

WANDSWORTH BOROUGH COUNCIL

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AS PROVIDED FOR UNDER SECTION 100B(4)(b) OF THE LOCAL GOVERNMENT ACT 1972, THE CHAIRMAN IS OF THE OPINION THAT THIS ITEM SHOULD BE CONSIDERED AT THE MEETING AS A MATTER OF URGENCY BY REASON OF SPECIAL CIRCUMSTANCES. THESE CIRCUMSTANCES ARE THAT THE CABINET'S CONSIDERATION OF THE MEDIUM TERM FINANCIAL STRATEGY HAS TO TAKE PLACE BEFORE THE NEXT CABINET MEETING IN NOVEMBER IN ORDER TO ALLOW SUFFICIENT PROGRESS WITH THE TRANSFORMATION PROGRAMME TO INFORM DRAFT BUDGET PROPOSALS.

FOR THE MEETING OF THE CABINET TO BE HELD AT THE ROOM 123 - THE TOWN HALL, WANDSWORTH HIGH STREET, WANDSWORTH SW18 2PU ON MONDAY, 22ND SEPTEMBER, 2025 AT 4.00 P.M.

**6. Medium Term Financial Strategy (Paper No. 25-326)**

**(Pages 3 - 36)**

The Town Hall  
Wandsworth  
SW18 2PU  
Date: 18 September 2025

Andrew Travers  
Chief Executive

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AS PROVIDED FOR UNDER SECTION 100B(4)(b) OF THE LOCAL GOVERNMENT ACT 1972, THE LEADER IS OF THE OPINION THAT THIS ITEM SHOULD BE CONSIDERED AT THE MEETING AS A MATTER OF URGENCY BY REASON OF SPECIAL CIRCUMSTANCES. THESE CIRCUMSTANCES ARE THAT THE CABINET'S CONSIDERATION OF THE MEDIUM TERM FINANCIAL STRATEGY HAS TO TAKE PLACE BEFORE THE NEXT CABINET MEETING IN NOVEMBER IN ORDER TO ALLOW SUFFICIENT PROGRESS WITH THE TRANSFORMATION PROGRAMME TO INFORM DRAFT BUDGET PROPOSALS

## Cabinet

**Title:** Medium Term Financial Strategy 2025/26

Paper No. 25-326

**Date:** 22nd September 2025

**Cabinet Member for:** Finance

**Author:** Fenella Merry, Executive Director of Finance  
Andrew Travers, Chief Executive

### 1. Executive Summary

- 1.1. The Council has a reputation for constant, sound financial management. The Council's management of its finances, reserves and its commitment to making developers pay has enabled it to set the lowest council tax in the country and deliver excellent services to residents, including investing in libraries, leisure centres, CCTV and roads and pavements. A cornerstone of the Council's approach is the annual MTFS, published in the Autumn each year, and the annual budget setting process which takes place in March. This paper sets out the MTFS for 2025/26.
- 1.2. The context within which the Council delivers services to residents has changed. The impact of COVID and the cost of living crisis has led to more residents needing support and inflation continues to have an impact on the cost of delivering our services. Rapid digital advancements are also changing how residents live, work and access services as well as changing the approaches available to councils to deliver services. Wandsworth residents rightfully expect the Council to respond innovatively and adapt to these changes using all the levers it has available, including deploying its

financial resources to deliver transformation which will help with longer term financial sustainability.

- 1.3. The Council needs to work differently and innovate at scale to continue to make a difference to Wandsworth. To achieve this step change, whilst still maintaining excellent services to residents, time limited additional capacity and external challenge is needed as well as a systematic, modern approach to transformation. The MTFFS relies on investment in a Council wide Transformation Programme which will lead to new ways of working through innovation, challenge and harnessing digital and technological advancements. This transformation towards a more forward looking, innovative Council will unlock new opportunities for growth for Wandsworth, ensure residents who need it get our support earlier and are able to engage with services quickly and effectively. This will ensure the Council continues to deliver for residents whilst identifying efficiencies that support the ongoing financial sustainability of the Council.
- 1.4. This report updates the MTFFS and the Council's four financial frameworks to reflect current estimates of spend and income. It highlights where there are risks and pressures and identifies mitigating actions where appropriate. There are a number of significant changes in the national economic and policy landscape that could affect a range of Council services and best estimates of their impact are included here.

## 2. Recommendations

- 2.1. To approve the Council's Medium Term Financial Strategy for 2025/26 as set out in Appendix 1 to this report.
- 2.2. To approve the allocation of £1.9m of the existing Financial Resilience Reserve to establish a new 'Transformation Programme Delivery Fund' with delegated authority to the Chief Executive and Deputy Chief Executive, in consultation with the Executive Director of Finance, to draw down on the fund in line with the Council's Financial Regulations.

## 3. Details

- 3.1. The aim of the Medium Term Financial Strategy (MTFS) is to model income, expenditure and resource requirements and to demonstrate how the Council's financial plans and strategies contribute to the achievement of its corporate objectives. It continues to form part of the Corporate Plan which was agreed in September 2022 with the latest actions and key performance indicators agreed by Cabinet in July 2025 (Paper No. 25-256). Other elements of the Corporate Plan include a six month and annual update on progress and performance. All of the elements are then linked together online to produce a "virtual" Corporate Plan which is available on the Council's website.

## MEDIUM TERM FINANCIAL STRATEGY 2025/26

- 3.2. The Council continues to exercise strong financial



management across its services and decision making which puts Wandsworth in a strong position to tackle any financial challenges ahead. Reserve balances are being deployed both to invest in services and to close the budget gap. The focus over the past few years has been on maximising efficiency and delivering savings, including through digital enhancements, in order to protect front line services.

- 3.3. Since budgets were last approved demand pressures have continued, as have the ongoing challenges around the economic climate including inflation. In addition the Government has released a number of consultations and policy statements across a range of Council services which could have an impact on their delivery and funding.
- 3.4. The financial outlook for the **Council's General Fund revenue framework** is a significant change since the last update in February (Paper No. 25-88). The primary driver of this is a series of national funding reforms, the proposals for which have now been released although their impact on individual councils is not fully clear at this stage. The implications of the changes could be significant.
- 3.5. The Council has submitted a detailed response to the Government's funding reform consultation and will continue to lobby for a fair and sustainable settlement as there are some elements of the proposed new formulae that do not fully reflect the cost of either delivering services or living in London. Effective transitional protection should be implemented to better mitigate where there are funding losses.
- 3.6. In addition to the funding reforms, escalating demand and rising costs for statutory services continue to exert pressure on the budget, in particular social care and homelessness. Nationally the funding levels available are insufficient to meet the increasing complexity of need and the financial demands faced by the sector. Locally, this has resulted in a persistent and growing funding gap.
- 3.7. In response, the Council is launching an ambitious Transformation Programme, building on the foundations of the previous Change Programme. This programme will not only support the delivery of a balanced MTFs but also advance the Council's vision of becoming a fairer, compassionate, and more sustainable borough.
- 3.8. The MTFs outlines how this, coupled with council tax income and the planned use of reserves will help bring the Council's General Fund revenue financial position into balance in the period to 2028.
- 3.9. Whilst the Government has confirmed the ability to apply future council tax increases totalling 4.99% each year, no decisions have been made yet. Future decisions will continue to be informed by the Council's overall financial position, including its impact on residents, and will form part of the recommendations in the overall budget report brought to Cabinet in February/March of each year. The Council will require the further use of reserves if plans developed over this period do not close the

existing gap. The strategy also acknowledges that the likelihood of increasing financial pressures continuing beyond 2028/29 will depend largely on how the funding redistribution will be implemented.

- 3.10. The Council's **Housing Revenue Account framework** was last reported in January 2025 within the HRA Budget (Paper No. 25-13). This update sets out the impact of ongoing inflationary pressures and highlights the increasing need to invest in the existing stock to ensure it meets the decent homes and other building/fire regulation standards plus moves towards being "greener" overall.
- 3.11. The latest update of the **General Fund capital framework** is presented elsewhere on this agenda (Paper No. 25-327) and highlights the scale of the current capital programme plus the financing of the programme, in particular the significant use of developer contributions as the Council continues to make developers pay for investment that benefits local communities. All capital receipts received to date have been applied in full and, without additional funding sources being identified, the existing capital programme will require borrowing to partially fund it. The cost of borrowing (both principal and interest) is a revenue cost and any further increase in the programme would therefore put impact on the General Fund revenue framework position highlighted above.
- 3.12. The **Dedicated Schools Budget framework** was presented to June 2025 Children's Overview and Scrutiny Committee (Paper No. 25-223) which reported a deficit position due to overspends relating to Special Education Needs and Disabilities (SEND), with the annual position predicted to increase this deficit further. To mitigate the continued growth in this deficit, schools, the Council, parents and partners are working to ensure the system provides the best possible outcomes for the borough's most vulnerable young people in an effective and financially sustainable way. The Government has announced plans for reform of the SEND system, details of which will be set out in a White Paper in the Autumn, and has recognised that local authorities will need support during the transition. In the meantime, the Dedicated Schools Grant "statutory override" has been extended until March 2028. Any funding deficit in the DSB is a risk to the General Fund revenue framework at the point the override comes to an end. The Council continues to engage with the Government in relation to high needs funding issues.
- 3.13. The Council will continue to plan to protect front line services, with a focus on delivering the Administration's priorities, whilst seeking to manage cost through modernised services and a significant transformation programme. The Council will continue to lobby Government for fair and sustainable funding settlements.

