SPENDING REVIEW:

Initial Report

July 2026

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Foreword

This administration inherited the largest government cuts, the largest projected overspending and the largest predicted budget gap in Wandsworth's history.

The Spending Review will take the difficult choices that are necessary to fix the financial crisis at the town hall.

We are under an obligation to communicate those choices directly to the borough's residents, who need to understand how they might be affected. Unfortunately, pre-election period restrictions around the current by-election would prevent that communication.

Therefore, we are presenting the initial outcomes of the Spending Review now, while taking the opportunity of this additional time to further evaluate some of the options available.

Wandsworth has, rightly, been synonymous with low council tax. The government regards that as a problem, not a positive. Our tax apparently equates to a 'subsidy', not the reward of decades of good management.

As a result, our funding has been slashed by 40 per cent. With just five other councils, we have been granted the power to increase Council Tax by an unlimited amount over the next two years. If we did nothing, our share of Council Tax would have to increase by more than 230 per cent.

We will not do nothing. Instead, we will find savings, identify efficiencies, cut waste and do everything possible to limit the impact on residents' bills. At the same time, we will protect the services that matter most and meet our manifesto promises.

This initial report sets out the challenge. It is a challenge to which we will rise.

Cllr Peter Graham
Deputy Leader of the Council and Cabinet Member for Finance

Part One
Overview

The spending plans set out in the 2026/27 budget are not sustainable and do not reflect the range of pressures now facing the Council. The Council's budget is under strain in multiple ways: reduced Government funding, an underlying and widening budget deficit, increasing demand for high-cost services, increasing borrowing costs and finite reserves.

Like many other authorities, the Council is experiencing sustained demand-led pressures in statutory services, which reflect national challenges. These include legal rulings, housing costs, constrained supply, increasing complexity of need and market pressures.

The Council's response will require clear and consistent communication with residents. They need to know the financial choices facing the Council, the trade-offs involved and how decisions will protect core, universal services and obtain value for money.

Financial resilience Increased resilience to respond to future funding uncertainty, economic pressures and service demand growth while continuing to invest in the services that matter most to residents.	**Value for money** Spending aligned to Council priorities and the services residents rely on most, with a more disciplined approach to discretionary activity.	**Resident priorities** Protection of core neighbourhood services, including clean streets, better waste collection, enforcement and enhanced community safety.
Balanced budget Reduced reliance on reserves to fund day-to-day spending, with the Council on track to balance its budget by the end of the current administration.	**Organisational efficiency** Streamlined processes, reduced duplication and more effective use of technology.	**Investment with return** Investment in core services and necessary short-term activity where it delivers savings, improvements and a clear return on investment.
Sustainable framework A financial framework that supports continued investment in borough priorities while maintaining prudent levels of reserves and borrowing.	**Assets used well** More effective use of Council assets to ensure they achieve maximum value.	**Growth funding aligned** Better use of developer contributions and infrastructure funding, aligned to long-term growth and local priorities.

Ongoing commitments	Affordable capital programme	Future-ready services
A clearer distinction between one-off funding and ongoing commitments, so programmes continue only where there is a sustainable base budget.	Borrowing limited to schemes with a clear business case demonstrating value for money and no better funding alternative.	Continued investment in the services that matter most while improving resilience to future pressures.

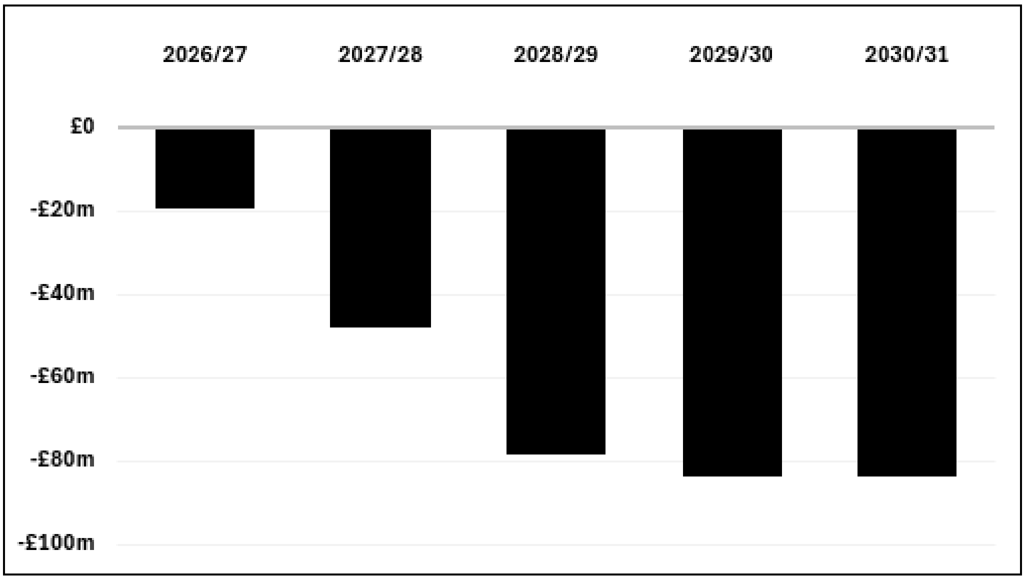
General Fund

The General Fund is the Council's main revenue account and funds most day-to-day services provided to residents, including social care, waste and street cleansing, libraries, parks, planning, community safety and corporate services. It is funded through a combination of Council Tax, retained business rates, government grants, fees, charges and other income.

'Fair' Funding

In December 2025, the Government changed how funding for local authorities was calculated through the Fair Funding 2.0 review. These reforms adjusted the formula used to calculate local authority funding, down weighting the factors that most strongly impact inner London, such as how demand for children's services is estimated, while adding a "remoteness adjustment" that benefited rural areas. These changes reduced the Government's assessment of the level of need in Wandsworth.

