

## Appendix B

### Medium Term Financial Strategy (MTFS)

#### **Introduction**

1. The Medium-Term Financial Strategy (MTFS) 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. The MTFS covers the 3-year period from 2026/27 to 2028/29, so that is coterminous with three year financial settlement that the Government has released as part of the 2026/27 local government finance settlement, within the new Fair Funding framework.
3. The MTFS 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 MTFS focuses 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. The Council has a strong record of financial governance (as outlined by our external auditors in the Annual Audit Report for 2024/25) 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.
6. The Government has proposed a multi-year finance settlement from 2026/27 to 2028/29. A detailed analysis of the provisional settlement and its impact on Hammersmith and Fulham can be found within the main report. The three year settlement gives greater certainty for resource and financial planning purposes than the previous single year settlements. Because of the Government's aims to redistribute resources towards areas of higher deprivation, inner London boroughs including Hammersmith and Fulham, are forecast to receive significantly less funding across the duration of this MTFS. Hammersmith and Fulham is eligible for transitional funding relief over the three years to 2028/29, amounting to £34m..

## **Strategic Operating Environment**

### **3 Year Funding Framework – available resources and impact of Funding Reform**

7. The Government announced its Provisional Local Government Finance Settlement (PLGFS) consultation on 17<sup>th</sup> December 2025, setting out funding plans for the next three years. For 2026/27, overall Core Spending Power for local authorities in England will increase by around 5.7% in cash terms or 3.5% in real terms (if all councils increase council tax by the maximum amount allowed) compared to 2025/26.
8. Through the Fair Funding Review 2.0, Government has overhauled the entire Local Government General Fund finance framework, with 2026/27 the first year of the new regime. A key part of this is the Fair Funding Assessment, which determines revenue support grant and retained business rates. There are two elements to this:
  - Relative needs share, based on a range of service formulae and
  - Resources adjustment, based on a local authority's ability to raise Council Tax locally compared to the national average
9. As a result of the funding reforms, grant funding is weighted towards authorities with higher levels of deprivation under a new formula, which means that inner London boroughs including Hammersmith and Fulham will see larger cuts in funding. Analysis undertaken by London Councils shows that the most deprived areas see the largest increase in core spending power over the period to 2028/29, while the least deprived areas will see the smallest increase. The gap between most and least deprived widens significantly by 2028/29.
10. The government is implementing a full 'reset' of the Business Rates Retention System for 2026/27, and this forms part of the new Fair Funding framework. Growth above baseline growth in business rates, which councils have previously been able to retain, is redistributed fairly across local authorities based on an updated assessment of local needs and resources. From 1 April 2026 growth that comes on stream will be retained by Councils for the duration of the future reset period, continuing to reward authorities for local business rates growth (subject to the new levy arrangements). It should be noted that a new business rates valuation list comes into effect from 1 April 2026 also
11. The funding reform framework will be phased in over a three-year period from 2026–27, with transitional funding in place over this period to limit losses for authorities receiving less funding under the new system, including Hammersmith and Fulham. The final transitional funding allocations, as published in the PLGFS, for Hammersmith and Fulham were lower than had been outlined one month earlier, at the policy statement stage. The final transitional allocations to 2028/29 have been factored into this MTFs.
12. The reforms for 2026–27 also include measures to give councils greater flexibility over statutory sales, fees and charges and simplify and consolidate funding streams by reducing the number of separate grants. They will apply uniform assumptions for

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Council Tax when assessing locally available resources and use more current data on service costs and demand pressures to ensure allocations reflect real-world conditions.

13. Council tax policy will become increasingly significant as a result of these funding reforms. The government's proposals have set out that five councils with amongst the lowest council tax rates in the country, including Hammersmith and Fulham, have been granted pre-authorisation to exceed the standard council tax increase limit of 5% without the requirement for a resident referendum for 2027/28 and 2028/29.

