

Appendix B

Medium Term Financial Strategy

Introduction

1. The medium-term financial forecast for the Council is set out in this Appendix to the main budget report and sets out the key fiscal assumptions, service/demographic pressures, projected grant settlements and the potential risks.
2. This covers the 3-year period from 2026/27 to 2028/29 and is a reasonable medium-term planning timespan (as the MTFFS is subject to in year review as part of the annual budget setting process combined with the annual update).
3. The MTFFS ensures that budget proposals are not viewed in isolation for a single year but take a medium term view as to the estimated resources available to the Council, prudent budget (income and expenditure, including demand led pressures) expectations, and assist the Council in developing medium term plans to ensure continued sustainability and resilience.
4. This MTFFS focuses on the on the General Fund revenue budget and it should be viewed alongside the HRA Business Plan, Treasury Management Strategy Statement and the Capital Strategy in order to provide a more complete view of the Council's finances, medium term pressures and approach to financial sustainability.
5. Although key economic indicators show that the economy has stabilised in recent months, the financial challenge for local authorities remains considerable, particularly given another single year finance settlement. The new Government has committed to a multi-year finance settlement from 2026/27 onwards. On one hand this will give greater certainty for resource and financial planning purposes. However, there has also been a commitment to overhaul the local government finance system. This is no doubt overdue and necessary, and we will work with the LGA and London Councils to support the government in this review. At this stage, only general forecasts are possible, and these will be refined as more details are published.
6. The Council has a strong record of financial governance (as outlined by our external auditors in the Annual Audit Report for 2023/24) and will plan to build on this to deliver financially sustainable services for our residents, visitors and businesses across the medium term. However significant risks remain across core services as demand and price pressures manifest themselves. To mitigate these, services will need to reform, transform and develop robust action plans which address issues and provide sustainable solutions to reduce cost pressures.
7. Whilst reforms can provide an opportunity for transformation and embed positive change, there are risks that Councils with the demographic profile like Hammersmith and Fulham may see funding redirected elsewhere, based on previous needs assessments conducted. At this moment in time, it is too uncertain what the financial impact may be, but the MTFFS will be updated once the potential impacts become clearer.