## **TRANSFORMATION PROGRAMME**

- 3.14. The Council is recognised as a "strong performing Inner London borough". Wandsworth is London Borough of Culture for 2025. The Council's Adult Social Services were recently judged as "Good" by the Care



Quality Commission. Through innovative partnerships, such as Apple and Dolly Parton's Imagination Library, the Council has been able to bring additional resources to residents. There has been a continued focus on key services such as 83% of calls answered within seven rings which is an improvement from last year. Adoption of modern approaches to digital and data have led to real benefits for residents including £4.6m of previously unclaimed benefits for residents using the Low Income Family Tracker data tool. Through constant, sound financial management and making sure developers pay, the Council has been able to set the lowest council tax in the country and invest in libraries, leisure centres, CCTV and roads and pavements

- 3.14 However, the context within which the Council delivers services to residents has changed. The impact of COVID, inflation increases since 2020 and the cost of living crisis has led to more residents needing support. Rapid digital advancements are also changing how residents live, work and access services as well as changing the approaches councils can use to deliver services. There is an increasing importance that Wandsworth capitalises on opportunities to deliver inclusive growth for the borough, its residents, partners and businesses.
- 3.15 Wandsworth is evolving and the Council needs to work differently and innovate at scale to continue to make a difference to its residents. To achieve this step change, whilst still maintaining excellent services to residents, time limited additional capacity and external challenge is needed as well as a systematic, modern approach to transformation. The Council is investing in a council wide Transformation Programme which will lead to new ways of working through innovation, challenge and harnessing digital and technological advancements. This transformation will unlock new opportunities for growth for Wandsworth, ensure residents get support earlier and are able to engage with services quickly and effectively. This will ensure the Council continues to deliver for residents and will identify efficiencies that support the ongoing financial sustainability of the Council and help to absorb the impact of any external changes such as the Fair Funding Review.
- 3.16 This will be an ambitious programme with a scale that reflects the need to make significant financial savings alongside leveraging technology to deliver better services. The initial "discovery" phase will scope out the detail of the programme with the expectation of generating revenue savings to help close the ongoing budget gap.

### **Purpose**

- 3.17 Delivery of a balanced MTFS will require focus and grip across the organisation. The aim of the newly proposed Transformation Programme will be to provide the necessary co-ordination alongside consolidated reporting and communications to achieve this. The programme will be structured to join up delivery across eight portfolios described in [Appendix 2](#) which will be further developed over the coming months.

### **Outputs**



- 3.18 Each portfolio will develop a business case with analysis of options and proposed changes. The impact analysis will assess costs, benefits, sustainability, equality, prevention, legal, and procurement. Following scrutiny and approvals, business cases will move into implementation with rigorous monitoring of progress, costs, and benefits. Savings and financial benefits will be reflected in future budgets and MTFS updates.

**Capacity**

- 3.19 Delivery of the MTFS through the Transformation Programme is a priority and resource will need to be aligned to reflect the importance of this work. Capacity will primarily come from existing staff prioritising transformation however resource analysis has highlighted gaps in skills and capacity which need to be addressed to successfully deliver transformation at this scale. This reflects lessons learned from the Change Programme (which was a series of 35 small, discrete projects in contrast to the more ambitious organisation-wide transformation now being taken forward). Our workforce needs to be equipped with the right finance and digital skills. Specific skills include: business case development, cost-benefit analysis, benefits realisation, organisation design, user experience design, and business analysis. Some gaps warrant recruitment of new staff; others are a temporary, specialist requirement where external support will be more appropriate.

**Consultancy**

- 3.20 External support is required in the short-term to develop the business cases, underlying analysis, and implementation plans, as skills and capacity at the level required are not available in house. An initial diagnostic phase will take place over four months, with work to commence in the Autumn. This phase will focus on developing business cases and demand modelling (to meet the budget). Following approvals, there will then be a longer “implementation” phase with external support. Alongside specialist skills, this will bring momentum, fresh thinking, and best practice from other organisations, with a requirement to upskill Council staff and deliver social value.

**Funding**

- 3.21 The ambitious scale of the transformation will require further investment over the next couple of years however an initial budget of £1.9m for transformation has been developed to deliver the initial “discovery” phase based on resource analysis and market testing. This includes external costs for transformation business case development as well as bringing in new skills and implementation support.
- 3.22 It is proposed to allocate £1.9m of the existing Financial Resilience Reserve to fund this programme. The flexible use of capital receipts to fund the transformation will also be considered where available and appropriate.

4. **Financial Implications**

These are built into this report.

5. **Legal Implications**

None specific to this report.



**6. Equalities Implications**

- 6.1 A full Equality Impacts Needs Assessment (EINA) will be carried out as appropriate for any new or revised policy or service that results from the work of the Transformation Programme, ensuring that impacts are identified and appropriate mitigations put in place. Each EINA will consider socio-economic impacts as well as the nine protected characteristics set out in the Equality Act 2010. EINAs will be reported to relevant Committees for awareness and discussion of the impact of any proposed changes.

**7. Supporting the Wandsworth Environment and Sustainability Strategy**

- 7.1 Both the revenue and capital budgets of the Council incorporate funding to meet the demands of improving the Council's environmental footprint.

**Accompanying papers**

Appendix 1 – Medium Term Financial Strategy 2025/26

Appendix 2 – Transformation Programme

## MEDIUM TERM FINANCIAL STRATEGY 2025/26

1. The Council's MTFS is a four-year financial projection which is integrated within the decision making powers of Cabinet. The MTFS is both driven by and informs decisions on approving improvement plans to deliver the Council's objectives having prudent regard to risk management.
2. The mechanisms by which the management of resources is controlled are detailed in Annex A.

### NATIONAL CONTEXT

3. The Council's financial and service planning is shaped by national economic conditions and public expenditure frameworks. The local government sector experienced significant funding reductions during the austerity period of the 2010s. Although there were some funding increases in the early 2020s, Wandsworth's real-terms funding remains approximately 20% lower than pre-austerity levels.
4. Over the past few years an increasing number of councils have indicated they are facing financial difficulties with many cutting back services and using reserves (where available) in order to ensure they can meet their statutory duties. A number of councils, including in London, have received exceptional financial support from the Government in order to avoid issuing section 114 notices. However, as exceptional financial support is effectively a permission to borrow rather than additional funding it does not solve the underlying structural funding pressure. The proposals around fair funding reforms will further exacerbate problems for a number of local authorities.
5. It is also clear that national government intervention is required to fix not just the sector's structural funding deficit but the causes of demand pressures such as the housing crisis and broken care market.
6. Following the very high period of inflation in 2022 and 2023, inflation fell in 2024 but has since increased to 3.8%. The Bank of England expects inflation to fall to 2.7% by September 2026, but this would still be above its target of 2%. In addition, increases in the National Minimum Wage, London Living Wage and employers' national insurance contributions will continue to put above inflation pressure on contractors' costs.
7. On 11 June 2025, the Government published its Spending Review, setting departmental budget limits through to 2028/29. This included a commitment to real-terms growth in local government revenue funding (defined as Core Spending Power) averaging 2.6% annually over the next three years. The CSP projections assume that all councils will increase council tax by the maximum permitted each year of 2.99% for the main element and 2% for the adult social care precept. Council tax increases are expected to



account for 80–90% of the overall CSP growth, with the remainder coming from Government contributions.

8. It is within this national context and the impact it is having on each of the Council's four frameworks that this MTFS is set.

## GENERAL FUND REVENUE BUDGET FRAMEWORK

9. The MTFS last approved in December 2024 assumed a mix of council tax increases, efficiency savings and use of reserves to balance the General Fund revenue budget between now and 2028. Since then there have been updates to reflect:
  - budgets approved as part of the council tax setting exercise in February (Paper No. 25-89);
  - the 2024/25 outturn position where the Council's net General Fund expenditure overspent by £1.3m (Paper No. 25-250);
  - all budget variations this year to date which include investment in temporary accommodation, CCTV monitoring and the Winstanley York Rd regeneration;
  - estimates for future service and inflation pressures;
  - latest estimates of future government funding; and
  - a roll forward of estimates into 2028/29 to cover a four year period.
10. The estimates made are subject to a number of assumptions that will continue to be refined but will form the basis of action planning at this early stage in the budget setting process.

### Particular risk factors

#### Loss of Government grant funding

11. Over half of the Council's General Fund revenue expenditure is currently derived from Government funding, making the Council's financial position particularly sensitive to the proposed national funding reforms and resetting of the business rates retention system, both due to be implemented from 2026/27.
12. Several service areas receive substantial targeted central government support which will continue to sit outside the general grant allocations. The Council still spends £190m on General Fund services funded by specific grants or subsidies:
  - a) A significant portion relates to **Housing Benefit** which is subject to change due to the ongoing rollout of Universal Credit. While Universal Credit has been implemented for all new claims, the Department for Work and Pensions began a managed migration in April 2024 to transition remaining working-age



claimants from legacy benefits. The Council is reimbursed by Government for Housing Benefit payments and receives a specific grant for administrative costs. This grant is expected to decline over time, although administrative costs are unlikely to reduce proportionately due to system maintenance and the continued need to administer a council tax support scheme for all residents.