### **Corporate Plan**

14. 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.
15. 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**

16. There are assumptions upon which the medium-term financial strategy is based, and these are detailed below and summarised in Table 1.
  - Core Central Government funding per PLGFS three year settlement data to 2028/29.
  - Annual government funding settlements will increase in line with the OBR forecast for CPI as at the Autumn Budget.
  - Funding reform transitional funding ceases in 2028-29
  - 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 £0.9m to allow for future investment in digital infrastructure and transformation programmes
  - the retention of contingencies in the annual budget of circa £3m (1% 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.
  - 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)
  - The Council Tax Band D equivalent rate is modelled with an annual increase of 4.99% for each year presented.
  - interest rates will reduce to 3.5% over the medium term in line with OBR forecasts

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- The Council had cyber security incident in late November 2025. At the point of the budget report being prepared, it has not been possible to fully quantify impact, across costs and income, at the point that this report was being prepared, but this will be done in early 2026 when we will be in a clearer place to update information.

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

	2026-27	2027-28	2028-29
Price inflation (%) <sup>1</sup>	3.2	3.0	2.9
Pay inflation (%) <sup>2</sup>	3.4	2.0	2.0
Interest Rates (%)	3.75	3.5	3.5
Change in Council Tax (%)	4.99	-	-
Change in Council Tax Base (no. of households)	1,687	750	750
Council Tax Collection Rate (%)	98.0	98.25	98.5
Business Rates Baseline Funding Level Safety Net (%)	100.0	97.0	92.5

17. The assumptions include the 3 year funding allocations set out in the Provisional Local Government Finance Settlement published on 17<sup>th</sup> December 2025. Final confirmation of this settlement was published on 9<sup>th</sup> of February 2026.

### **Service Demographic Pressures**

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

### Adult Social Care

19. 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

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<sup>1</sup> OBR RPI forecast at November 2025 [Economic and fiscal outlook – November 2025 - Office for Budget Responsibility](#)

<sup>2</sup> OBR CPI forecast at November 2025

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at the right time. This estimated number of residents is 47 residents potentially ageing through from Children's to Adult Social Care.

20. 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).
21. 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.

### Children's and Education Services

22. 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.
23. The Government has indicated it will be presenting plans for SEND reform early in 2026. The direction of travel is that local authorities will not be expected to use general funds to cover DSG High Needs Block deficits after the Statutory Override ends in March 2028. The Government has stated that it recognises that local authorities will need support for historic and accruing deficits and details of this support will be provided through the Local Government Finance Settlement, though this has not yet been provided.

### Homelessness Temporary Accommodation (TA)

24. During the 12 month period June 2024-June 2025, the number of households in TA across London boroughs increased by 8.3%. The number of H&F households in TA increased by 4% during the same period which is lower than the London trend. Since April 2025, the numbers in TA have remained relatively unchanged with 1,525 (as at 1 November 25) households in temporary accommodation.
25. The supply of TA in-borough is limited, and 62% 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:

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	<b>Apr-24</b>	<b>Dec-25</b>
B&B	190	118
B&B Annexe	151	367
Housing Association leases	35	20
Hostel	59	59
Private Sector Leases	959	859
Temporary on license	58	112
<b>Total</b>	<b>1,452</b>	<b>1,535</b>

24. 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 (2,981 households approached the Council as homeless in 2024/25) 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 37% increase in the number of families in B&B annexe accommodation between April 2024 and April 2025.
25. 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

26. 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 2026. This is expected to provide opportunities for the rationalisation and disposal of existing property holdings and allow the management of any residual risks.

**MTFS FORECAST**

27. A forecast of the medium-term position based on the assumptions outlined above is set out in the table below. This presents the balanced budget position for 2026/27 and cumulative position to 2028/29. The forecast assumes a Council Tax increase of 4.99% in each year.

