decisions reflected affordability considerations and local priorities at the time, they limited the growth of the Council's tax yield relative to authorities that applied increases at or nearer the permitted threshold. Because the national funding methodology assumes a broadly standardised level of local tax when calculating relative resources, authorities that levy below

that notional level retain correspondingly lower locally generated income. As a result, the Council entered the recent period of heightened demand and inflationary pressure with a comparatively lower recurring income base than some peer authorities.

19. In the years preceding this settlement, service demand growth – particularly within social care and homelessness – outpaced underlying core funding increases. This created an underlying structural gap between cost pressures and recurring income. Temporary accommodation costs, in particular, have been subject to volatility driven by market conditions and wider economic pressures beyond the Council's direct control.
20. The local economic context has also influenced the Council's expenditure profile. The impact of Heathrow being within the borough means that Hillingdon as a port authority faces an abnormal pressure from the arrival of asylum seekers and the repatriation of British nationals from overseas on the demand for care and housing which is not fully recompensed through grant income. While not determinative in isolation, these wider contextual factors all contributed to pressures on both revenue and demand-led services.
21. The cumulative effect was that budgets increasingly relied upon efficiency delivery, income growth and transformation at a pace that was challenging to sustain over consecutive years.

#### Savings weaknesses

22. In response to these pressures, the Council adopted substantial savings programmes. For 2025/26 alone, savings totalling £38.8m (including £4.8m carried forward from 2024/25) were required to deliver the budget. While the scale of ambition reflected the magnitude of the financial challenge, the deliverability of certain proposals was not always underpinned by sufficiently detailed implementation planning or robust contingency arrangements.
23. In some cases, there was evidence of optimism bias in the assumptions underpinning savings delivery. Proposals were incorporated on the expectation that transformation would be achieved within-year, change would occur at pace, or that external market factors would remain favourable. Stretch targets on income were applied in some cases that could not be met. Where these assumptions did not materialise, the financial impact crystallised as in-year overspends.

24. Ownership and accountability for individual savings proposals were not sufficiently clear in all cases. This contributed to slippage, and in some cases undelivered savings were rolled forward into subsequent financial years, sometimes more than once, compounding delivery risk.
25. The cumulative effect was that the Council's base budget became progressively misaligned with actual service delivery and cost drivers. This has necessitated significant rebasing within the 2026/27 budget to reflect the true underlying cost of services, particularly in temporary accommodation and social care. The rebasing process is intended to ensure that 2026/27 does not commence with structurally understated budgets.

#### Use and erosion of reserves

26. As recurring pressures exceeded planned savings delivery, the Council balanced successive budgets through the use of reserves and other one-off measures. While reserves exist to manage timing differences and unforeseen pressures, reliance upon them to balance recurring gaps progressively weakens financial resilience.
27. Over recent years, General Fund and unfenced earmarked reserves declined materially, with the General Fund Reserve reaching £1.45m at March 2025. This level is very significantly below what would normally be regarded as prudent for a council of Hillingdon's size and risk profile.
28. The CIPFA Resilience Index, based on 2024/25 outturn data, placed the Council at the high-risk end of comparator authorities in respect of reserves, notwithstanding that borrowing levels relative to income are comparatively under control. This combination of low reserves but a manageable debt profile indicates that the Council's vulnerability has primarily resulted from having to absorb repeated overspends rather than being the result of excessive borrowing which has been the case for some Councils in financial distress.
29. The erosion of reserves has reduced flexibility and limited the Council's resilience in the face of in-year variances. It has ultimately led to the reliance on EFS as a stabilisation mechanism.

#### Data, Systems and Financial Control Weakness

30. Financial resilience was further affected by weaknesses in financial systems and control during this period. The implementation of Oracle did

not deliver the level of management information and transparency required for effective budget management and accountability. Reporting capability and forecast visibility have been hampered, reducing the ability of budget managers and finance officers to identify the full extent of emerging pressures at the time of budget setting. Growth and demand modelling has been weak or non-existent in some cases and has had to be built up, challenged and refined during the 2026/27 MTFS process.

31. Working paper quality and the financial statements preparation process have been found wanting and did not meet external audit expectations or deliver on time under the national backstop regime. As a result, the Council has received disclaimed external audit opinions for three consecutive financial years, together with 7 statutory recommendations. While this outcome in part reflects a national context of audit backlog and structural audit market pressures, it also indicates the need for improvement in underlying financial processes and documentation. The closure of the 2024/25 accounts has required external support to deliver and show improvement, but this ultimately needs to be taken fully in-house with sufficient capacity and expertise to be able to produce the accounts on time and to the standards required.
32. In parallel, the 2024/25 Internal Audit annual report set out multiple weaknesses in elements of the Council's control environment, citing concerns with asset management, budget monitoring, rent arrears and contract management, which all have a bearing on the financial context. This represented a clear signal that improvements were required across the organisation in governance discipline, financial oversight and risk management.
33. An additional consequence of these system and control weaknesses was a reduced ability historically to see the full projected outturn trajectory at the time budgets were compiled and approved. Where emerging pressures were only fully understood after the budget had been approved, the following year was already on a path to an overspend.
34. Taken together, these factors created a position in which the Council's financial strength was materially weakened entering 2025/26. Structural funding pressures, ambitious savings targets, reliance on reserves and control weaknesses combined to reduce resilience. The corrective actions now underway – an improved funding settlement, strengthened governance, rebasing of budgets, enhanced spend controls, improved savings ownership, and rebuilding of reserves – are designed to stabilise the position and place the Council on a more sustainable footing.