- b) The **Public Health Grant**, introduced in 2013/14, is £33.7m for 2025/26 (up from £31.7m in 2024/25). Wandsworth continues to have a relatively high grant allocation and, although a revised allocation formula was developed in 2015, it has not been implemented and is not expected to be adopted in 2026/27. The grant is deployed in full across Council services each year to support public health outcomes.
  - c) The **Local Authority Better Care Grant** combined the Improved Better Care Fund and Adult Social Care Discharge Fund in 2025/26 to continue to assist with pressures in adult social care. The current year's funding is £20m (no change from 2024/25). There is a requirement to spend this funding on meeting adult social care needs, reducing pressures on the NHS and ensuring the local social care provider market is supported. The Council must pool this funding with the NHS via the South West London Integrated Care System.
13. On 20 June 2025, following an initial consultation in December 2024, the Government launched its Fair Funding Review 2.0 (FFR 2.0). This aims to update the methodology for distributing the Spending Review defined funding pot among local authorities. Although the original Fair Funding Review began in 2016, it was never implemented and so the last significant update to the distribution formula and data was in 2013.
14. Several changes in local government finance have occurred since 2013, making the impact of FFR 2.0 difficult to predict, and MHCLG has yet to release any modelling at an individual authority level. A Policy Statement is due at the end of October which should provide more detail on how the timing and transition changes are to be implemented, and draft funding allocations will be confirmed in the provisional local government finance settlement in December.
15. As part of FFR 2.0, the Government proposes to introduce multi-year (likely three year) funding settlements from 2026/27. Whilst each local authority's funding will continue to be determined by an assessment of its "needs" (spend) and "resources" (income) relative to the rest of the country, the distribution formulae and data that feed into it will be amended. In addition, for the first time, the resources element will be based on an assumed (notional), rather than actual, level of council tax. This is proposed to be approximately £2,000 in 2026/27 and will increase each year. If, as in Wandsworth's case, an authority's council tax is below this level (Wandsworth is currently £507.37), then the actual council tax income will be lower than this notional level set.

16. Government grant within CSP for each council will be the difference between its “needs” and “resources”. The Council’s current council tax is well below the assumed average rate, and the changes to the “needs” part of the formulae are also adversely impacting the Council. Wandsworth is still receiving transitional protection for grant losses introduced in 2013/14 which means current grant levels are higher than would otherwise be received. In addition, several grants currently listed separately are proposed to be consolidated into the new funding distribution. These include the Social Care Support Grant and the New Homes Bonus, both of which have historically benefited Wandsworth. While funding for social care will be incorporated into the new “needs” formula, no dedicated funding stream has been proposed to reflect the growth in new housing.
17. Overall these factors taken together suggest a likely significant drop in the Council’s overall future funding. The Government has made it clear that councils should plan to use available reserves and deliver transformation to help mitigate their losses. However at this stage it is not clear how it intends to address below notional council tax i.e. if/how councils will be expected to mitigate grant losses through higher council tax, as no changes have been proposed to the council tax referendum limits.
18. The Government is aware of the scale of the potential financial impact its redistribution will have on some councils and is therefore proposing a phased approach to implementation, only moving to full use of the new formula by 2028/29. It is also proposing to offer further protection by applying “funding floors”, confirmed for at least the first three years (to align with the current Spending Review period). Historically funding protections have been applied over longer periods where necessary.
19. The funding floors proposed range from zero (i.e. cash flat grant) to negative (i.e. cash loss) of 5% or 7% for those authorities expected to be disproportionately affected by the changes (which includes Wandsworth). The consultation also proposes that any protection offered through a funding floor assumes local authorities use their full council tax increase flexibility each year which means that grant funding will reduce over time as CSP replaces grant with council tax increases.
20. There is significant uncertainty around the overall impact of both the funding review and potentially significant impact of the business rates reset which is to be implemented at the same time. Government is currently considering the consultation responses and full impact and timing of its proposals, and may make changes as a result. This makes it difficult at this stage to quantify the overall funding loss to Wandsworth but it could be in the region of £25m to £39m per year by the end of the MTFS period (2028/29). This risk which will need to be kept under constant review as the exact transition and funding floors to be applied plus impact of business rates will all have an impact, hence the wide range.
21. The Fair Funding Review consultation closed on 15th August with the Council submitting a detailed response highlighting the significant impact for Wandsworth. The Council will continue to lobby for a

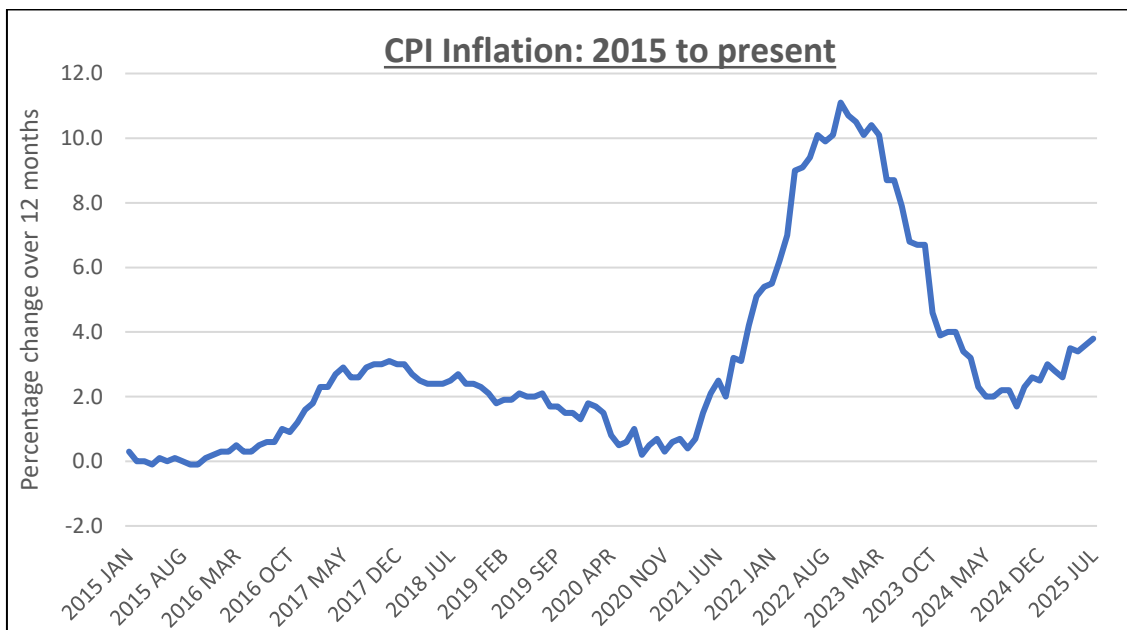
sustainable funding settlement and continue to exercise strong financial management in preparing for any changes.

**Business rates retention**

- 22. Business rates are set nationally by Government and the income is used to fund the local government finance settlement. A portion of business rates can be retained by councils to incentivise local growth. Over time, various changes to multipliers and reliefs have been introduced to support businesses. For 2025/26, the small business multiplier remains frozen, and business rate relief for the retail, hospitality and leisure sector continues, albeit at a reduced rate. Councils are compensated for any loss of income resulting from these changes. The Council’s 2025/26 budget assumes retained business rates income of £65m.
- 23. On 8 April 2025, the Government launched a consultation on resetting the business rates baseline, its first since the business rates retention system was introduced in 2013/14. The consultation paper indicates that the reset’s impact will be considered as part of transitional support accompanying broader funding reforms. This adds a level of complexity to the modelling, particularly the interplay of business rates with the Fair Funding Review and the GLA’s funding (which impacts on how much business rates income London boroughs retain). Consequently, any financial assumptions regarding the reset will continue to be monitored and updated as further information becomes available.

Inflation and interest rates

- 24. Following the very high period of inflation in 2022 and 2023, annual increases in the Consumer Price Index (CPI) fell in 2024, dropping to a low of 1.7% in September 2024. However, it has since increased and is currently 3.8%:



25. The impact of this inflation remains in our base costs as prices are about 25% higher now than they were in 2020. The revised framework now reflects the Bank of England's latest forecasts of inflation which are anticipated to lower to 2.7% by September 2026, and to reach its target of 2% by June 2027.
26. When the 2025/26 budget was set, the rate of inflation was expected to fall, however we have continued to see high inflation on demand led services (adults, children's and homelessness). The agreed pay award in 2025/26 has increased costs by an average of 3.2%.
27. Overall, current assumptions suggest that the inflation provision for 2025/26 of £19.6m is broadly sufficient. However, rising costs associated with increases in the National Minimum Wage and employers' National Insurance contributions are expected to impact contractors delivering services on behalf of the Council. This may place upward pressure on the cost of contract tenders and extensions.
28. The Bank of England's base interest rate impacts on the Council's returns on its investments and cash balances. This has recently dropped to 4% and is now expected to fall more slowly than previously anticipated. Higher treasury investment income is now being forecast as a result, in the short term in particular, but is still forecast to drop in the medium term as the impact of the reduction from its peak of 5.25% in August 2023 plus lower cash balances feeds through.
29. Crucially, the cost of inflation continues to outstrip income increases, council tax rises are effectively capped and many of the Council's charges are governed by statute. This continues to create a shortfall as many increases in income are not keeping pace with rising costs.