This was compounded by assumptions about our ability to raise revenue, which was based on a notional Council Tax rate set at the national average Band D, rather than the actual rates charged locally. Again, this impacted Inner London most heavily because Council Tax rates are substantially below the national average. The Government chose to assume that Wandsworth's Council Tax was set at £2,060 for Band D properties, compared to the actual rate of £510. As a result, Wandsworth's revenue raising power is around a quarter of that calculated by the Government when determining funding levels. Combined with the lower assessment of need, this higher assumed income has left Wandsworth facing the largest cash reduction in funding in the country over the next three years.



Graph 1: Government funding reductions compared to 2025/26 base

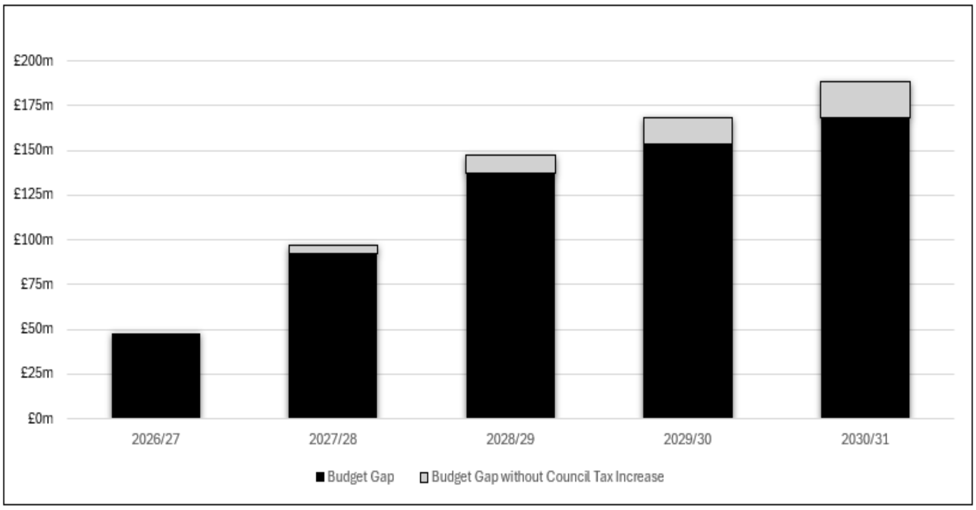
The Government has phased these changes over three years, a much faster rate than previous adjustments to the funding formula. Consequently, the Council has less time to manage the reduction in funding and urgent action is required to absorb the impact.

Although transitional arrangements are intended to support the local authorities most affected by the reforms, Wandsworth loses out. Because the local tax rate and current grant funding are more than 15% above newly assessed need, the borough is one of only six local authorities nominally reaching a 95% cash funding 'guarantee'. However, this floor includes an assumption that Wandsworth will raise Council Tax substantially above the standard 5% typically permitted by Government. This means that Wandsworth's transitional support is just £7m each year in 2028/29, rather than the £54m implied by the 95% funding guarantee.

Alongside the Fair Funding Review, the Government is conducting a reset of the business rate retention system, incorporating the 2026 revaluation and multiplier changes. Previously, the Council retained a share of growth in business rates revenue, based on the 2013/14 reset. This local retention has now been removed and absorbed within the national redistribution system, meaning the Council no longer gets any benefit from historic growth.

The existing budget deficit

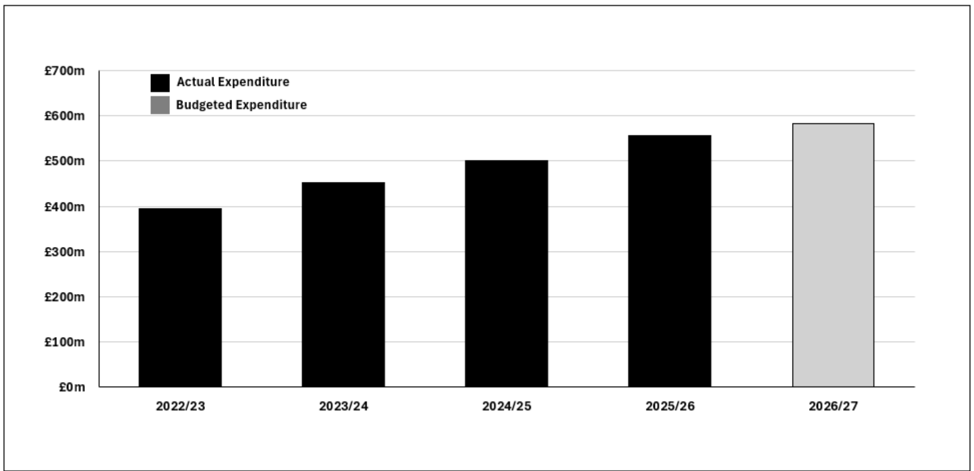
The reduction in Government funding for Wandsworth widens the existing budget deficit, which opened over recent years. In 2025/26, the Council drew down £15m from reserves to formally balance the budget. The 2026/27 budget already assumed that this gap would more than triple, requiring £48m to balance the budget from reserves this year.