## Current Governance and Control Environment

35. The Council entered 2024/25 with material weaknesses in elements of its governance, financial control and oversight framework. These weaknesses have been acknowledged openly by senior leadership and Members. During 2025/26, a structured programme of recovery and reform has been implemented through the Governance Review Improvement Plan (GRIP) and the Finance Modernisation Programme (FMP).
36. The control environment is demonstrably stronger than at this point last year. However, it is not yet sufficiently embedded or consistently operating to conclude that the underlying weaknesses have been fully addressed. The Council remains in a stabilisation and recovery phase.

### Internal Audit, External Audit and Section 24 Recommendations

37. The Head of Internal Audit's Annual Opinion for 2024/25 concluded that No Assurance could be provided over the Council's internal control, risk management and governance arrangements. This conclusion reflected:
- A significant increase in Limited and No Assurance reviews (52% of assurance reviews)
  - Weaknesses in asset management, contract management oversight and budget monitoring
  - Poor data quality and inconsistent oversight arrangements
  - Reduced senior capacity as attention focused on transformation and savings delivery
  - Governance fragmentation at directorate level
38. Internal Audit also assessed the Council's risk maturity as "Risk Aware", indicating that risks are recognised but not yet embedded in a fully proactive control environment. In response, the Governance Review Improvement Plan (GRIP) was established in March 2025 as a corporate response to identified weaknesses. The GRIP is structured around three workstreams and is being reported regularly to the Audit Committee:
- Financial governance
  - Directorate governance
  - Constitutional and democratic governance
39. On 24 July 2025 the Council's External Auditors issued a Value for Money Update and statutory recommendations under Section 24 of the Local Audit and Accountability Act 2014. These recommendations were considered and

formally accepted by Full Council in September 2025. The Section 24 recommendations focused on:

- Financial governance and oversight
- Budget setting and savings realism
- Financial management capacity
- Monitoring and accountability
- Medium-term sustainability planning

40. The Council resolved that the actions contained within both the Finance Modernisation Programme (FMP) and the Governance Review Improvement Plan (GRIP) would address these recommendations, with Audit Committee mandated to monitor delivery.

41. In addition, the Council's accounts have been disclaimed for three consecutive financial years under the national backstop audit regime. Whilst the backstop regime is a national issue affecting multiple authorities, local factors reported by the External Auditors have included:

- Insufficient working paper quality and audit readiness
- Weak reconciliation processes
- Oracle system limitations
- Capacity constraints within finance

42. Significant work has been undertaken over recent months to improve audit readiness, documentation standards and closedown planning. However, the restoration of fully assured accounts will require continued demonstrable improvement and the External Auditors have judged that it will likely take the Council at least three further complete audit cycles to get back to a clean audit opinion.

43. As requested by full Council at its meeting in September 2025, progress on the Section 24 recommendations is formally being reported to the Audit Committee at each meeting. The recommendations have been wrapped into the GRIP programme to ensure completeness and coherence of the activity undertaken, and so combine issues raised by external and internal auditors alike. Some of the improvements made during 2025/26 include the following:

- Implementation of enhanced spend control processes
- Clarification of the Council's current financial position to inform the budget setting process

- Better understanding of the issues that led to the Council's budget variances
  - Ongoing work to address issues with Oracle
  - An independent review into the Council's governance processes and a review of the Constitution
  - Increased focus on data quality through consistent and more detailed dashboard reporting
44. Whilst these actions represent meaningful progress, it will require sustained implementation and behavioural change over multiple cycles before assurance levels can be expected to improve materially. The Audit Committee will report back to full Council in September 2026 on the progress made.

#### Financial Governance and Controls

45. Through the Finance Modernisation Programme and the Governance Review Improvement Plan, a series of strengthened financial controls have been introduced and embedded during 2025/26. These measures are designed to restore discipline, improve visibility of risk and ensure that financial decisions are subject to appropriate challenge before commitments are made.
46. Enhanced spend controls have been implemented across the organisation. All invoice-related expenditure is now subject to a templated request and structured review process, with strengthened non-pay challenge processes operating at service manager, corporate director and statutory officer level. Corporate oversight of purchase card usage has also been reinforced to ensure compliance with financial regulations and to provide clearer audit trails. These changes are providing improved visibility over expenditure and ensure early intervention where spending does not align with corporate expectations of what is necessary spend.
47. Recruitment and staffing controls have similarly been tightened. Recruitment and staffing panels continue to operate with strengthened scrutiny of new appointments, secondments, pay adjustments and temporary staffing arrangements. Establishment changes are therefore now subject to clearer corporate review to ensure that decisions align with approved budgets and objectives. Given the scale of workforce expenditure within the Council's cost base, these measures are critical to maintaining financial stability.