### Income

30. Income generated from services currently funds around a quarter of General Fund gross expenditure. The Council's 2025/26 budget includes £139m of income from fees and charges, including statutory charges over which the Council has no control (e.g. some planning fees and social care contributions). Some income streams will always be subject to external economic, social and demographic factors beyond the Council's control and therefore not guaranteed. For instance, £46m of this income relates to parking (both charges and penalties) which is a relatively volatile source of funding.
31. The Access for All policy impacts on income generated as a wide range of concessions are now offered to support low income households to access Council services.
32. The position will continue to be monitored to ensure that income budgets are set at realistic levels, particularly when considering any future charge increases and their reasonableness.

### Cost of living crisis



33. The continuing impact of the cost of living crisis puts additional financial pressure on individuals which means they may be less able to pay bills and require further support from the Council (including through accessing statutory services), which in turn could adversely impact the Council's financial position.
34. The impact for residents continues and the Council and its partners will continue to do more to help prevent hardship. The Council has so far committed £15m of its own funding to support a range of initiatives, as well as delivering other initiatives funded by Government grants. Longer term support is being delivered through implementation of the recommendations of the Cost of Living Commission and the Access for All policy which provides equitable access to what living in the borough has to offer.
35. The Council is due to receive £3.6m of Household Support Fund grant from the Government in 2025/26 (£4.3m in 2024/25) which is being used to fund key cost of living initiatives for households in financial crisis. The Government's funding reform proposals include the creation of a new Crisis and Resilience Grant, which would merge the Household Support Fund and Discretionary Housing Payments, to help councils support financial resilience and crisis response. At this stage it is assumed there will be no overall reduction in this funding for 2026/27.

#### Rising homelessness

36. The Homelessness Reduction Act 2017 came into effect in April 2018 and extended the range of statutory duties to a wider cohort of households. In addition, the ongoing challenge of the national housing crisis is continuing to have a significant impact on the Council's statutory homelessness services.
37. As reflected in regular financial monitoring and housing activity reports (most recently Paper No. 25-257) the past year has seen further growth in the number of residents presenting as homeless and a significant increase in the cost of temporary accommodation. Whilst officers continue to bring forward and implement plans to manage demand and costs, as well as explore new avenues for increasing housing supply, there remains a trend and the ongoing risk of other external factors having an impact and leading to further rising homelessness and increased costs. This position is not unique to Wandsworth, but one that is having an impact nationally, and is particularly acute across London as the combination of the cost of living crisis and supply/demand imbalance in the private rented sector is causing significant concern.
38. In order to mitigate these pressures as much as it can, the Council is taking positive action to boost the local supply of affordable housing, for instance through taking a more robust approach to affordable housing delivery in the application of planning policy and the delivery of 100% social rent homes within its "Homes for Wandsworth" self-build programme, alongside pro-actively leveraging external funding sources (where appropriate) to assist in growing stock through acquisitions targeted specifically at providing alternatives to the most expensive forms of temporary accommodation.

### Welfare reform

39. National changes to the welfare benefits regime have been introduced which are having an impact on social housing tenants and private sector tenants. The social sector size criteria, introduced from April 2013, applies a percentage reduction to Housing Benefit for those qualifying tenants who are under occupying social housing. Further, the total welfare benefit cap, applied to all out of work households, was introduced in September 2013 at a rate of £26,000 per annum in London. Reduced in December 2016 to £23,000, it was increased in April 2023 for the first time since its introduction and is currently set at £25,323 in London (a 10.1% increase).
40. Around 60% of households affected by the benefit cap are housed in the private rented sector, with only limited security of tenure, allowing landlords to recover possession within a relatively short timescale if they are minded to do so. In addition, the full impact of other planned welfare reforms (direct payments and Universal Credit) are not yet known, but it is clear that a high rent inner London borough such as Wandsworth will see an above average number of its residents affected. This, exacerbated by the cost of living crisis, could lead to a further increase in homelessness, increased rent arrears and more demand on other Council support services.
41. Following a four year freeze the Local Housing Allowance (LHA) (the maximum level of financial help with rent that private sector tenants can receive) was uplifted by the Government in April 2024 and relinked to the 30th percentile of local rent costs. This increase was welcomed as originally LHA was designed to cover the lowest 30% of market rents but was covering only 3% of properties in London (and even less in Wandsworth), increasing the risk of homelessness. However, it was again frozen from April 2025 and there has been no announcement on the level for 2026/27. Meanwhile private sector rents have continued to increase due to market demand.
42. The Council has received confirmed funding of £0.79m of Discretionary Housing Payment grant in 2025/26, down from a high of £1.31m received in 2020/21. This will be used to help alleviate short term funding issues for residents but there is no indication at this stage that demand will reduce in line with available funding which will put pressure on Council budgets.

### Social care – adults

43. Nationally the social care sector continues to face a number of challenges as outlined by a recent report from the Association of Directors of Adult Social Services. In 2024/25, 80% reported overspending on adult social care budgets, totalling £774m nationally, the highest recorded in the past decade.
44. In Wandsworth, the service has recently received the highest rating of “good”, from the Care Quality Commission. Financial pressure on care service budgets continues in relation to increased demand, more complex care needs and increased costs of care services across all client groups. Increased demand together with the cost of living impacting the care provider market as well as those who need and work in care means that this area of



expenditure, one of the largest areas of expenditure in the Council's budget, continues to be a challenge.

45. The drive to provide more care out of hospital settings and financial pressures affecting local NHS services also pose a further risk to adult social care service budgets. Changes to the way services are accessed and preventative services, such as reablement and other intermediate care, seek to proactively mitigate the risk of increased demand, together with partnership working with health services through the Local Authority Better Care Grant and Better Care Fund. However national changes to the operating and funding models of health services pose a risk to local authorities. Proposed changes to funding within the new funding formula may also leave the Council to fund higher care costs in the longer term.
46. In 2025/26, activity levels continue to increase across all areas of care and client groups with a 2.4% yearly increase in people receiving services by March 2025. Activity patterns remain uncertain and along with demographic growth it is difficult to predict demand.
47. To mitigate this, the Council continues to focus on a strength-based approach to keeping residents healthy and independent, helping to prevent, reduce or delay the need for social care. The Transforming Social Care programme is implementing a range of initiatives to help manage future demand for services to improve efficiency, including the use of digital technology, integrated health and care services and a more strategic approach to mental health commissioning.

### Social care – children

48. In November 2022 OFSTED found Wandsworth's Children's Services to be "good". This followed a sustained period of significant investment (both financially and in service improvements) and the Council's position is much improved since 2015.
49. A breakeven position is currently being projected in this financial year however there is continued pressure within demand led budgets in key areas that need to be managed to maintain a balanced budget position. The main areas of pressure are not unique to Wandsworth and are predominately linked to rising complexity of need, continued growth in demand for children with special educational needs and disabilities, and a placements market unable to meet need and demand both locally and nationally.
50. There is also a national challenge recruiting social worker positions with permanent workers and local authorities. Whilst the Council uses more expensive agency workers to cover vacant positions to ensure caseloads are managed safely and effectively, it has had huge success in this area with agency and staff turnover figures at the lowest levels in ten years.

### Pressure on the Dedicated Schools Budget



51. Schools' expenditure is met from the Dedicated Schools Grant (DSG) however the Council's General Fund holds the funding risk where DSG proves insufficient to meet statutory requirements. The Dedicated Schools Budget (DSB) currently contains a level of central costs from the Council and these costs will be under increasing review with the planned (delayed) implementation of a national funding formula for schools which reduces funding resources to schools in London.
52. Further, there are ongoing pressures on the funding of high needs special education provision within the DSB as the borough sees an increase in children with complex needs. There is a DSG deficit carried forward into 2025/26 of £21.2m and a forecast deficit in-year position of £7.5m for the current year. A clear action plan, owned by the Council and co-produced with partners (including schools and health), aims to recover the deficit.
53. The Government has announced plans for reform of the SEND system, details of which will be set out in a White Paper in the Autumn, and has recognised that local authorities will need support during the transition. In the meantime, Government has announced an extension to the DSG "statutory override", which was due to end in March 2026, until March 2028. On expiry of the override, the Council's General Fund revenue reserve balances would need to be used to cover any accumulated DSB deficit. The cumulative DSG deficit is therefore a future risk.

### Pension Fund valuation

54. The latest available valuation of the Pension Fund is as at 31st March 2022 and indicated that overall, the Fund was 116% funded (up from 105% in 2019). This rate is largely driven by Wandsworth's pre-2016 liabilities. By contrast, the Better Service Partnership (post-2016) funding level increased by just 1% to 102% as it is primarily active members who are accruing new liabilities. Consequently, the current contribution rate increased from 18% to 19.1% to apply from 1st April 2023 to 31st March 2026. This is considered a trade off between costs now and the risk of cost increases later. There is currently a planned draw down of £0.85m per annum from the Pensions Resilience Reserve to fund this increase.
55. The latest valuation as at 31st March 2025 is currently being analysed and will apply from 2026/27. Each 1% change in the contribution rate would have a General Fund impact of around £0.7m per year. Any changes from the valuation will be built into the 2026/27 budget and the Pensions Resilience Reserve used where appropriate.