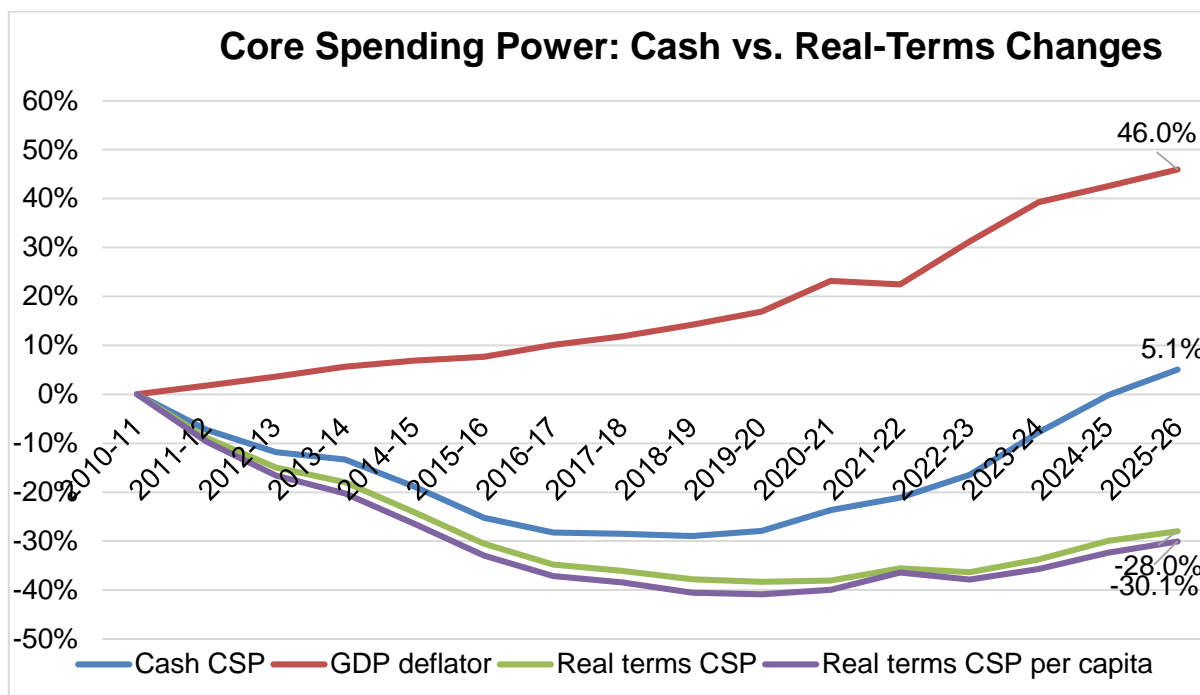
Strategic Operating Environment

8. The Chancellor's Autumn Budget outlined overall Government departmental funding levels for the 3 years after 2025/26, but the amounts available for day-to-day spending (and therefore the funding framework for local government) will only become clear as part of the planned Spending Review in March 2025. It is anticipated that efficiency savings of up to 5% over the period will need to be found by departments, and therefore local authorities are at risk of seeing funding levels reduce.
9. Since then, the Local Government Finance Provisional Settlement, the government published a consultation on the reform of the current local government financial system, and this is intended to govern settlements for future years and the allocation of resources.¹
10. These reforms will include plans to 'reset' the business rates retention system, as was originally intended when the previous government established the system. Additionally, there are plans that will build on the proposals set out in the previous government's review of Relative Needs and Resources (previously referred to as the 'Fair Funding Review') from 2018, using the best available evidence to inform local authority funding allocations and direct funding to where it is most needed, based on an up-to-date assessment of need and local resources.
11. The reforms also include plans to allow local authorities greater flexibility and control over statutory sales, fees and charges, streamline and reduce the number of funding pots, ending the New Homes Bonus, using uniform assumptions adjusting for Council Tax when assessing locally available resources, and more up to date information when assessing the cost and demand for delivering services.
12. An update to the Fair Funding Review and a reset of the business rates retention system could see LBHF lose out on funding, if for example the methodology used for the Recovery Grant (which relies on deprivation and the ability to raise local resources) is used more widely for general funding. Transitional arrangements will likely provide a safety net for losses incurred in the immediate term.
13. The Council has extensive frameworks for the development of policies and priorities in conjunction with our residents (this includes Commissions led by independent experts) and the significant element of public scrutiny on the finances of the Council is undertaken at Cabinet and the Public Accountability Committees (PACS). This is expected to be more extensive in the future as major service led transformations are developed and implemented.
14. Our budgets are set within the context of over a decade of reduced funding and increasing demand for services. Analysis undertaken by London Councils shows

¹ <https://www.gov.uk/government/consultations/local-authority-funding-reform-objectives-and-principles/local-authority-funding-reform-objectives-and-principles>

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that since 2010/11, the Council's Core Spending Power has fallen by 28% in real terms.



15. The Council's Corporate Plan has a comprehensive and cross-cutting set of ambitions for the organisation. It provides the golden thread on which the council's overarching budget, policy and governance framework is based, and it explains how we will transform our services and spend and invest money to help protect high quality essential services for our residents.
16. The MTFs looks to build upon the ambitions set out in the Corporate Plan and allocate resources where priorities lie and to ensure sufficient funding for statutory services. It also sets out the size and scale of the budget gap ahead and whilst the council will continue to be Ruthlessly Financially Efficient and aim to maximise efficiency there will also be tough choices given the available resources.

Strategic Financial Planning Assumptions of the MTFs

17. There are assumptions upon which the medium-term financial strategy is based, and these are detailed below and summarised in Table 1.
 - provision for future pay awards and contractual inflation is set in line with OBR forecasts for CPI as per the Autumn Budget.
 - budgeted annual contributions to corporate reserves of £1.6m (thought it was £0.8m) to allow for future investment in digital infrastructure and transformation programmes
 - the retention of contingencies in the annual budget of circa £9m (4% of the net controllable budget) at the start of the MTFs for 2026/27 to mitigate for any unbudgeted in year cost pressures that may arise
 - all the planned efficiencies in 2025/26 will be fully delivered.