Graph 2: Projected annual budget gap over the medium term

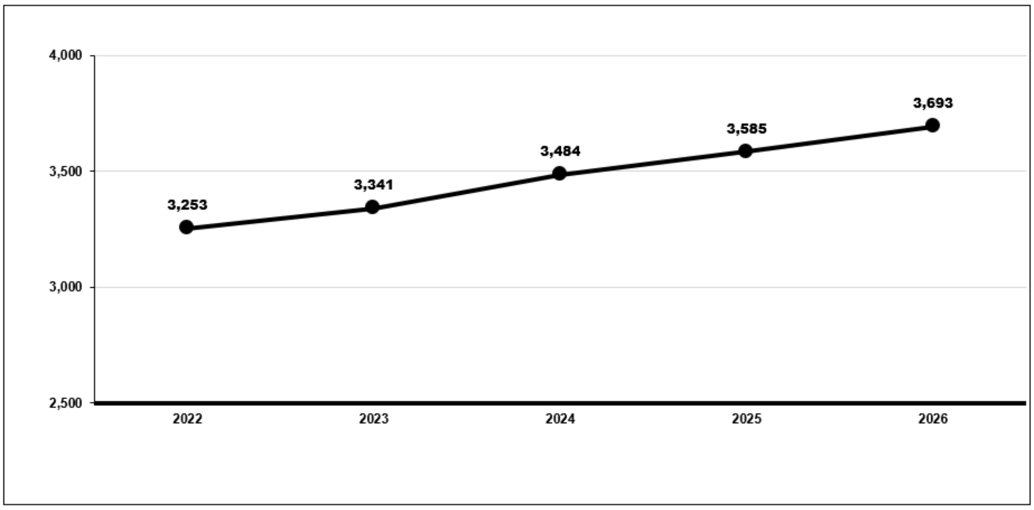
Over the last term, the Council created ringfenced reserves to fund specific programmes, notably the Cost of Living, Borough of Sanctuary, and Access for All funds. Those programmes are unfunded when the corresponding reserves have been spent. Continuation of these programmes would make the budget gap in future years even bigger.

The budget deficit has been driven by a growth in Council expenditure, without any corresponding increase in revenue. Since 2022, the Council's General Fund expenditure has grown by £188m.



Graph 3: General Fund expenditure

Since 2022, staff headcount (full time equivalent) has also increased by 14%, despite the Council's responsibilities remaining broadly unchanged.



Graph 4: Permanent and fixed term full time equivalent staff in the Better Service Partnership (BSP staff serve Wandsworth and one other London borough)

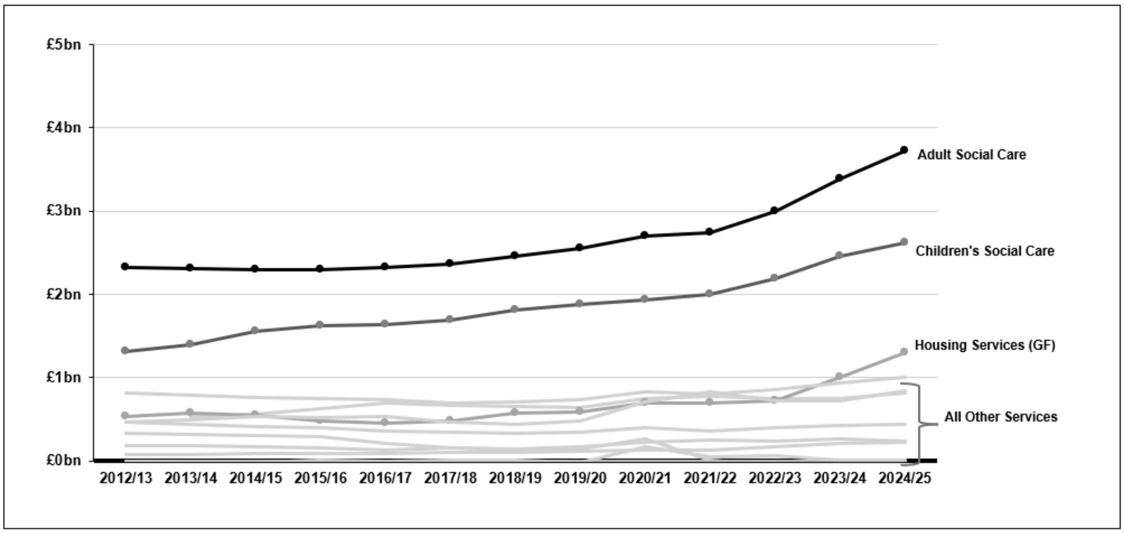
In addition, pay increases have been above assumed levels, with nationally agreed pay settlements increasing staffing costs by almost 20% since 2022. The 2026/27 budget allowed for a pay increase of 2.5%, but the current offer from employers is 3.3%. This would add an extra £1.2m to the currently assumed provision for inflationary pay increases.

Since 2022, inflation has added almost £100m to the budget each year.

	2022/23	2023/24	2024/25	2025/26	2026/27
	£'m	£'m	£'m	£'m	£'m
2022/23	20	20	20	20	20
2023/24		25	25	25	25
2024/25			19	19	19
2025/26				20	20
2026/27					15
	20	**45**	**64**	**84**	**99**

Demand pressures

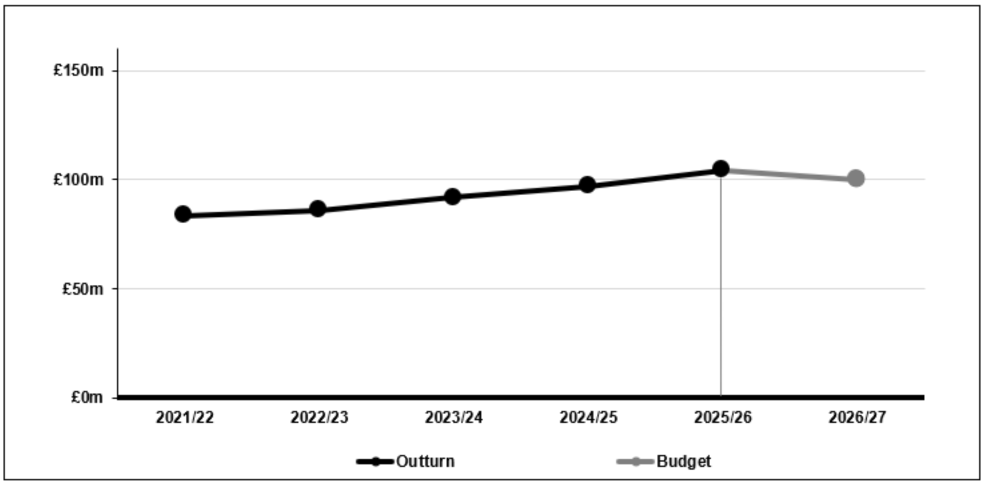
The graph shows the position across London. Financial pressure is increasingly concentrated in demand-led services, particularly adult social care, children's services and temporary accommodation. These are areas where the Council has statutory responsibilities and limited ability to control demand in the short term, meaning increases in client numbers, complexity of need and placement or accommodation costs translate directly into higher spending.