### **Balancing the budget**

56. The Council is committed to making Wandsworth fairer, compassionate and more sustainable. The revised budget framework includes the financial impact of the key priorities within the Corporate Plan 2022-26 (such as the commitment to pay the Living Wage in Council contracts, expansion of food waste collection and the Cleaner Borough Plan, further investment in community safety and the introduction of a private sector



housing licensing scheme) that have already been agreed by the Council. It is important to frame discussions about future priorities in the context of the Council's overall financial position and to take mitigating actions where possible, for instance repurposing service budgets where appropriate to better reflect the Council's priorities and exercising constant sound financial management.

### Size of the funding gap

57. Whilst there are efficiency savings in the pipeline that will offset some of the pressures, there continues to be a significant gap between income and expenditure over the MTF5 period resulting largely from service demand pressures in the 2025/26 base budget plus treasury income falling and future years' inflation:

Year	2026/27 £'000	2027/28 £'000	2028/29 £'000
<b>Current Council Tax Requirement 2025/26</b>	<b>74,387</b>	<b>74,387</b>	<b>74,387</b>
Inflation	13,633	27,125	39,375
Service Committee budget changes	2,995	3,785	4,540
Treasury changes including capital investment	3,108	4,227	6,058
Efficiencies	-4,216	-4,050	-4,915
Removal of temporary budgets	-5,123	-5,299	-5,130
Removal of reserve use to balance budget	11,281	11,281	11,281
<b>Total</b>	<b>96,066</b>	<b>111,457</b>	<b>125,597</b>
<b>Budget Gap</b>	<b>21,679</b>	<b>37,070</b>	<b>51,210</b>
Budget Gap as at March 2025	22,209	31,662	39,798

58. In addition national funding reforms will exacerbate this position further, estimated to range between £25m and £39m by 2028/29. Unlike in previous years when the budget gap had been building up significantly over the medium term, current assumptions predict a growing challenge from 2026/27.
59. The Council has a statutory duty to balance the budget year on year and will continue to exercise sound financial management including the efficient use of reserves, raising income and delivering efficiencies in order to do so.

### Council tax increases

60. The Localism Act 2011 replaced the capping regime for excessive council tax increases with local referenda, and in June the Government confirmed the council tax referendum threshold for the three year Spending Review period to be 2.99%. In addition, social care authorities have been given the flexibility to increase council tax in respect of the social care precept which will provide funds to protect adult social care spending. The Council applied this flexibility in 2025/26 by applying a social care precept of 2% whilst freezing the main element of the council tax.



61. Council tax increases of 4.99% each year for the next three years are being assumed by the Government in its funding reform proposals. For Wandsworth this is equivalent to additional council tax income of £11.8m a year by 2028/29 (1% council tax generates £0.75m income each year).
62. Decisions on council tax are taken annually in March as part of setting a balanced budget for the coming year and will continue to take all matters into account, including the impact on residents of any increases and other financial support the Council can offer those households in financial need.

#### Use of reserves

63. The Council maintains a number of reserves and balances aimed at both protecting against financial risks and providing opportunities for targeted investment. The Council has high reserve balances compared to other boroughs. All are earmarked for specific purposes (except the General Fund Reserve which is effectively used as an in-year contingency) and their level and continuing need are subject to annual review. Total reserves available for council tax setting purposes, excluding general contingency, are £194m at the start of 2025/26.
64. There is planned use of these balances in 2025/26 of £28m of which £16m is to deliver specific Council priorities (via use of the Cost of Living Reserve, the Refugee and Homelessness Support Reserve, and Access for All) and £12m is to fund the current budget gap, resulting in projected year end reserve balances of £166m.
65. This balance includes two reserves specifically established to mitigate the impact of spending and these will continue to be used in the first instance to fund a budget shortfall:
  - i) The **Financial Resilience Reserve**: established in 2014/15 to manage the risk of a deficit arising from a shortfall in Government funding in future years. Current balance of £97.1m.
  - ii) The **Service Transformation Reserve**: established in 2010/11 to mitigate the impact of a plan for significant levels of service redesign (in particular to cover redundancy costs). Current balance of £7.2m.
66. There will continue to be the need for the planned use of reserves to balance the budget and the proposed funding reforms could have a material impact on their use in the short term in particular. A full review of all reserve balances and their planned use will therefore be required alongside a fundamental change to the way the Council operates via the Transformation Programme which will tackle the longer term budget gap and mitigate reserve use in the short/medium term where possible.

## Conclusion

67. To summarise, service demand pressures are high and show little sign of abating and levels of inflation remain higher than predicted 12 months ago. In addition, the national Fair Funding Review proposals could potentially be significant for Wandsworth.
68. The Council is in a strong financial position to deal with these challenges as significant reserve balances can be deployed to mitigate against the impact of rising costs and/or grant loss. Current reserve levels enable a planned drawdown to deliver a balanced budget and protect services in the short-term. However, it is clear the Council will require significant ongoing reductions in spend levels or increases in income to maintain its financial sustainability by closing an ongoing and increasing funding gap.
69. The Transformation Programme will be used to drive change throughout the organisation. The ambition of the transformation will require some external technical and specialist support which is not currently available in house but will help to deliver a more efficient and effective Council.
70. Overall, the future local government finance position still remains very uncertain and projections are difficult to make. The Fair Funding Review could be significant for Wandsworth and the Council will continue to lobby the Government about its proposals, to include a fair distribution of needs formula and a sustainable approach to transitional support. The outcome will not be confirmed until December. Beyond that, there are still risks relating to service delivery pressures and cost inflation, without compensating increases in income, that signal an ongoing and significant budget gap.

## COUNCIL HOUSING BUDGET FRAMEWORK

71. The Housing Revenue Account (HRA) 30-year business plan models the cycle of works necessary to maintain the existing stock to decent homes standard and to fund investment in the delivery of new housing stock. This financial plan, which is updated annually, plots projected available revenue and capital resources.
72. The HRA Budget Framework was last approved in January 2025 (Paper No. 25-13) with the next update of the HRA business plan currently scheduled to be reported to Cabinet in November 2025 which will include revisions to the HRA capital cashflows and likely capital budget variations for approval.
73. The HRA outturn position at the end of 2024/25 showed an actual reserves level, across both revenue and capital, of £153m compared to a budgeted closing balance of £178m. Further detail covering the outturn position can be found in the Housing Committee's outturn 2024/25 report (Paper No. 25-191).



74. Current controls on the approved HRA framework were set on the basis that projected HRA reserves should not be forecast to fall by more than £40m by the end of March 2028 from the previously estimated level of £211m without the approval of full Council. Assessment against this parameter is controlled through forecasting and the budget variations reports presented to Cabinet each cycle. The HRA financial framework controls will be next reviewed and formally updated by full Council following the HRA budget review in February 2026.
75. Whilst total HRA reserve balances of £153m are still significant, the level has reduced since the high in April 2019 of £343m due to the strategic planned investment in both of the regeneration schemes and the significant development schemes through the Homes for Wandsworth programme to deliver 1,000 new council homes for social rent.
76. Furthermore the HRA has significant levels of future surpluses forecast in the short term, but these need to be viewed with caution as they are in no way guaranteed. The current position involves a raft of assumptions on future spend and income levels which if varied can have a significant effect on available resources. It remains important, therefore, that the HRA business plan continues to be based the delivery of appropriate key priorities and remain viable over the short, medium and longer term and isn't stretched through over commitment. Relevant risk factors are set out below.

#### Inflation

77. Due to recent and continued higher levels of inflation experienced over the last couple of years expenditure budgets are continuing to come under increasing pressure. This has been a key driver behind the cause of the overspend seen in the previous financial years. The business plan currently assumes long run inflation on general running costs of 2.5% and pay of around 2.8%. Additionally, general inflation assumptions on repairs and maintenance expenditure is estimated at 3%. In the short term higher inflation rates than those assumed in the business plan will squeeze available resources more than planned. Although with inflation matched to CPI estimates it is likely that in periods of higher inflation, additional rental income could be expected.

#### Rent increases

78. The Government's mandated Rent Standard assumes future rent increases for social rent properties of CPI + 1% each year in line with the ten year social rent settlement which was agreed in the 2025 Spending Review to give registered providers more certainty over future income levels. Additionally, the Government is currently consulting on the re-introduction of Rent Convergence that will potentially allow for actual rents to move towards Government defined "formula rents" more quickly after a cap on rent increases was previously imposed during the recent period of very high inflation in 2023/24. The consultation was seeking comments on a range of incremental options that would allow rents to increase by an additional £1 or £2 per week above the current statutory formula. The



consultation closed in August 2025, and the outcome is expected to be announced as part of the Chancellor's Autumn Budget statement.

79. Within the business plan any additional convergence income would be of benefit to the HRA. If forthcoming it is currently anticipated this will be applied to cover the additional financial burdens of new regulations within the social housing sector and go towards ensuring more financial resource is made available for day to day operational management and longer term investment.
80. It is however of significance and should be noted that despite the financial certainty the new statutory ten year rent regime is designed to give, if future rent increases deviate in any way from that assumed in the business plan, available resources would be significantly impacted.