48. In areas of significant demand-led pressure, particularly homelessness and social care, further governance enhancements have been introduced. Weekly Temporary Accommodation placement review panels now operate to provide oversight of high-cost decisions and to ensure that value-for-money considerations are applied consistently and appropriately. High-cost social care placements have been subject to structured review for some time already, with defined escalation routes for exceptional cases. These controls are intended to strengthen cost containment in the areas presenting the greatest financial volatility and pressure.
49. Improvements have also been made to forecasting and savings governance. A savings reporting process has been operating for several months now to ensure service areas are reporting on the progress against savings. The MTFS process has introduced a more disciplined approach and together with monitoring reviews is enabling the Council to remove optimism bias from savings assumptions. All proposed 2026/27 savings have been subject to review by senior officers, Corporate Directors and Cabinet Members, and high-value or high-risk savings proposals are required to be supported by detailed implementation plans that set out milestones, dependencies and risk mitigations. Corporate Directors fully own all of the proposals that have been put forward.
50. The flexible use of capital receipts (FCR) assumptions have been reviewed and any permanent staffing costs previously covered have been built back into base budgets. The implementation costs of savings proposals have been identified and only direct incremental costs will be covered by FCR, bringing the budgeted use of FCR down from £17m in 2025/26 to £3m in 2026/27. These changes are designed to ensure that the savings incorporated within the budget are realistic, deliverable and transparently monitored.
51. Collectively, these measures represent a substantive tightening of financial governance compared to prior years. However, many of these controls have been introduced within the current financial year and have yet to operate over a full budget cycle. Their effectiveness will depend not only on design but on sustained application, consistent managerial discipline and cultural embedding across the organisation.

#### Systems, Infrastructure and Financial Management Capability

52. The Council's financial resilience has been affected not only by funding and demand pressures, but also by limitations in systems, reporting capability and financial management processes. The May 2024 implementation of

Oracle did not deliver the level of clarity and accessibility required to support strong budget holder accountability. Weaknesses in reporting and reconciliation processes absorbed capacity of finance staff, reduced confidence in data and limited visibility and understanding of the financial performance and position during in-year budget monitoring, with ramifications for budget setting and year-end closedown and audit procedures.

53. A structured refresh of financial processes is now underway through the Finance Modernisation Programme. This includes strengthening reporting within Oracle, enhancing the reliability and usability of the system and the management information it produces. The objective is to ensure that budget managers have timely, accurate and intelligible data on which to base decisions.
54. Work is also progressing to implement a properly functioning Enterprise Performance Management (EPM) environment. This is intended to improve forecasting discipline, ownership and accountability of forecasts by budget managers and one coherent, consistent forecast from the service level through to the consolidated top-level forecast.
55. Financial closedown and audit readiness processes are being strengthened in response to the factors contributing to recent disclaimed external audit opinions. Improved documentation standards, clearer audit trails and more structured reconciliation processes are being embedded. More work is still to be done to reduce the reliance on external support to produce an improved quality set of accounts and to ensure the capacity and capability of the department are appropriate.
56. Capital governance arrangements are in the process of being reinforced, but is still a work in progress. A formal structured approach to capital project business case development and governance needs to be designed and put in place but will be addressed in 2026.
57. All of these measures represent important structural improvements. However, sustained effectiveness will depend on consistent application, strengthened professional capability and the embedding of financial discipline across the organisation. This is neither an easy or a quick fix and will depend on consistent application and enforcement from senior management to ensure improvements are embedded and a culture of financial governance and responsibility across the organisation takes hold. The direction of travel being taken is the right one, but many of the improvements and controls are still in their infancy or not fully in place and

so the control environment is not yet at a mature state. This will require continued focus and effort over the coming year. The implication for the 2026/27 budget and MTFS is that there are still potential weaknesses which may have a bearing on the control environment and reporting mechanisms, hence on the attention, focus, grip and capacity of staff to deliver all of the improvements required in the coming year, which will be important in underpinning the long-term financial resilience of the Council.

### **Robustness of the 2026/27 Estimates**

58. The 2026/27 budget has been prepared in materially different circumstances from prior years. It incorporates a significant rebasing of expenditure, strengthened inflation assumptions in high-risk areas, improved savings governance and reinstates a contingency provision in the base budget.