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- concessionary fares and other levies will increase in line with the latest forecasts from TfL/London Councils and the other precepting authorities
- the Council Tax base will increase by 750 households (>1% of the overall CT base)
- a working assumption that there will be no increase in council tax (these decisions will be determined as necessary by the majority administration)
- annual government funding settlements will increase in line with the OBR forecast for CPI as at the Autumn Budget.
- interest rates will reduce to 3.5% over the medium term in line with OBR forecasts

Table 1: Key Financial Assumptions 2026/27 to 2028/29

	2026-27	2027-28	2028-29
Price inflation (%)	2.2	2.1	2.1
Pay inflation (%)	2.2	2.1	2.1
Interest Rates (%)	3.7	3.6	3.5
Change in Council Tax (%)	-	-	-
Change in Council Tax Base (no. of households)	750	750	750
Council Tax Collection Rate (%)	97	97	97
Business Rates Collection Rate (%)	97	97	97
Change in Settlement Funding for Revenue Support Grant and Business Rates Baseline (%)	2.2	2.1	2.1
Government Grants	Variable	Variable	Variable

18. The assumptions above are taken with the best current information available. The forecast for future years is uncertain because grant funding is crucial to the validity of the forecast and a one-year finance settlement does not provide this at present. The upcoming Spending Review in March 2025 and commitment to future multi-year finance settlements would provide more certainty for medium term decision making.
19. No assumptions have been made in the forecasts for any funding reforms or Business Rates reset given the uncertainty and lack of information on the impact of them yet. However, it should be noted given the fundamental reforms proposed in the policy statement and by way of exemplification, a funding decrease of 5% compared to 2025/26 would result in an estimated reduction in grants of £3m for the Council.

Service Demographic Pressures

20. The Council is currently experiencing significant cost pressures across key services such as temporary accommodation, home to school transport plus children and adult social care (as with most other London Councils). Additional resources have been allocated to these services in 2024/25 and 2025/26. Further pressures have arisen in relation to changes in driving behaviours and energy costs across the estate. These pressures are reported to Cabinet as part of the in-year budget monitoring reports. Whilst there is an assumption that some these pressures will continue to manifest themselves in future years, additional

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investment and external funding has been allocated to mitigate the impact of these.

Adult Social Care

21. Learning Disability Transitions – funding to meet the needs of young people ageing through into Adult Social Care with Special Educational Needs and Disabilities (SEND) needs in the context of the extension of the SEND regulations up to the age of 25. Ensuring young people have access to the right services and provision at the right time. This estimated number of residents is 47 residents potentially ageing through from Children's to Adult Social Care.
22. There are baseline budget pressures for existing residents in Residential & Nursing Placements and in Supported Living Accommodation - the full year effect of all residents receiving care services (open care packages).
23. Unlike local authorities, care providers are not funded directly for the changes in the Autumn Budget regarding Employer's National Insurance Contributions. Additionally, the uplift of the London Living wage and the unquantified Employment Rights Bill will likely mean greater pressures than the inflationary increase proposed in the budget. (The current working assumption is a 6% increase from April 2025).

Children's and Education Services

24. Existing baseline budget pressures exist within Children's Services which we continue to monitor to identify mitigations against, including pressures for home to school travel assistance, and placement and non-placement expenditure for children looked after and care leavers. These pressures are directly linked to service demands along with increased complexity of need for these cohorts of children and young people.

Homelessness Temporary Accommodation (TA)

25. During the last financial year, the number of households in TA increased from 1,176 to 1,455 households. This represents a 24% increase which is higher than the London trend. Since April 2024, the numbers in TA have remained relatively unchanged with 1,434 households in temporary accommodation.
26. The supply of TA in-borough is limited, and 61% of households are placed in TA across other London boroughs. Only a small number of households (2%) are currently placed in boroughs outside London. The following table summarises the type of TA households are living in:

	April 2023	April 2024
B&B	128	190
B&B Annexe	-	151
Housing Association leases	44	35
Hostel	63	59

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Private Sector Leases	885	959
Temporary on license	56	58
Total	1,176	1,452

27. The Council did not use B&B annexe accommodation prior to 2023, but the supply of other types of TA was not able to keep pace with the increase in homelessness demand (3,425 households approached the Council as homeless in 2023/24) and it was necessary to venture into the B&B annexe market in 2023 to ensure a supply of self-contained TA was available for families with children. The use of B&B annexes increased significantly during 2023/24, with a further 30% increase in the number of families in B&B annexe accommodation during the last 3 months.
28. A working group has been established and has developed a strategy and mitigation plan to manage the pressures and some of the key actions are listed below:
- Reducing the flow of new homelessness households into TA
 - Proactive homelessness prevention
 - Reducing the cost of placements into TA by the Out of Hours service
 - Move households in top 100 most expensive TA to lower cost TA and procure more lower cost provision
 - Procure additional lower cost TA units
 - Introduce a nightly cap framework
 - Increase properties used as Temporary on Licence (TOL)
 - Ensuring a flow out of TA into settled accommodation

Other Issues

29. The Council is undertaking a major regeneration scheme in partnership with A2D (a new town hall, 200 new homes and commercial property. Major components of this are completed (especially the new homes) and is scheduled for full handover in December 2025. This is expected to provide opportunities for the rationalisation and disposal of existing property holdings and allow the management of any residual risks.