### Repairs and vacant properties

81. New regulatory requirements around building and fire safety, and damp and mould (Awaab's Law) are having a considerable impact on the expenditure levels in the HRA. Additionally the recent grading by the Regulator has identified a need to carry out full stock condition surveys across the entire stock which will inevitably drive an increased requirement for remedial repairs. This has begun to be evidenced in the current year's expenditure forecast which at Q1 is showing an estimated overspend across repairs and maintenance spend of £12.4m for 2025/26.
82. The cost of bringing void properties back into use is also one of the biggest pressures to repairs budgets, both across capital and revenue. Additional revenue budget provision was added to the repairs base budget in 2023/24 which then still significantly overspent, and which then continued again into 2024/25. Early indications contained within the forecast stated above show that this is again continuing into 2025/26.
83. The business plan makes assumptions on void levels based on normal tenancy turnover rates and relet times of about 2% of rent roll per annum. Currently void losses are predicted to be significantly above this level with foregone rent of about 3% predicted in the current year due to the number of voids which is above the levels previously considered as business as usual. The HRA business plan assumes expenditure levels on voids reduces in the short term in line with the return to lower turnover levels although it does need to be recognised that these activity targets are on the low side due to the development of new properties and the 'churn' that creates when moving existing tenants to appropriately sized properties and additional financial resource therefore needs to be identified in the next budget update.
84. The business plan makes assumptions that the voids level will begin to return to the base assumption level during the framework period as previous issues have been addressed and are more closely managed but any longer term impact on rental income will have a detrimental impact on the business plan.

### Interest rates



85. The HRA had opening balances totalling £153m at the beginning of 2025/26. The interest earned on these balances is reinvested into the HRA to support the long term financial viability of the business plan. Higher interest rates mean that cash balances should be generating more income, but the reduction in reserve levels mean there is less available to invest negating any benefit of higher interest rates. Interest rates are expected to drop over the period of the framework.
86. Given the scale of borrowing required to finance capital expenditure in the HRA the risk around interest rate movement is more closely linked to the cost of future borrowing to support the regeneration schemes and other developments rather than the income generated through investing cash balances. Consequentially, increases in interest rates will have a negative impact on the business plan. All borrowing undertaken to support HRA investment in 2024/25 was internally borrowed from the General Fund and this is anticipated to continue for 2025/26 which mitigates the need to borrow from the Public Works Loans Board whilst rates are higher than allowed for within the business plan.

Maintaining existing stock, carbon reduction and fire safety

87. The business plan currently includes provision within the plan for the annual capital bids for repairs and improvements at approximately £40m per annum. Maintaining the capital programme at investment levels consistent with those assumed in the stock condition survey is critical to keeping the housing stock decent. The business plan assumes a 4% increase for each year of the framework period and 2.5% per annum thereafter.
88. Stock decency has been identified as being below the full decency target and therefore it is anticipated that a higher level of investment will be required in the longer term as the Council is fully committed to maintaining its existing stock to the highest standard. For the first time a full new stock condition survey is underway with 100% of individual tenanted properties to be inspected over a five year period. Whilst the costs of carrying out the surveys are known and budgeted for, the impact on the capital programme is not known. Early financial modelling is underway based on the sample of surveys completed so far (approximately 1,000 properties surveyed to date). The outcome of these surveys will form the basis of more accurate capital investment requirements in the business plan once available.
89. It should be noted that the Government is currently consulting on a revised Decent Homes Standard. Whilst the Council is in broad agreement with the aims it is proposing to move away from decency being based on the age of a property to being based on condition. The Council would always carry out works based on condition, not just age, but this may have an impact on the how capital works are programmed and therefore impact on costs. In response to this consultation the Council has specified the need for new burdens funding to meet any consequential rising cost.
90. The Council has a policy of becoming carbon neutral and net zero by 2030. It has been previously estimated that the cost of significantly



improving the energy efficiency of the housing stock could be in the region of £225m based on a high level statistical assessment. The business plan includes provision already within the plan for the annual capital bids for repairs and improvements (which already consider a scheme's energy efficiency wherever possible) but no additional provision above that level. Given the cost and the scale of the climate change emergency it is hoped that external grant funding will be made available to Councils to assist with meeting the costs of decarbonisation commitments. In addition to this the Council is currently responding to the minimum energy efficiency standard (MEES) Government consultation which is proposing a target of all homes reaching EPC C or equivalent by 2030. Early modelling estimates this could cost approximately £33m.

91. The Council has committed to a programme of building safety works and will be commissioning a series of structural surveys across the high rise portfolio (148 blocks). These will vary in nature from visual surveys to intrusive surveys depending on the construction of blocks. A procurement exercise is underway for visual surveys with a contract estimate of approximately £0.8m. Intrusive surveys are being carried out on large panel system blocks and notice of intentions are being served. It is estimated that this will cost a further £0.8m, though some costs will be recovered through recharges to leaseholders. A programme of annual fire risk assessments is now in place.
92. Retrofitting fire safety measures in the Council's housing stock could come at significant expense. Other than the provision previously made in the capital programme for fire safety works, there is currently no further notable provision in the business plan for any additional remedial works. Any requirements would again therefore need to come forward as part of the annual capital bids programme or seek additional revenue budgets as appropriate.

### Regeneration and Council led development

93. Following the exit of the private sector partner from the Winstanley/York Road Joint Venture the position on both of the regeneration schemes continue to be worked on to inform the longer-term financial modelling within the business plan. At this stage, therefore, the business plan continues to assume total investment levels in line with those previously reported within existing commitments, albeit with amendments to scheme timings and cash flows where necessary. Once both schemes are reviewed a clearer understanding of future cash flows will be possible and be built into future iterations of the business plan.
94. Finally, as approved in September 2022 (Paper No. 22-252) the Homes for Wandsworth development programme is now going to deliver 100% social rent properties. The estimated revised net cost of the new approach was £332m which included £85m of agreed/approved Greater London Assembly (GLA) funding. Based on further positive discussions with the GLA, it is hoped that as much as an additional £50m can be secured through a mix of GLA grant, section 106 affordable housing funding and retained receipts from Right to Buy sales to continue to support the delivery of new housing development. The actual amounts available from the GLA will depend on the



developments taken forward for delivery and the negotiated amounts secured under the 2021-26 Affordable Housing Programme.

## GENERAL FUND CAPITAL FRAMEWORK

95. Paper No. 25-327 elsewhere on this agenda sets out the latest proposed General Fund capital programme. This proposes a Committed Capital Programme of £261.5m and Development Pool of £162.2m, totalling £423.7m.

General Fund Capital Programme	2025/26	2026/27	2027/28	2028/29	2029/30	Total
	£000	£000	£000	£000	£000	£000
Health	6,132	2,693	1,400	1,249	708	<b>12,182</b>
Environment	14,704	2,288	512	400	0	<b>17,904</b>
Transport	37,841	30,935	18,064	13,336	360	<b>100,536</b>
Children's	41,967	39,720	0	0	0	<b>81,687</b>
Finance	17,511	10,619	6,465	2,904	2,399	<b>39,898</b>
Housing	4,096	2,916	1,830	250	250	<b>9,342</b>
Development Pool	10,694	64,674	45,716	16,736	24,346	<b>162,166</b>
<b>Total Programme</b>	<b>132,945</b>	<b>153,845</b>	<b>73,987</b>	<b>34,875</b>	<b>28,063</b>	<b>423,715</b>
Grants & Contributions	21,565	7,527	6,133	708	708	<b>36,641</b>
S106 & Neighbourhood CIL	33,813	48,649	1,830	250	250	<b>84,792</b>
Strategic CIL	38,390	57,006	39,478	8,840	5,660	<b>149,374</b>
Earmarked Reserves	768	1,247	596	709	0	<b>3,320</b>
Revenue Funding	444	138	541	541	0	<b>1,664</b>
Capital Receipts	6,488	6,990	296	226	0	<b>14,000</b>
Borrowing	31,477	32,288	25,113	23,601	21,445	<b>133,924</b>
<b>Total Financing</b>	<b>132,945</b>	<b>153,845</b>	<b>73,987</b>	<b>34,875</b>	<b>28,063</b>	<b>423,715</b>

96. The balance of usable capital receipts held by the Council have been applied in full to finance 2024/25 capital expenditure. Opportunities to generate additional receipts will continue to be explored, driven by the asset portfolio within the Transformation Programme, with consideration given to applying the flexible use of capital receipts to help fund the transformation. In the absence of any alternative funding sources, borrowing will need to be used to fund the programme. Internal borrowing to date is £10.624m which means borrowing could total £145m over the period although inevitably there will be programme slippage which has not been factored in here. The revenue impact of this has been included in the General Fund revenue framework.

### **Capital grants and reimbursements**

97. Grants and reimbursements expected to support the General Fund programme over the five years are £270.8m. The most significant of these are Section 106 and Community Infrastructure Levy (CIL) contributions from developers totalling £234.2m.