Graph 5: Expenditure by Service Area – London Boroughs since 2012

For Wandsworth, in 2025/26 additional budget of £16.1m was added to reflect demand growth, with a further £5.5m added to base budgets for 2026/27.

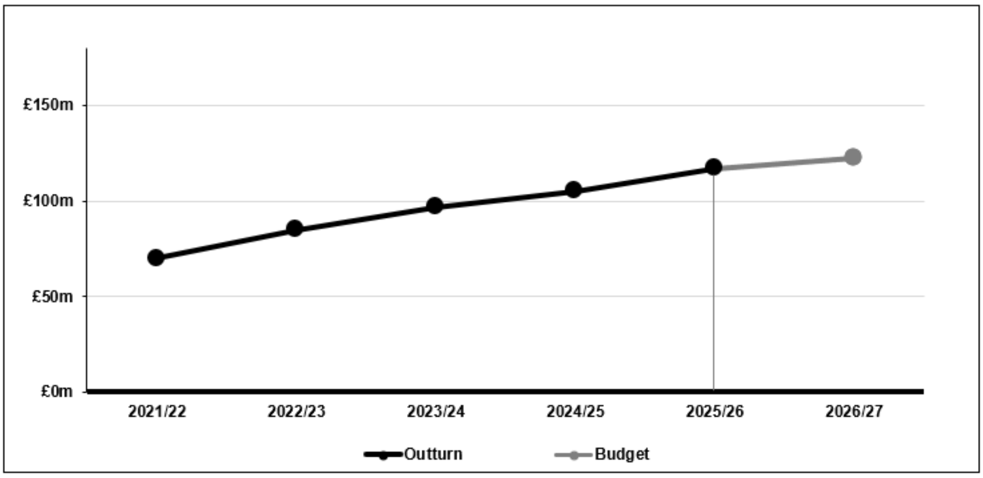
Children's social care has seen fluctuations in demand since 2022, with end of year figures 8% higher across the period. Increased numbers and in particular greater complexity of need place continued pressure on placement costs and wider service budgets.



Graph 6: Children's Expenditure

Client numbers within adult social care services have risen by 18% which, with increased acuity of need has led to additional spend of £32m per year.

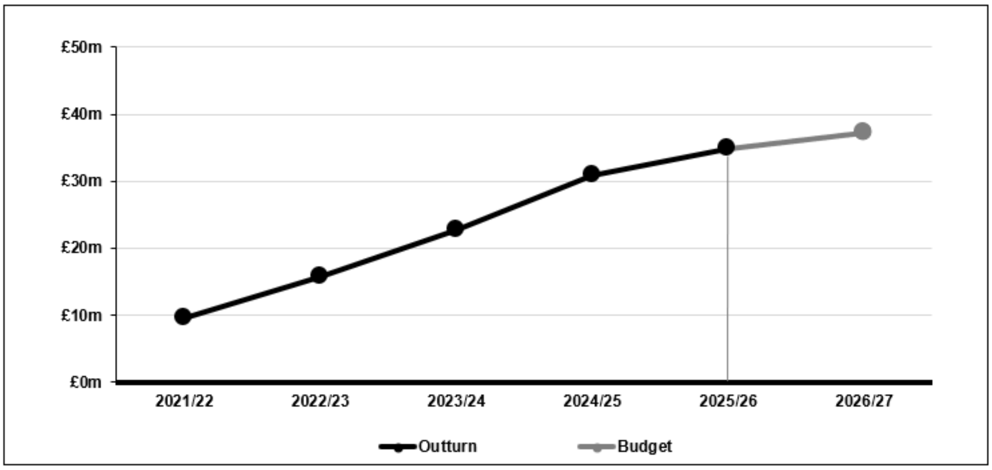
Given the borough's demographics, these pressures are expected to continue to grow unless action is taken to address them. The proportion of the borough's population aged 65+ is expected to increase from 9.8% in 2022 to 13.7% in 2047. Any continued growth in demand pressures above the previously assumed levels will further worsen the budget deficit.



Graph 7: Adults Expenditure

Temporary accommodation and wider housing pressures now represent the largest single financial pressure facing London boroughs, with the collective overspend reaching £176m by the end of 2025/26.

The number of households in Wandsworth being housed in temporary accommodation has increased by over 50% since 2022, having risen from 3,375 to more than 5,000. This has caused a significant rise in the cost of meeting statutory homelessness duties, with budgets more than doubling in that period. It reflects a combination of rising homelessness presentations, limited availability of affordable private-rented accommodation, increasing nightly-paid accommodation costs and a shortage of suitable permanent housing options within the borough.