#### **Inflation**

59. Inflation assumptions have been reviewed comprehensively across pay, contracts, placements, temporary accommodation, energy and transport. Particular prudence has been applied in high-volatility areas. In both children's and adults' placements, and in temporary accommodation, inflation assumptions reflect recent trend experience and market conditions.
60. CPI inflation from April 2025 through to December 2025 has averaged 3.6% although this has dropped back in November and December. The Bank of England forecasts 3% by Q1 2026 and to near 2% from Q2 2026 onwards. Past forecasts have not always materialised, especially where predicting a return to near 2% inflation.
61. The Council has therefore taken the approach of a 3% increase in respect of staffing related costs and upwards of 2.8% on non-staffing costs, while adult social care has been applied at 4.8%. These levels ought to provide sufficient cover on average for increases over the coming year, subject to a successful reduction in CPI as forecast. Rates assumed in the MTFS drop down to 2.0% thereafter but will be revisited as part of next year's process.

#### **Budget Rebasing and Demand Growth**

62. Demand-led services continue to represent the most material source of financial risk. The 2026/27 budget reflects substantial rebasing of expenditure to align budgets with observed cost pressures and overspends during 2025/26. Where services have experienced significant overspends

due to non-delivery of savings or demand growth and inflation in excess of budget, those pressures have been incorporated into the 2026/27 base budget. This is intended to avoid the problems experienced in the past whereby cost pressures were only partially reflected at the point of budget setting, leading to an immediate budget pressure in the new year.

63. Temporary accommodation remains the single largest area of volatility. The 2026/27 budget reflects updated assumptions regarding placement numbers and unit costs, with further refinement to 2026/27 assumptions taking place since the consultation budget was proposed. Projections of temporary accommodation pressures have now been incorporated into years two and three of the MTFs. The service has been successful at restraining the impact of inflation during 2025/26 through implementing new rate caps and considers that this will continue to have an impact next year. However, a tightening is anticipated in the rental market due to the Renters Rights Act which will push up inflation and come through fully in 2027/28, for which a 5% increase has been assumed.
64. Nevertheless, it must be stressed that temporary accommodation demand does not correlate reliably with demographic growth or other available indicators. Economic conditions, private sector rental market dynamics, asylum flows, and national policy changes all materially influence local demand. As such, forecasting in this area will continue to carry inherent uncertainty despite improved modelling and greater review and attention from officers.

#### Robustness of Savings Proposals

65. The savings incorporated within the 2026/27 budget have been subject to more rigorous challenge than in prior years. The scale of savings is reduced by comparison to 2026/27 but remains significant, and delivery risk is therefore one of the most critical determinants of the achievability of the 2026/27 budget.
66. The proposals put forward in the December consultation budget were subject to a number of rounds of officer and star chamber review to assess the realistic achievability of the proposals. This involved officers and members and covered both savings and demand growth modelling. Scale, phasing, deliverability, resourcing and potential barriers were all discussed in the process. These reviews took place over a period of months from September through to December. The impact of Temporary

Accommodation was removed from the December MTFS on the basis that this still needed further work to build confidence for inclusion.

67. Since publication of the December consultation budget, a further period of review and reflection has been undertaken by officers. This has resulted in:
- Reassessment of phasing;
  - Explicit identification of implementation costs;
  - Adjustment or removal of proposals where deliverability risk was assessed as too high;
  - Identification of additional pressures where challenge determined that earlier assumptions had been understated, or additional growth requirements reflected.
68. This iterative review process has increased both growth provision and pressure recognition in certain areas but has improved realism and credibility. The final budget therefore differs in a number of respects from the December consultation position, reflecting ongoing scrutiny and removal of optimism bias. These changes are set out in Appendix A7 of the February Budget and MTFS report to full Council.
69. In addition, savings proposals assessed as higher value, higher risk or more complex are now required to be supported by detailed delivery plans. The delivery plan template is designed to capture and clarify milestones, dependencies and accountability. Corporate Directors have explicit ownership of delivery within their areas, with all savings proposed having been signed off by the responsible Corporate Director as part of the process.
70. This strengthened process materially improves the robustness of the collection of savings compared to prior years. However, it must also be recognised that the Council's recent track record in savings delivery has been inconsistent. Achieving a step change in delivery success will be essential.

#### Contingency

71. A £10m contingency has been reinstated within the base budget for 2026/27. This provides capacity to manage in-year volatility (e.g. for unforeseen external factors, delays to savings, or to exploit an invest to save opportunity) without immediate recourse to drawing down on the reserve that is just being rebuilt, and to soften the need for urgent reactive savings measures which are usually hard to identify and implement at short

notice. The justification for holding a meaningful contingency is borne out by recent experience and is a key pillar in ensuring budget robustness.

### Business Rates

72. Business rates income for 2026/27 has been modelled on the basis of safety net protection at 100%, limiting downside risk in the event of appeal volatility or collection shortfall. This provides protection within the coming financial year.
73. However, under the new business rates reforms, the safety net protection reduces in 2027/28 and 2028/29. The Council may therefore face greater exposure to volatility in those years. In addition, steep increases in rates liabilities for certain businesses under revaluation changes may increase appeals and collection risk. These factors do not undermine the robustness of the 2026/27 estimate but represent a potentially material risk in the outer years of the MTFS. It is likely that the CCA (check, challenge, appeal) process on valuation will take significant time and for more complex businesses such as Heathrow the process may take longer than the current MTFS 3-year profile. This will need to be revisited in future MTFS iterations.