### **Realisation of investments**

98. The Council has had an active policy of rationalising underused assets and has used the proceeds extensively over time to support a significant capital programme despite receiving little in the way of Government supported capital expenditure allocations. The amount of the Council's investments at any time reflects daily variations in routine cash flows as well as capital spending, debt redemption and new capital receipts. As at 31st March 2025 the Council had cash investments of £568m but these relate almost entirely to current liabilities and to General Fund and HRA reserves for contingencies and specific purposes although could be redirected to help fund a capital programme as desired. The only investments available specifically for financing the general capital programme are those arising from capital receipts, which are neither payable to the Government nor used within the HRA, and specific elements within the Renewals Fund Reserve which were previously set aside to finance capital projects.
99. All available capital receipts have been used to fund the capital spend as at the end of 2024/25. Forecast capital receipts include the estimates of sales of General Fund sites totalling £14m up to 2029/30. A limited sum of HRA receipts able to be used freely for General Fund purposes has been included in overall receipt totals. This may increase in later years, particularly for any General Fund regeneration schemes, but these will be added in as appropriate in due course.
100. The Government introduced the Flexible Use of Capital Receipts in 2016 to give local authorities the freedom to use capital receipts to help fund the revenue costs of transformation projects and release savings. The Council has approved a flexible use of capital receipts strategy which may be used to alleviate some of the pressures currently being experienced on revenue resources, however any such use would reduce the availability of resources for capital spending. So far, this flexibility has not been used.

### **Revenue financing of capital**

101. The revenue consequences of the existing capital programme, and of additions to the HRA and General Fund capital programmes in January, are modelled in the 30-year HRA Business Plan and General Fund revenue scenario and budgeted for on the basis of affordability at the time of approval by Cabinet for inclusion within the council tax setting report and MTFs.
102. Whilst investment realisation (which incurs a revenue cost due to loss of investment income) is the preferred form of revenue financing, the



Council will continue to consider borrowing for all investment but particularly when considering “invest to save” schemes where other funding is not available. Borrowing for regeneration and the delivery of increased levels of social housing in the HRA will be required this year. Growth in the capital programme has a direct revenue impact either through reduced cash balances earning less income from investments or directly through the cost of borrowing. Whilst some allowance has been made in future General Fund revenue estimates it is worth noting that there is currently relatively low approved capital spend in the later years of the framework and any decisions regarding further capital expenditure therefore need to be made whilst considering its impact on the General Fund revenue position which has a significant projected funding gap.

### **Treasury management strategy**

103. The Council’s anticipated investment position for the period 2025/26 to 2026/27 takes into account estimates of major cash flow movements. This assumes some external borrowing for HRA regeneration in future years as well as borrowing to fund the General Fund capital programme. The current working assumption is for cash balances to change from an opening balance at the start of the year of £568m to around £500m over the next few years, largely as a result of planned spend in relation to capital investment plus future revenue grant funding levels. Assumptions on other capital schemes within the period that have not yet been approved are not included at this time.

### **Prudential borrowing /divestment**

104. The ‘Prudential Code’ issued by the Chartered Institute of Public Finance and Accountancy sets parameters within which an authority can afford to finance debt. The Council, under its Treasury Management Policy, has determined that divestment of usable capital receipts is generally financially advantageous compared with undertaking additional borrowing. However, as receipts diminish there will be a requirement to undertake borrowing to fund capital investment in the borough. The Council must, under Section 3 of Part 1 of the Local Government Act 2003, set an authorised borrowing limit and operational boundary for the year. This limit refers only to gross borrowing, ignoring investments, and it reflects the maximum amount that the Council has decided it will allow borrowing to rise to within the year. The limit in Wandsworth therefore reflects the existing outstanding debt, including deposit facilities offered to other bodies and external funds. A fresh decision on prudential borrowing limits is made each year. A limit of £210m has been set in March 2025 for 2025/26 reflecting forecasted borrowing and allowing for other possible requirements. When the budget was set, new long-term borrowing of £158m was planned during this financial year – across both HRA and General Fund, with the majority of that investment being to deliver affordable housing within the HRA. As General Fund receipts diminish, there will also be a need to borrow for the General Fund – initially internal borrowing from cash balances and externally in the future.



## Particular risk factors

### Uncertainty over future capital receipts estimates

105. A prudent approach is adopted to the anticipation of capital receipts, with disposals generally only included after the assets are released from operational use and available for marketing. One of the portfolios within the Transformation Programme will look to ensure assets are used most effectively and could potentially generate future capital receipts to fund the investment needed for the programme under the flexible capital receipts strategy.
106. In the past the Council has pursued the acquisition of capital assets where it could demonstrate clear benefits for an area and where it was financially prudent to do so. If this is to continue, in all cases a full financial appraisal would be undertaken to assess the risks and benefits of an acquisition which includes, in the case of income-producing property, whether it would produce an adequate return reflecting the relative risk of holding property compared with holding money in the bank.

### Impact of recession on income streams

107. Funding of the Council's approved capital programme includes the use of a significant amount of section 106 and CIL receipts already received. There is a continued risk in the current economic climate that future receipts will drop and the Government's proposals for reform of the planning system may also have an impact. Future spending plans will need to be kept under constant review.

## DEDICATED SCHOOLS BUDGET FRAMEWORK

108. The overall Dedicated Schools Budget is mainly funded by the Dedicated Schools Grant (DSG), which is a ring-fenced specific grant that must be used in support of the Schools Budget as defined by the School and Early Years Finance (England) Regulations 2017. The DSG is made up of four separate funding blocks – schools, early years, high needs, central services.
109. The regulations include the delegation of funding to schools and impose restrictions on central expenditure such as Special Education Needs and pupil admissions unless approved by the Wandsworth Schools' Forum.
110. The funding passed on to schools (which forms part of the Schools Block) is calculated using a Local Funding Formula (LFF). From 2023/24, the Department for Education stipulated that individual local authorities' LFFs should be moved a minimum of 10% closer to the National Funding Formula (NFF) every year. The Wandsworth LFF was adjusted to meet these requirements in 2023/24 and 2024/25.

111. Schools' funding is subject to a per pupil Minimum Funding Guarantee (designed to give protection to schools' funding levels) set at a rate of positive 0.5% per pupil for 2025/26 before any pupil premium or other grants are allocated. This was the maximum amount permissible. The Council's estimated DSG for 2025/26 is £199.501m after academy recoupment and business rates deductions.

112. The Dedicated Schools Budget for 2025/26 is as follows:

	<b>Original Budget 2025/26 £'000</b>
<b>EXPENDITURE</b>	
Early Years Funding	44,203
Early Years Central Retained	1,078
Primary Schools Formula Funding	78,748
Secondary Schools Formula Funding	6,111
Growth Fund	529
Centrally Retained De-Delegated Funds	484
Central Schools Services Funding	2,759
High Needs Funding	65,591
Pupil Premium Funding to Schools	6,329
Other Grant Funding to Schools	14,479
	<b>220,310</b>
<b>INCOME</b>	
Dedicated Schools Grant	199,501
Pupil Premium	6,329
Other Income	14,479
	<b>220,310</b>

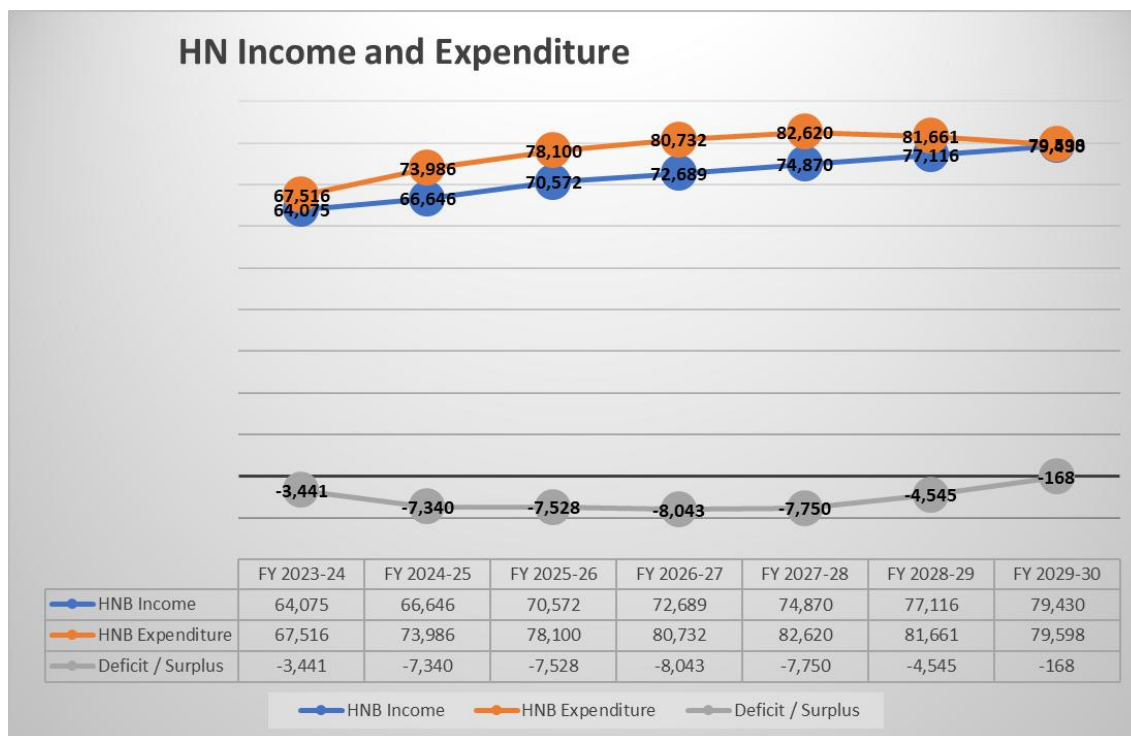
113. There are currently 27 academies in Wandsworth that are funded via recoupment from Wandsworth's DSG and an academy special school, the latest conversion having taken place April 2025. The Council's DSG has been adjusted to reflect this as well as any other schools that convert to academy status during the year.