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

	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>
<b>Expenditure</b>	£m	£m	£m
General Fund Base Budget	234.2	234.2	234.2
Contract Inflation	6.9	14.0	21.0
Pay Inflation	4.0	7.2	10.5
Recognition of Current income	(3.0)	(3.0)	(3.0)
Service Pressures	0.0	2.5	5.0
SEND pressures	0.0	5.0	0.0
Collection Fund Resources	0.5	0.5	0.5
Net Cost of Borrowing	0.0	1.7	1.7
Concessionary fares	0.8	2.2	3.1
LGPS contributions for Members	0.3	0.3	0.3
Corporate one off items	(0.6)	(0.8)	(0.5)
LGPS employers contribution	(2.1)	(2.1)	(2.1)
Corporate contingency and other revenue items	(5.1)	(5.3)	(5.3)
Allocation of GF Overheads	(0.4)	(0.4)	(0.4)
Business rates & Council maximisation	0.2	0.2	0.2
Interest receivable	(2.6)	(2.5)	(2.5)
CIL Contributions	(0.7)	(0.7)	(0.7)
MTFS Savings	(9.5)	(8.0)	(8.0)
<b>Budget Requirement</b>	<b>222.9</b>	<b>245.2</b>	<b>254.0</b>
<b>Resources</b>			
Council Tax	(92.6)	(98.2)	(104.2)
Grants	(85.9)	(71.2)	(43.9)
Business rates (Baseline)	(32.7)	(32.4)	(32.4)
Collection fund release	(2.0)	0.0	0.0
Collection fund surplus & bad debt provision	(3.7)	0.0	0.0
Funding reform Transitional grant (95%)	(6.0)	(11.8)	(16.2)
<b>Total Forecast Resources</b>	<b>(222.9)</b>	<b>(213.6)</b>	<b>(196.7)</b>
<b>Budget Gap</b>	<b>0.0</b>	<b>31.4</b>	<b>57.3</b>

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28. The table above presents an initial assessment of the budget gap for the 2027/28 financial year of just over £31.4m, with the material elements of this gap being the reversal of one-off funding within the 2026/27 budget (relating to Collection Fund and one off savings), 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.
29. 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

30. 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.
31. 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 £40.4m rising to £69.0m by 2028/29.

Worst	2027/28	2028/29
Forecast Position	31.4	57.3
Expenditure		
Higher Contract inflation (0.5%) (£m)	1.1	2.1
Higher Pay inflation (0.5%) (£m)	0.8	1.6
Headroom for growth (£m)	3.0	3.0
Civic campus (£m)	2.0	2.0
SEND pressures (£m)	1.0	1.0
Concessionary fares (£m)	0.6	1.0
Total increase in expenditure	8.5	10.7
Resources		
Council tax (£m) (250 household growth)	0.5	1.0
Total reduction in resources	0.5	1.0
Forecast Position	40.4	69.0

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32. The “optimistic” scenario estimate at this stage is a budget gap of £25.9m reducing to £49.0m by 2028/29.

Best	2027/28	2028/29
Forecast Position	31.4	57.3
Expenditure		
Lower Contract inflation (0.5%) (£m)	(1.1)	(2.6)
Lower Pay inflation (0.5%) (£m)	(0.8)	(1.7)
Headroom for growth (£m)	(1.0)	(1.0)
Interest receivable (£m)	(2.0)	(2.0)
Total decrease in expenditure	(4.9)	(7.2)
Resources		
Council tax (£m) (additional 500 households)	(0.6)	(1.0)
Total increase in resources	(0.5)	(1.0)
Forecast Position	25.9	49.0

33. 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.
34. 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.
35. 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.
36. 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**

37. 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.
38. The Corporate Transformation Programmes are intended to deliver significant improvements to services and financial benefits to the Council in future years, through transformational activity across the Council and alongside residents,

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service users and partners. Details of the programmes were set out at the Policy Oversight Board on 17 September 2025.

39. 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.
40. 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
  - 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