FORECAST MTFS – 2026/27 to 2028/29

30. A forecast of the medium-term position based on the assumptions outlined above is set out in the table below

Table 2: Forecast Budget Gap 2026/27 to 2028/29 (Cumulative)

	2026/27 £m	2027/28 £m	2028/29 £m
Provision for Price Inflation	4.2	8.5	13.0
Provision for Pay Inflation	3.5	6.9	10.6
Concessionary Fares and Other Levies	1.2	2.2	3.1
<i>Service Demographic and Demand Pressures (as below)</i>			
Adult Social Care	7.4	7.4	7.4
Childrens and Education	0.9	1.4	1.9
Temporary Accommodation	-	-	-
Other Pressures (Savings Programme, Civic Campus, Waste, Digital)	3.5	3.5	3.5
Cost of Borrowing (Minimum Revenue Provision and Interest Payable)	-	-	-
Prior Year One-Offs (interest/collection fund)	10.1	10.2	10.3
Government Grants	2.6	1.2	0.2
Retained Business Rates	(1.0)	(1.9)	(2.9)
Council Tax (additional households)	(0.7)	(1.4)	(2.2)
Step Up of Existing Savings and Efficiencies	(1.0)	(1.0)	(1.0)
Forecast Position	30.7	37.0	43.9

31. The table above presents an initial assessment of the budget gap for the 2026/27 financial year of just over £30m, with the material elements of this gap being the reversal of one-off funding within the 2025/26 budget (relating to Collection Fund, interest on balances and one-off increases in income), price and pay inflation (even considering an anticipated ongoing steady decline in inflation), and demand led pressures projections. As has already been mentioned, the MTFs position will be updated regularly through the year to give members and officers, the evolving position upon which to make decisions.
32. Officers will continue to engage with key stakeholders (London Councils, Society of London Treasurers etc) to set out a clearer position on the proposed funding reforms ahead of 2026/27.

Scenario Planning Analysis

33. Due to the complexity and increasingly changing landscape across political, demographic and economic factors, it is prudent to set out a number of scenarios taking into account known information at the time, risks which may present themselves plus potential changes to the current financial landscape.
34. Taking this into account across the council's forecast assumptions on expenditure, income and demand pressures, the "pessimistic" scenario estimate at this stage is a budget gap of £38.7m rising to £57.9m by 2028/29.

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	2026/27 £m	2027/28 £m	2028/29 £m
Forecast Position	30.7	37.0	43.9
Higher Pay Inflation (0.5%)	0.8	1.6	2.6
Higher Price Inflation (0.5%)	1.0	2.0	3.2
Lower Investment Income (0.5%)	0.4	0.4	0.4
Lower Savings Programme Delivery in 2025/26 (10%)	0.5	0.5	0.5
Changes in Grant Funding (excl impact of Fair Funding Review)	(0.3)	(0.6)	(0.9)
Lower Council Tax Base (250 household growth)	0.5	1.0	1.4
Lower Council Tax Collection Rate (95%)	1.8	1.7	1.7
Lower Council Tax Change (-1%)	0.8	1.7	2.6
Retained Business Rates at Safety Net	1.0	1.0	1.0
Concessionary Fares and other levies	0.6	0.6	0.6
Changes to Capital Programme	1.1	1.1	1.1
Revised Budget Gap	38.7	47.9	57.9