114. Local authorities across the country have struggled to manage the pressures of growing numbers of Education, Health and Care Plans (EHCPs) and this has been a key pressure for Wandsworth, leading to overspends in the DSG in the past three years.

115. Due to the incredibly sensitive nature and compounding effect of the variables with the SEND / high needs budgets, trying to manage DSG forecasting over five years is extremely challenging. Latest forecasts include assumptions, both on managing demand and growth, and including an average of 3% high needs funding increases for the next three years. The forecast indicates that the in-year deficit is projected to increase over the next two years before beginning to reduce in financial year 2028/29.



116. A suite of management actions have been implemented to try to mitigate this position, focussed on managing demand and controlling price. Central to these strategies has been increasing SEND provision within the borough via the expansion of our special schools and resource bases.
117. A DSG recovery strategy update was presented to the Children’s Committee in June 2025 (Paper No. 25-223). The latest projections are shown below, which are based on successful outcomes for the management actions applied.



118. There is definitely risk that the number of children who require an EHCP continues to grow despite any dampening effect of the strategies. This could lead to a significantly worse position that outlined.

**Government funding**

119. We are currently awaiting the publication of the Schools White Paper, expected in Autumn 2025, which will outline the Government’s proposed reforms to the SEND system in England. This follows confirmation during the June 2025 Spending Review that SEND reform will be a central focus of the paper. The paper is likely to address the challenges within the SEND system and may propose structural changes aimed at improving outcomes while ensuring financial sustainability for local authorities.
120. Separate from High Needs, future years’ school budgets are expected to increase slightly. The June Spending Review announced that total core school funding is increasing by £4.5bn between 2025 and 2028. The review suggested this would be a real terms increase of 0.9% per pupil annually.

**DSG deficit**



121. Whilst schools' expenditure is met from the DSG the Council's General Fund holds the funding risk where DSG proves insufficient to meet statutory requirements. There is a DSG deficit carried forward into 2025/26 of £21.2m in addition to the forecast deficit in-year position of £7.5m for the current year. A clear action plan, owned by the Council and co-produced with partners (including schools and health), aims to recover the deficit. A sensitivity analysis shows the impact of only small movements in variables. For instance, a 5% increase in funding rather than the 3% modelled would see an in-year DSG surplus from 2028/29 onwards. Conversely, using forecasts of EHCP growth coming down due to a falling school age population, in-year deficits would begin to reduce in 2028/29.
122. A "statutory override" is in place until March 2028 but once this expires any deficit on the DSG will need to be covered by General Fund revenue reserve balances.

September 2025



**ANNEX A TO THE MEDIUM TERM FINANCIAL STRATEGY**

**The mechanisms by which the management of future resources is controlled**

1. The powers of Cabinet to add to existing financial commitments when considering proposals for service improvements foreseen in the Corporate Plan are exercised through the financial frameworks and delegation powers set out in the Council's Constitution and are re-set by the Council each year.
2. The MTFS gives numerical expression to a wide range of contributing policies and processes embedded within corporate decision structures including partnership funding and sustainability issues and integrates with other key strategies including human resources, IT and risk management and the development of the corporate transformation programme. The strategy consolidates the adopted options from sensitivity scenarios and models balances and resource requirements which underlie its financial frameworks, after consideration of the range of different planning assumptions set out in the development budget, Housing Revenue Account review, Dedicated Schools Budget plan, capital programme review and treasury management review, all of which have prudent regard to risk management.
3. The development budget is a four-year forward projection of service revenue budgets based on reported decisions and unavoidable commitments, with the current and next year budgets reconciled to detailed cost-centre level budgets. These budgets are reported in management statements used by service managers for business planning and budgetary control. The development budget is maintained incrementally so that all changes for service developments are explicitly reported. As part of setting the council tax requirement, an assessment is made for the impact of inflation and a report summarises the in-year developments as the basis for approval of the budget requirement, the medium-term outlook, and for consultation with the local business community.
4. The Council has four financial frameworks which are reset each year. These are:
  - **General Fund Revenue** based on the development budget, including levies precepts and partnership funding arrangements;
  - the **Housing Revenue Account (HRA)** based on the 30 year HRA business plan after consultation with the Borough Residents' Forum;
  - the **General Fund (Non-HRA) Capital Programme** based on the approved capital schemes, Treasury Management strategy, Asset Management strategy, capital resources projection, and an annual process for prioritising additions which recognises cost in use and sustainability issues; and
  - the **Dedicated Schools Budget** reflecting the Government's Dedicated Schools Grant.
5. The frameworks not only contain currently approved spending but also set the financial parameters within which Cabinet may add to commitments during the next year in the context of the reserves, Government grant, capital receipts, etc. anticipated in the medium-term outlook.

6. As regards the funding of future service improvements there is an initial presumption that Executive Directors will contain new expenditure within existing budgets. This approach is fundamental to the key corporate objective to keep council tax low. To the extent that this is not immediately possible, there is a well established and forward-looking process of budget reviews initiated by the Leader of the Council to provide scope for implementing new initiatives and to progress the objectives set out in the Corporate Plan.
7. Decisions on whether to confer approved budget status to plans for improvement/investment in the Corporate Plan are taken during the year under the budget variation approval process. Cabinet considers service proposals for budgetary developments in the context of the forward projection of the Council's budget requirement and council tax levels, the present value of reserves, the HRA 30-year business plan and the projected level of uncommitted capital resources. The financial frameworks are monitored monthly and reported quarterly to Cabinet. In addition to supervising the parameters for additional spending available to Cabinet, there are triggers for Member-level reporting of material variances against the approved revenue budget.
8. There is thus a clear decision chain from the corporate objectives and investment priorities in the Corporate Plan, through the approval processes for implementing new developments, into the development budget and onward to the financial information system and operating level management statements. The sensitivity of the strategy to external factors is monitored by the Executive Director of Finance, including prospects for central Government funding and specific grants, inflation, interest rates, tax base and developing risks. The Council has a recognised approach in providing for existing, and predicting future, risks. It has arrangements for rapid and effective intervention should modest unforeseen costs or income shortfalls arise, however further actions will always be required if the costs or shortfalls continue.
9. In order to maintain the real terms value of its income, the Council needs to appropriately charge for services. Where appropriate charges for specific services are set, seeking wherever possible, to recover the cost of the service. This is applied alongside the Council's "Access for All" policy which aims to make key Council services and local activities more affordable for all and ensure that everyone who lives in Wandsworth can access the opportunities which make Wandsworth special.
10. All new or significantly amended services and policies, including significant reductions in grants and budgets, undergo an Equality Impact Needs Assessment. These EINAs are then reported as part of any decisions to Cabinet. As such, individual services conduct an EINA on any reductions contained within the overall Council budget, including considering the impact on different socio-economic groups.
11. The Council is taking advantage of common procurement and joint working in many areas and is monitoring a range of service transaction costs in order to improve efficiency.

## Appendix 2 – the Transformation Programme

The eight following portfolios have been identified, and initial objectives and scope have been outlined. This will be refined over the coming weeks with input from our consultancy partner, once appointed.

Portfolio	Sponsor	Description
<b>Adult Social Care and Health</b>	Jeremy DeSouza	Promote independent and healthy lives, and review thresholds, structures and processes, and commissioning strategies. Promote neighbourhood integration with health and seek to optimise outcomes from overall health and social care funding. Use data and AI for targeted commissioning and more efficient processes.
<b>Children’s Services</b>	Ian Dodds	Target early help to enable children, young people and their families to thrive. Use data and AI for targeted commissioning and more efficient processes. Implement the government’s social care reform agenda, reviewing thresholds, structures, processes, and commissioning strategies. Reform SEND provision to remain within DSG funding.
<b>Resident Services</b>	Paul Chadwick	Create focussed, seamless and efficient ‘day-to-day’ services for residents and businesses, across all forms of housing tenure. Review provision and explore opportunities for greater efficiency, income-generation and commercialisation.
<b>Place and Growth</b>	Paul Moore	Deliver a widely-defined growth programme to provide better neighbourhoods, more housing and increased economic opportunity, including higher pay and greater participation in the labour market. Maximise council income through higher council tax and business rate taxbases, and via CIL and section 106 income.
<b>Corporate services (quality and efficiency)</b>	Fenella Merry	Improve the quality and cost-effectiveness of corporate services, supported by enhanced data and artificial intelligence.
<b>Early intervention and prevention of increased service demand</b>	Sam Olsen	Through connection and engagement with residents, deliver a data-driven programme of early intervention focussing on the prevention of increased demand for health and social care, homelessness and children’s social care.
<b>Single resident and business interface</b>	Jon Evans	Implement a single customer interface for all council services based on the most cost-effective contact and fulfilment methodologies, using data and AI.
<b>Assets</b>	Dave Worth	Based on analysis of all assets in council ownership, devise and implement a strategy for ‘utilise, develop, dispose’ to enable rationalised asset use for service delivery, for development, and disposal to generate capital receipts.