### Dedicated Schools Grant deficit

74. The confirmation of 90% grant support towards the accumulated DSG deficit materially reduces risk in 2026/27 and provides greater forward visibility. This is a positive development compared to the position reflected hitherto. Nonetheless, the structural High Needs deficit remains significant and the number of schools operating in deficit is increasing, with school reserve balances reducing. Ongoing oversight, continued delivery of High Needs management initiatives and clear monitoring arrangements will remain essential.
75. For the purposes of 2026/27, the DSG assumptions are considered reasonable based on the most recent government announcements and local modelling. By the time the statutory override ends (which will impact in 2028/29), the 10% allocation to the Council will need to be absorbed. This is not currently reflected in the MTFS due to the lateness of the announcement and the work required to model and understand the impact of this. However, the grant to be received in autumn 2026, anticipated to be in the region of £69m of the projected £75.5m deficit, will bring offsetting benefits by means of reduced borrowing costs which by 2027/28 could amount to c£3m/year and largely offset the anticipated impact of the

residual deficit in 2028/29. If a similar rate of grant followed in 2027/28 and 2028/29, the Council will need to cover £7-8m of residual deficit.

### Housing Revenue Account

76. The Housing Revenue Account (HRA) is ring-fenced and legally separate from the General Fund. In forming my Section 25 opinion, I have separately considered the robustness of the estimates and the adequacy of reserves within the HRA.
77. For 2026/27, the Council will apply the permitted rent increase of CPI plus 1%, in line with the Government's rent policy. This approach supports the medium-term sustainability of the HRA business plan and partially offsets the cumulative income reductions arising from the four-year 1% rent reduction implemented in earlier years. The adopted assumption is consistent with national policy and provides a reasonable income base from which to sustain investment in housing stock and compliance with statutory and regulatory standards, including the Decent Homes requirements.
78. The principal revenue risk within the HRA relates to rent collection performance. As with other areas of income collection in the Council, wider cost-of-living pressures continue to present a risk of arrears growth. Strengthened monitoring of housing rent debt, improved visibility of arrears and focused recovery processes are being put in place to mitigate this exposure. The income assumptions for 2026/27 are considered reasonable based on known collection experience.
79. The HRA capital programme remains substantial and has been subject to a detailed review of the projects and overall affordability. There is substantial investment in housing stock planned in order to meet and maintain Decent Homes standards, which will help manage reactive repairs levels. Consideration has been given to the level of borrowing required to support the programme and the long-term sustainability of debt charges within the 30-year HRA business plan. Borrowing levels have been managed to maintain debt at or below an internal boundary of approximately five times annual HRA income. In order to remain within this constraint, certain schemes have been reprofiled or deprioritised. On this basis, and assuming delivery within approved cost parameters, the capital programme is considered affordable within current projections.

## Key Financial Risks and Sensitivities

80. Notwithstanding the strengthened assumptions underpinning the 2026/27 budget, a number of residual risks remain:
- Temporary accommodation demand growth, which remains volatile and influenced by external factors beyond the Council's direct control.
  - Savings delivery risk, particularly in higher-value and transformation-based proposals, which necessitates an improvement compared to past delivery success rates
  - Council tax, business rates, rent and other income collection performance, which may all come under pressure as households and businesses continue to experience cost-of-living impacts.
  - Reduced business rates safety net protection in 2027/28 and 2028/29, increasing exposure to appeals and valuation volatility.
  - Placement market inflation, particularly in social care.
  - Improved governance around the capital programme, to include a robust business case process to drive more rigorous assessment of proposed schemes before they are progressed.
81. The robustness of the 2026/27 estimates must therefore be understood within a framework of high focus, vigilant in-year monitoring and early corrective intervention. Strengthened forecasting discipline and escalation will be essential to identifying, escalating and mitigating these risks.
82. While inherent uncertainty remains, particularly in demand-led services, I am satisfied that for 2026/27 the estimates are as robust as can reasonably be achieved given current information, governance arrangements and the scale of external volatility. This judgement applies to 2026/27 only. Confidence in the robustness of estimates for the outer years will depend upon sustained savings delivery, effective demand management and continued embedding of strengthened financial governance, and will require yet more work over the coming months to identify further savings and confirm inflation and growth pressures to close the budget gap.

## **Adequacy of Reserves and Reserves Strategy**

83. In forming my opinion on the adequacy of reserves, I have considered their level, composition and planned use against the scale of financial risk facing the Council, the volatility inherent within demand-led services, the degree of uncertainty within the budget, and the Council's ability to absorb financial shocks.