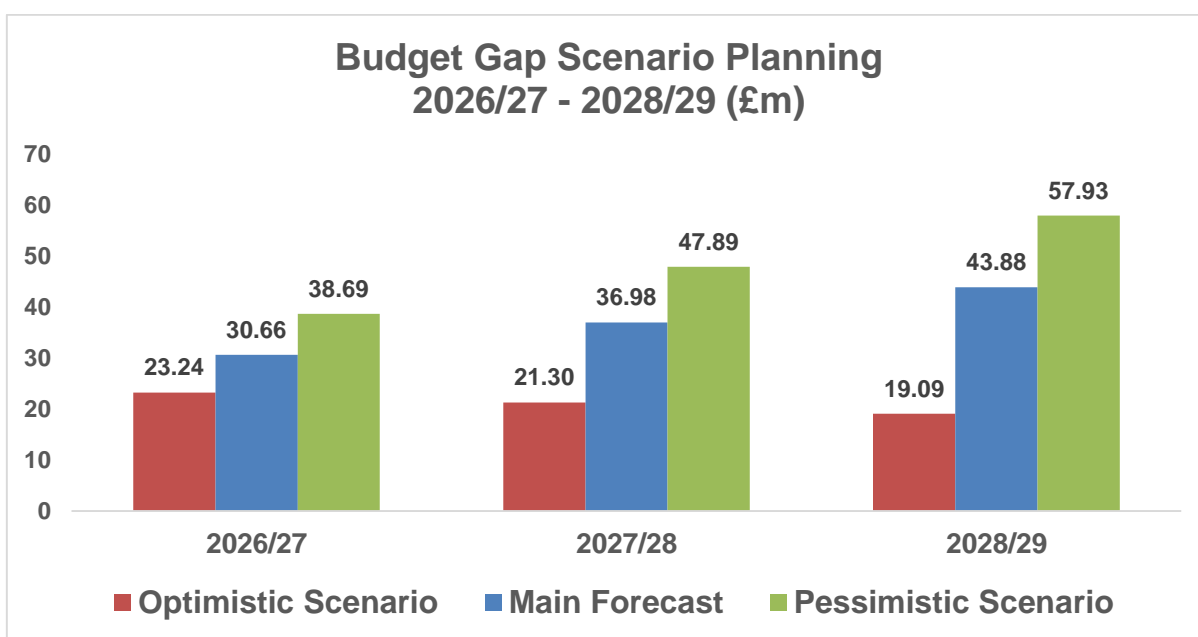
35. The “optimistic” scenario estimate at this stage is a budget gap of £23.2m reducing to £19.1m by 2028/29.

	2026/27 £m	2027/28 £m	2028/29 £m
Forecast Position	30.7	37.0	43.9
Lower Pay Inflation (0.5%)	(0.8)	(1.6)	(2.5)
Lower Price Inflation (0.5%)	(1.0)	(2.0)	(3.1)
Higher Investment Income (0.5%)	(0.2)	(0.2)	(0.2)
Changes in Grant Funding (excl impact of Fair Funding Review)	0.3	0.6	0.9
Higher Council Tax Base (2% household growth from 25/26 Base)	(1.0)	(2.0)	(4.0)
Higher Council Tax Collection Rate (98% from 27/28)	-	(0.9)	(0.9)
Higher Council Tax Change (4.99% as per Govt modelled assumptions)	(4.3)	(9.1)	(14.5)
Retained Business Rates	-	-	-
Concessionary Fares and other levies	(0.5)	(0.5)	(0.5)
Changes to Capital Programme	-	-	-
Revised Budget Gap	23.2	21.3	19.1

36. These scenarios are subject to a high degree of uncertainty, assumptions and variations in estimates are likely to change over time. The outcome of both the local authority funding reform consultation and the Chancellor’s Spring Budget will inform the council as to its likely available resources in the medium term and an update will be provided to members once the full implications of both are known.
37. All scenarios contain an estimated level of demand and demographic pressures across services as known at this time. If these pressures can be reduced, then the budget gap would decrease accordingly.

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38. The estimates for the revenue cost of financing the capital programme are based on the current approved capital programme over the medium term and does not include any forecasts based on projects which may be at planning permission stage or have not received Cabinet/Full Council sign off for the project budget in full.
39. Although most of these projects are held in the Housing Revenue Account, any projects which would require additional borrowing to fund costs in the General Fund would increase the budget gap.



Mitigation Strategy

40. The Council has several Corporate Transformation Programmes focusing on Property, Digitalisation, Commercialism and Workforce. Other service transformation programmes are in progress and most notably Adult Social Care, and Homelessness.
41. There are other programmes that have been established e.g. Debt Management Board (intended to provide a focus on the management of the collection of income). It may be necessary for the Council to continuously review its current policy priorities and to maintain a focus on the major statutory services.
42. The mitigation strategy that is in development will focus on following service/corporate transformation programmes:

Homeless Reduction Strategy – as outlined above

- Adult Social Care Transformation – a holistic review of functions across workforce, strategy, performance and commissioning

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- Further automation of manual processes and use of digital tools (Machine Learning, Artificial Intelligence, Business Intelligence) to improve efficiency and service delivery.
- Property Rationalisation
- Workforce Planning
- Improving Debt Management
- Policy Choices/Discretionary Services
- Service Delivery Choices
- Use of General Reserves and Release of Budgeted Contingencies