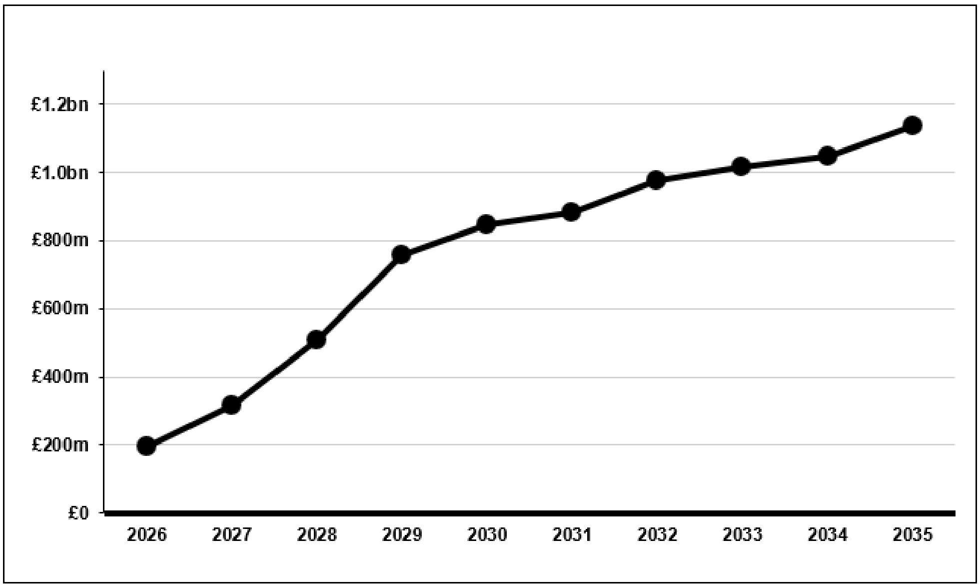
Graph 8: Housing Expenditure

Detailed modelling of future demand across these three main service areas is being undertaken. Initial indications are that service pressures will continue at a level above the levels currently assumed, which will increase the budget gap further.

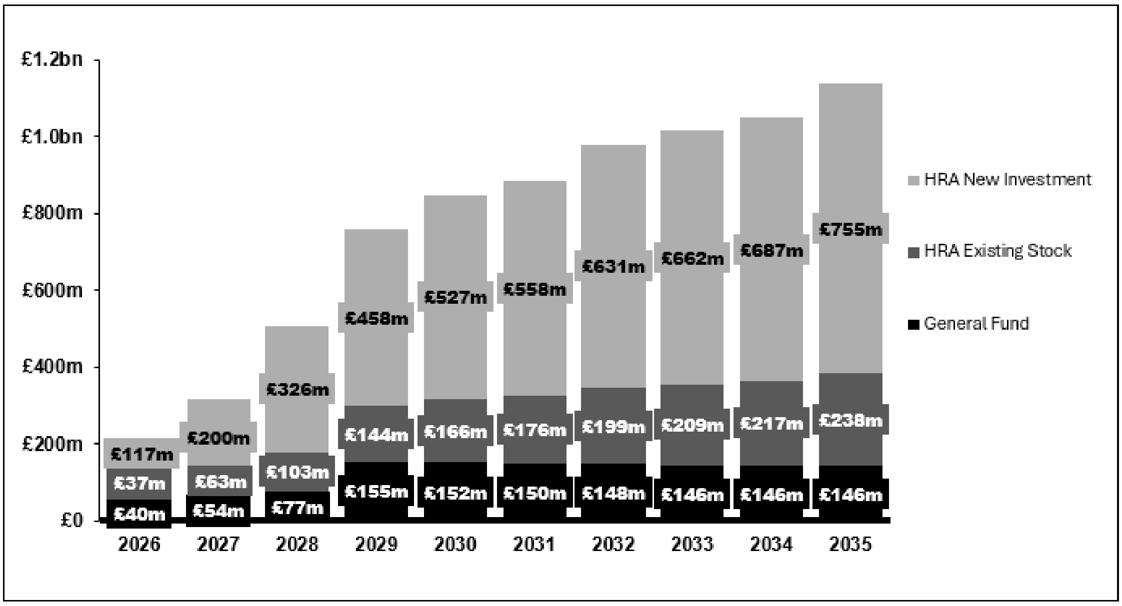
Borrowing

The Council's planned borrowing has increased substantially since 2022, with borrowing planned for capital investment in both the Housing Revenue Account and the General Fund.

The Council's projected borrowing is currently expected to increase to £1.14 billion by 2035, and the costs of servicing this debt will double that figure.



Graph 9: Planned borrowing across all Council services



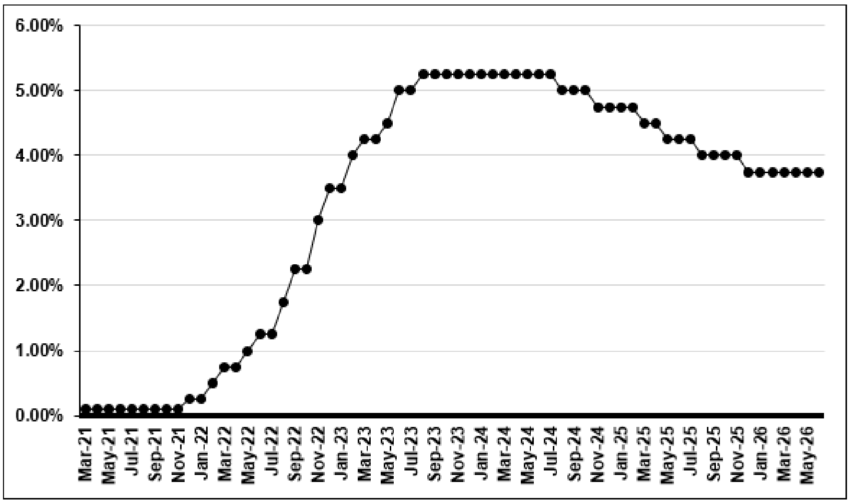
Graph 10: Borrowing breakdown

A significant proportion of the Council's planned borrowing relates to regeneration and new build programmes within the HRA. The projected cost of these programmes has increased substantially in recent years, reflecting a policy decision to maximise the delivery of social rent homes, while significantly reducing the level of cross subsidy assumed from other tenures, such as private market sale or rent.