84. Reserves are fundamental to financial resilience. They provide a buffer against unplanned pressures, manage timing differences, and support the implementation of transformational change. They are not a substitute for sustainable recurring income and cannot be relied upon to support ongoing expenditure; once utilised, they must either be replenished or the underlying position corrected.
85. The 2026/27 budget removes the structural dependency on drawing down reserves to achieve in-year balance, aside from known timing differences.

#### Historic position and rate of decline

86. The Council's reserves position has materially deteriorated over recent years. The decline commenced in 2022/23 and accelerated thereafter, although the impact on the general fund balance was not fully evident until 2024/25.
87. Since March 2022, over a four-year period, general fund and unfenced earmarked reserves (excluding Schools, Public Health and PFI reserves) have reduced at an average annual rate of £26.5m. Adjusting for c.£11m of Covid-19 balances held in March 2022, the underlying average annual reduction is £23.7m. Applying the £36m projected 2025/26 overspend to the general fund (but not EFS) demonstrates the pace at which reserves have been eroded.

**Table: Annual progression in useable, unfenced reserves**

Year Ended	General Fund	Earmarked Reserves (*)	Total	Annual Change
31.3.22	26,712	47,740	74,452	
31.3.23	26,839	15,969	42,808	(31,644)
31.3.24	26,845	1,941	28,786	(14,022)
31.3.25	1,450	3,167	4,617	(24,169)
31.3.26	(34,550)	3,167	(31,383)	(36,000)

\* Excluding Schools, Public Health and PFI ringfenced reserves

88. This decline reflects sustained financial pressures, demand growth outstripping provision, a more challenging socio-economic context, and under-delivery against planned savings, in some cases exceeding the contingency held in the base budget. Recent budgets have also relied on planned drawdowns of reserves to balance residual gaps. For 2025/26, £4.2m of reserves were assumed to be available; however, finalisation of

the 2024/25 audited accounts confirmed that reserves were insufficient to support that assumption.

89. In closing the 2024/25 accounts, it was necessary to draw down unfenced earmarked reserves to preserve a general fund balance of £1.45m at 31 March 2025. Against nearest statistical neighbours, the most recent CIPFA Resilience Index data (based on 2024/25 outturn) places the Council at the high-risk end of the range, reflecting the lowest level of reserves within its comparator group.
90. During 2025/26, as the full extent of prior year pressures became clear and enhanced challenge was applied to forecasting, the projected deficit moved from £18.3m at Month 4 to £36.0m at Month 6 – in excess of what had previously been regarded as a prudent minimum level of reserves. Without intervention, this would have resulted in negative balances.

#### Composition and flexibility of current reserves

91. In addition to assessing the robustness of the estimates, I am required to form a view on the adequacy of the Council's proposed level of reserves. This assessment is intrinsically linked to the scale of financial risk described in the preceding sections. Reserves are a key mechanism for absorbing financial shocks, managing timing differences and protecting against unforeseen and materially adverse movements in income or expenditure. Reserves cannot substitute for structural balance; once utilised, they must either be replenished or the underlying cost base corrected. Their adequacy must therefore be considered in light of both current volatility and medium-term sustainability.
92. Earmarked reserves are held for specific purposes and provide important targeted mitigation, but offer limited flexibility to manage general financial risk. The extensive drawdown undertaken in closing 2024/25 has reduced unfenced earmarked reserves to very low levels, leaving minimal provision for risks ordinarily covered through such balances, including insurance liabilities, local plan costs, provider market volatility and business rates risk.
93. These balances will need to be reviewed and rebuilt as part of the 2025/26 closure process. They are not currently provided for within the base budget and would therefore require support through the proposed EFS contingency. Assuming confirmation of EFS, the projected position entering 2026/27 would comprise £41.5m of general fund reserves and £11.6m of unfenced earmarked reserves. However, this earmarked balance would include:

- £4.4m relating to technical NNDR timing differences;
- £2m in unapplied grant balances;
- £1m reflecting a paper loss on treasury investments;
- a developing provision towards local plan costs; and
- £1m insurance reserve.

94. There is little practical scope to repurpose these balances for unforeseen risks. The general fund reserve therefore remains the principal source of financial resilience.

#### Housing Revenue Account Reserves

95. The HRA reserve is maintained at £15m, consistent with prior financial plans. The 2026/27 revenue budget projects a surplus position sufficient to support capital investment and, where appropriate, debt repayment, without recourse to reserve drawdown. Maintaining a stable reserve position provides resilience against potential volatility in rent income, inflation in repairs and maintenance contracts, or regulatory compliance pressures. Having regard to the scale of the HRA, its income base and associated risks, the current reserve level is considered adequate.

96. Taking this together with the HRA assumptions and factors reference earlier in this report, I am satisfied that the estimates underlying the 2026/27 HRA budget are robust and that the proposed level of HRA reserves is adequate for the purposes of setting a balanced HRA budget. The HRA does not present a material financial risk to the wider financial position of the authority, provided that borrowing, capital delivery and income collection continue to be managed within the parameters set out above

#### Role of Exceptional Financial Support in rebuilding reserves

97. EFS is central to stabilising the Council's reserves strategy. The 2025/26 request addresses the projected £36m overspend and enables the rebuilding of £40m of general fund and contingency reserves. Some of the earmarked reserves drawn down to finalise the 2024/25 will also need to be rebuilt and funded through EFS.