Although the Council is permitted to borrow under the prudential framework, the scale of planned borrowing now presents a significant financial risk. Higher borrowing increases the cost of interest payments, increases the Council's exposure to external financial pressures, such as interest rate fluctuations, and limits the Council's flexibility to respond to future pressures. The current administration believes that planned borrowing should be significantly reduced and that the Council should live within its means. Where borrowing is required, there should be a clear business case for doing so, which includes consideration of alternative sources of funding.

Interest rate environment

In recent years, a relatively higher interest rate environment has benefited the Council, by providing higher levels of return on treasury investments. These higher levels of return have helped offset overspend. However, the Bank of England base rate has dropped over the past 18 months, reducing the level of income received on investments.



Graph 11: Bank of England base rate

As reserves are depleted, the interest rate environment will no longer benefit the Council. Instead, due to higher levels of borrowing, interest rates will lead to increased costs to the Council and, overall, become a net-negative on the budget. A 1% rise in the Bank of England base rate would lead to an increased cost of £255m from servicing a £1bn debt.

At the time the 2026/27 budget was set, the market consensus was that interest rates would continue to fall to 3.5% in early 2026, before trending downwards to 3% in the medium term. However, due to global events, the base rate has been held at 3.75% and is now projected to increase to 4% by the end of 2026, then be held at this level.

Asset and estate management

The Council's land and buildings are significant assets, but the current estate is not being used efficiently. Some key sites are underused or poorly aligned with service needs. This creates avoidable pressure on budgets, with the Council continuing to meet high maintenance, running and upkeep costs across a large and fragmented estate.

In 2022, the Council had a workspace strategy that was intended to address these issues by reducing operational costs and generating capital receipts for reinvestment in services. The plan was to consolidate services within the historic listed Town Hall building, enabling the disposal of other offices in the surrounding area. Alongside generating receipts, this would have released land to support wider development and regeneration in Wandsworth Town.

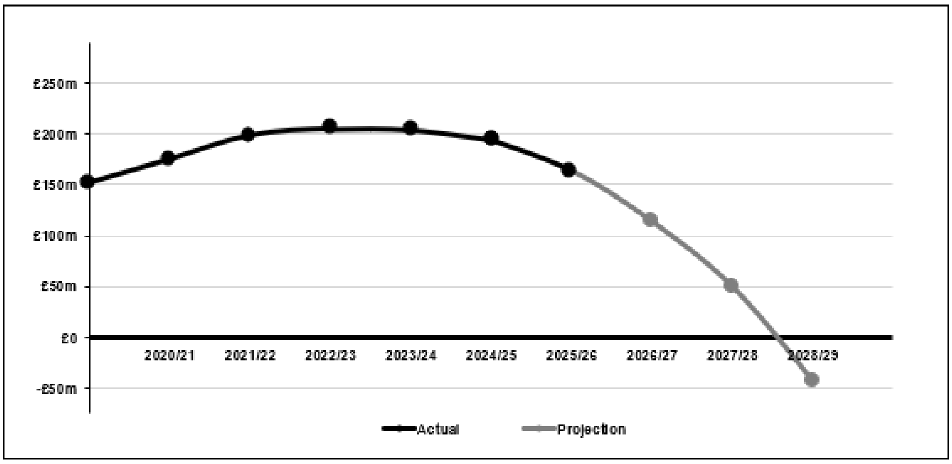
Those plans were paused and replaced by a series of alternative options, which required finding an alternative use for the Town Hall and relocating staff to other sites.

In addition, the Council's depot at Frogmore was due to be relocated to the Sergeant Industrial Estate, purchased in 2019 to facilitate this move. The Spending Review will consider sustainable and deliverable plans for these key locations in the borough.

Reserves

Historically, the Council has only drawn on reserves to make planned investment or cover unexpected emergencies. However, in recent years, reserves have increasingly been relied on to fund new service priorities and cover day-to-day spending.

The Council's General Fund reserves have fallen in each of the past three years, reversing the previous trend of a careful growth in reserves. The graph below outlines that reserves were expected to be £164m in April 2026, under the February 2026 budget numbers. Actual levels were lower, at £162m, due to a larger overspend in 2025/26 than expected.



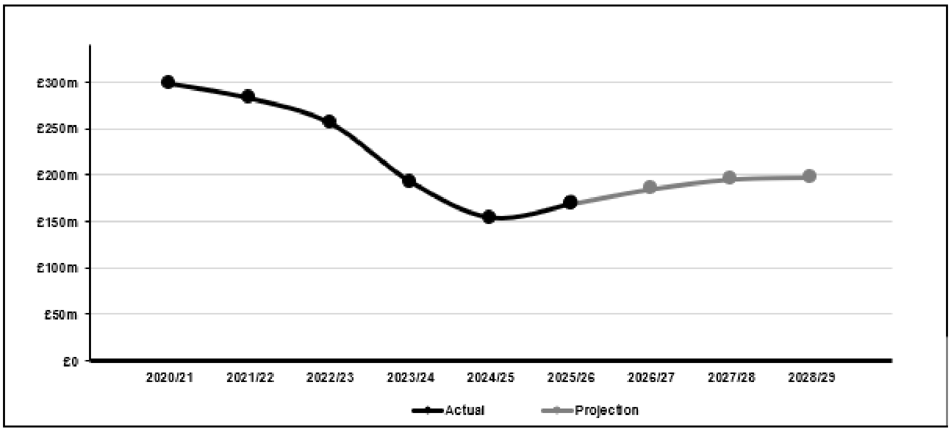
Graph 12: General Fund Reserves

The Council's reserves were already forecast to be exhausted by 2028/29 and cannot be relied upon to mitigate other pressures.

Housing Revenue Account

The Housing Revenue Account (HRA) is a separate, ring-fenced account that contains the income and expenditure relating only to the management and maintenance of the Council's housing stock. Although in a relatively strong position compared to other local authorities, the Council's HRA is coming under increasing pressure.

In April 2020, the Council's HRA reserves stood at £299m. These have since reduced to £166m, due to spend on the Council's regeneration and development schemes.



Graph 13: Housing Revenue Account Reserves

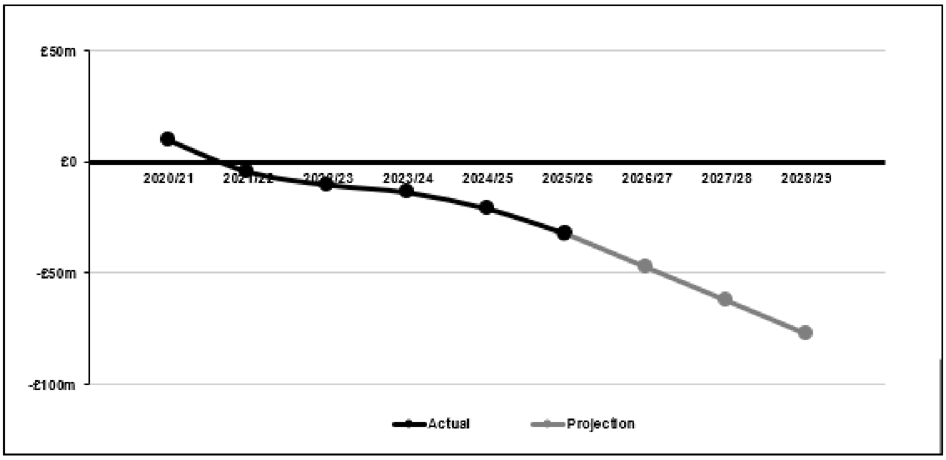
The Council's existing plans for HRA capital expenditure continue this trend and prioritise the purchase and construction of new social rent units to add properties to the Council's housing stock. The HRA business plan includes plans for 1,250 units, at a cost of £459m over the next four years. The opportunity cost of additional units is that investment cannot be made in the Council's existing housing stock. Following an inspection in November 2024, Wandsworth Council received a C3 rating from the Regulator of Social Housing. The inspection found the Council had serious failings in relation to safety and quality standards, including not having a full, up to date understanding of the condition of the Council's housing stock and 40% of properties having out of date electrical safety certificates. In response the Council initiated a full stock condition survey which is due to complete by December 2026. It is anticipated that this will identify a significant number of repairs required to bring the Council's housing stock up to a decent standard, which will need to be financed within the HRA.

The HRA revenue expenditure typically funds the costs of managing the council's housing stock and routine repairs. Over recent years there have been significant inflationary pressures on the costs of construction and building materials, which have increased the cost of repairs. The Council has had to agree above contractually entitled inflationary increases to repair contractors to maintain a viable ongoing service. These rising cost pressures combined with an increased volume of repairs needed has resulted in repeated overspends against the repairs budget. The base budget for repairs cannot be increased without reprioritising other commitments.

To support this expenditure, the Council intended to increase borrowing significantly, with £884m of planned borrowing in the HRA capital programme over the next ten years. This includes £212m to increase capital repairs and improvements to the Council's existing stock and £672m to finance estate regeneration and delivery of new units. Although all borrowing is currently undertaken internally against the General Fund, the debt still requires servicing. When combined with existing debt, it is estimated that £8.2m will be required to cover interest repayments in 2026/27.

Dedicated Schools Budget (DSB)

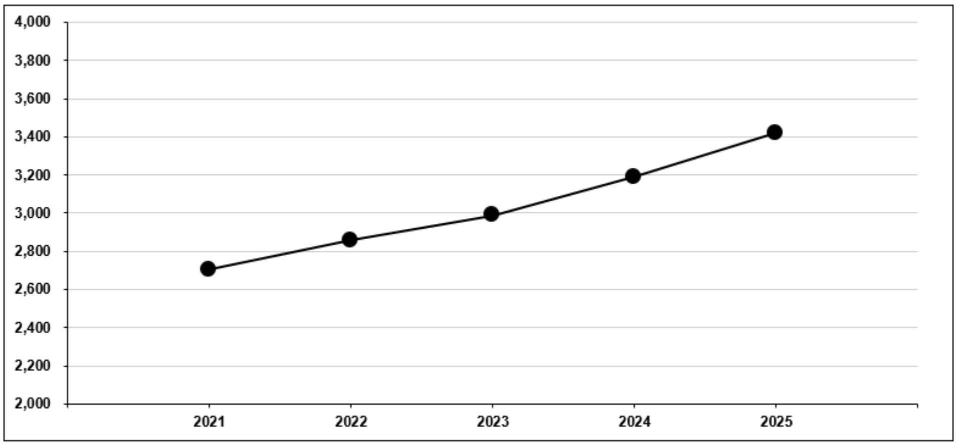
The DSB supports education, early years and high needs provisions. It has been under sustained pressure due to the growing demands for, and costs of, providing support for children with Special Educational Needs and Disabilities (SEND). This has led to overspends in the DSG over the past five years, with an accumulated deficit of £32.5m at the end of 2025/26, with a forecast in-year deficit in the current year of £19m.