98. In determining an appropriate reserve level, I have assessed the Council's overall risk profile, including:

- exposure to demand-led services;
- savings delivery and transformation risk;

- macroeconomic volatility including inflation and interest rates; and
  - the Council's recent track record of forecast variation.
99. On this basis, a target range of £30m to £50m of uncommitted usable reserves is considered appropriate. A planned level of £41.5m for 2026/27 sits within the middle of this range, providing sufficient headroom while avoiding excessive reliance on EFS as the sole mechanism for rebuilding resilience.
100. It is important to note, however, that recent experience demonstrates how rapidly reserves can be eroded where planning assumptions prove over-optimistic or savings delivery falters. Two consecutive years of underperformance have previously depleted balances at a significant rate. This level of reserves therefore represents recovery rather than strength. There will need to be discipline in delivery to ensure that the reserve is protected from a resumption of drawdowns and structural problems.
101. The reliance on Exceptional Financial Support has implications for the Council's Capital Financing Requirement and borrowing trajectory. In preparing the 2026/27 budget and Medium Term Financial Strategy, I have had regard to the CIPFA Prudential Code and the requirement that capital expenditure and borrowing remain affordable, prudent and sustainable. The projected MRP and interest costs arising from capitalised support are incorporated within the MTFs and are assessed as affordable within the current revenue projections. The use of EFS is intended to be time-limited and forms part of a wider recovery strategy. Continued compliance with the Prudential Code will depend upon delivery of a balanced medium-term financial plan and avoidance of further structural capitalisation beyond that currently modelled.

#### Reserves Adequacy – Conclusion

102. Taking all factors together, and assuming confirmation of Exceptional Financial Support, the proposed level of reserves for 2026/27 is adequate for the purposes of setting the budget.
103. This conclusion is conditional on:
- Delivery of approved savings;
  - Continued strengthened financial governance;
  - Effective in-year monitoring;
  - No material adverse demand or inflation shock beyond modelled sensitivities.

104. The proposed reserve level restores some resilience from the critically low position at March 2025. However, it does not provide excess headroom. Sustained improvement in financial discipline and structural balance will be required to ensure that reserves are protected and strengthened over the medium term.
105. This assessment of adequacy, like the assessment of robustness of estimates, applies to 2026/27. The later years of the MTFs remain subject to further detailed challenge and will require significant actions and bold policy decisions to secure enduring financial sustainability and resilience, and thereby be able to safeguard the reserves from a recurrence of past depletion.

### **Closing the budget gap across the MTFs period**

106. Despite the improved funding settlement, the Council faces a residual gap in both 2027/28 and 2028/29. By the final year of the MTFs, the projected shortfall remains £44.5m, even after the full benefit of the phased funding reform has been incorporated. This scale of gap is material and requires early, sustained and structural action. Work to identify and appraise options must commence at the start of 2026/27 to maximise the time available for consultation, implementation and delivery of the financial benefits.
107. The most significant driver of the medium-term gap is the continued growth in demand and inflationary cost pressures within temporary accommodation. As set out earlier, this represents the single largest area of financial volatility within the revenue budget. The degree to which demand growth can be stabilised and unit costs controlled will materially influence the trajectory of the MTFs. Effective mitigation in this area has the potential to reduce the rate of cost growth, while failure to do so would compound pressure in later years.
108. The financing consequences of EFS are also built into the forecast. The combined impact of Minimum Revenue Provision and interest is projected to reach £12.4m per annum by 2028/29. This represents a structural call on the revenue budget. Any reduction in the reliance on EFS, either through in-year underspends or through capital receipts that can be applied to offset the capitalised deficit, would directly reduce this recurring burden.
109. Given the scale of the remaining gap, all available income and expenditure levers must be considered.

110. The current Band D Council Tax level of £1,952.38 (£1,462.00 being the Council's own element) in 2025/26 remains significantly below both the national average of £2,280 (£2,236 excluding parish precepts) and outer London comparators, and the Council's own element is approximately 14% lower than the CIPFA statistical nearest neighbour average of 16 London councils. The budget assumes a 4.99% increase for Hillingdon in 2026/27, resulting in a Band D charge of £1,534.95. Each additional 1% increase generates approximately £1.57m on an ongoing basis and compounds over time. Authorities in receipt of EFS frequently seek increases above the referendum limit, and this is an option that warrants careful consideration in the context of Hillingdon's comparatively low base and medium-term pressures.
111. A review of local discounts and concessions is also warranted. The Council's older persons' discount is unique nationally and results in approximately £1m per annum in foregone income. The Council Tax Reduction Scheme, while an important support mechanism for low-income households, also includes elderly claimants. The cumulative affordability and policy implications of these arrangements should be reviewed alongside the wider budget strategy.
112. Parking concessions, including the Hillingdon First card and 30 minutes' free parking, represent further areas where policy choices have financial implications. Many authorities have moved towards more targeted approaches where free parking is used strategically in specific locations rather than applied universally. Given the scale of the MTFS challenge, this area should be reassessed on a cost-benefit basis.
113. A comprehensive review of all traded services is required to ensure that operating costs are fully recovered and that non-statutory activity is not being subsidised. Independent benchmarking analysis indicates that the Council ranks low or very low against comparable outer London authorities in a range of fees, charges and sales income categories. While the proposed increases within the 2026/27 budget will narrow some of this gap, a structured benchmarking exercise during 2026/27 will be necessary to identify the full opportunity and inform future decisions.
114. A number of income-generating assets have experienced limited capital reinvestment over recent years. The sustainability of income streams from theatres, car parks and elements of the operational estate may depend on targeted investment to maintain attractiveness, efficiency and yield. A strategic review of asset conditions and maintenance requirements should

therefore run in parallel with wider estate rationalisation and disposal considerations, ensuring that revenue consequences are fully understood.

115. The remaining £44.5m gap is substantial and cannot be addressed through incremental savings alone. It will require a combination of structural cost control, tight demand management, income maximisation, policy review and disciplined capital and asset strategies. Early option development during 2026/27 is essential to allow sufficient time for consultation, delivery and financial benefit.
116. The Council retains options and a range of potential levers, but the scale of the challenge requires realism, prioritisation and a willingness to consider decisions that may previously have been deferred. Sustained delivery discipline will be critical if the MTFs gap is to be closed without renewed reliance on one-off measures or further erosion of financial resilience.

## **Summary**

117. In discharging my responsibilities under Section 25 of the Local Government Act 2003, I have considered the detailed savings and pressures proposals for 2026/27 and the MTFs, the scale and nature of the financial risks facing the Council, the governance and financial management arrangements currently in place, the reinstated contingency provision, the proposed level and composition of reserves, and the reliance on EFS as part of the Council's stabilisation strategy.
118. The 2026/27 budget has been prepared in materially more robust circumstances than in recent years. Structural pressures identified during 2025/26 have been rebased into the 2026/27 position. Savings proposals have been subject to enhanced challenge and are supported by clearer ownership and planning. Inflation assumptions in volatile service areas have been strengthened and a £10m contingency has been reinstated. Governance, forecasting discipline and corporate oversight continue to be tightened in response to both internal and external audit findings.
119. It is also necessary to acknowledge that the Council will start 2026/27 from a period of materially weakened financial resilience: the Internal Audit opinion for 2024/25"; the disclaimed external audit opinions and statutory recommendations; reserves reduced to critically low levels at March 2025 and a need for EFS to stabilise the position. Corrective action is well underway through the Governance Review Improvement Plan and the Finance Modernisation Programme. While progress is evident, the control environment should properly be described as strengthened and improving

but not yet fully mature. Consistent application of the revised framework over a sustained period of time will be required to restore full assurance confidence.

120. Having considered all relevant factors, I am satisfied that, for the financial year 2026/27, the estimates used in setting the budget are as robust as can reasonably be achieved, given the information available at the time of preparation, the inherent volatility in demand-led services, particularly temporary accommodation, and the strengthened governance and forecasting arrangements now in operation. This judgement is contingent upon confirmation by Government of EFS in line with current modelling, full and timely delivery of approved savings proposals, and continued disciplined in-year financial monitoring with early corrective action where required. It also assumes that no material adverse demand or inflation shock occurs beyond that which has been reasonably modelled within current sensitivities.
121. In respect of reserves, and assuming confirmation of EFS, the proposed General Fund reserve level for 2026/27 is adequate for the purposes of setting a balanced budget. The projected level of reserves sits within a reasonable range when assessed against the Council's current risk profile and service volatility. However, reserves remain relatively shallow in historical context and are vulnerable to renewed erosion should savings delivery weaken or demand volatility accelerate. The protection and gradual strengthening of reserves must remain a central component of the Council's financial strategy.
122. It is important to emphasise that these conclusions apply to the 2026/27 financial year. The outer years of the MTFs continue to present material structural challenges and are not a finished or complete position. Securing sustainable balance in 2027/28 and 2028/29 will require sustained delivery of savings, disciplined demand management, careful use of policy levers, and continued embedding of strengthened governance and financial control. There is likely to be a need therefore to seek EFS in order to balance the 2027/28 given that fair funding will not land in full until 2028/29.
123. Subject to the conditions set out above, I am satisfied that the Council can set a lawful and balanced budget for 2026/27 in accordance with its statutory duties. The durability of this position will depend upon consistent execution of the agreed strategy and the maintenance of financial discipline throughout the medium term.

**Steve Muldoon, 17 February 2026**