Graph 14: Dedicated Schools Budget reserves

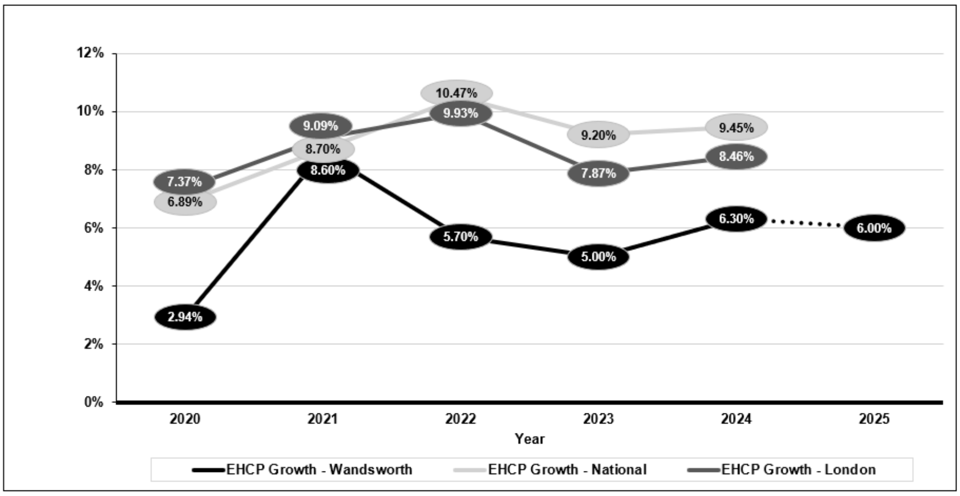
Typically, any deficit within the DSB would be required to be met from the Council's General Fund revenue account. However, since 2020, the Government has allowed a "statutory override", which allows local authorities to exclude the DSB deficit from their duty to set a balanced budget. The Government has announced that as part of wider SEND reforms, from 2028/29, SEND costs will be met from government central departmental budgets rather than local authorities and it will write off 90% of local authorities' historic deficit accumulated up to 2025/26. It is not clear what the Government's approach will be to deficits which arise in 2026/27 and 2027/28. The Council needs to make provision within its General Fund revenue budgets to address the remaining DSB deficit once the statutory override ends in March 2028.

The driver behind the increasing deficit is the continued growth in demand for those children with Education, Health and Care Plans which has grown by 20% between 2022-2025. This growth has been accompanied by rising complexity of need and a greater reliance on specialist and higher cost provision, which has increased placement and support costs at a faster rate than funding. As a result, expenditure on high needs provision continues to outstrip the Dedicated Schools Grant available, contributing to the accumulating DSG deficit.



Graph 15: Education, Health and Care Plans

Although the growth experienced in Wandsworth is lower than the national trend, it still represents a significant increase in demand for high needs support.



Graph 16: Education, Health and Care Plans growth %

Response to budget pressures

Prior to this Spending Review, there was no detailed plan that responded to these budget pressures and closed the budget gap. Whilst a transformation programme was established in September 2025, by May 2026 this was still working through the diagnostic phase of identifying issues and possible solutions that would reduce budget pressures. Against a publicly stated target of £45m of savings, the transformation programme had identified £14m of savings. The 2026/27 budget also set out that £5m would be drawn down from reserves to fund the transformation programme by 2027.

Council Tax projection

The combined impact of these budget pressures results in an overall projected budget gap of £137m in 2028/29, that requires urgent action to address. Part Two of this document outlines the current approved four year expected General Fund spend.

If the Council did not take any action to control costs, Wandsworth's rate of Council Tax would have to rise substantially. Typically, if a local authority wished to raise Council Tax by more than 5% it would be required to put this to a referendum or negotiate with Government for permission to raise Council Tax without a referendum. However, as part of the Government's offer to the six local authorities most heavily impacted by the Fair Funding Review, it proactively waived the referendum limit for 2027/28 and 2028/29 Council Tax setting. The Government's calculation for Wandsworth's transitional protection assumes that the Council will make use of this flexibility, increasing Council Tax by 4.99% + £150 each year. This would equate to a 71% increase in Band D Council Tax in the short term.

However, this would only address the reduction in funding from Government and would not correct the underlying budget gap or additional pressures outlined above. To fully address these issues, without taking any alternative action, the Council would be required to increase its share of Council Tax by 230%.

The final outcomes of this Spending Review will be published in the coming months and will set out the actions the Council will take to reduce costs and limit the scale of any required Council Tax rise.

Part Two

Baseline

The table below outlines the current approved four-year budget framework showing that the Council is facing a significant and growing financial challenge. As outlined above, the budget already relies on reserves to balance day-to-day spending, with a forecast budget gap of £137m by 2028/29 if no further action is taken. The Spending Review will set out the action required to reduce costs from this baseline.

REVENUE

General Fund

£Million	2026/27	2027/28	2028/29	2029/30	2030/31
Children's Services	100	99	100	100	100
Adult Social Care	147	146	145	145	145
Public Health	12	6	5	5	5
Housing	38	38	38	38	38
Regeneration and Assets	1	0	0	0	0
Environment	57	55	53	53	53
Transport	-3	-1	0	0	0
Community Safety	2	2	2	2	2
Finance	7	7	7	7	7
Corporate Services	-11	-8	-8	-8	-8
Public Health Grant	-29	-30	-30	-30	-30
Inflation Contingency	15	31	47	63	79
Total	**335**	**344**	**358**	**374**	**390**
At risk Transformation Programme Savings	0	13	13	13	13
Non Service Specific Grants	-26	-5	-5	-5	-5
Planned Use of Balances and Reserves	-50	-2	0	0	0
Collection Fund surplus	-4	-4	-2	-2	-2
Retained Business Rates	-65	-68	-69	-69	-69
Revenue Support Grant	-106	-97	-66	-66	-66
Fair Funding Transitional Protection	-7	-8	-7	0	0
Total After Funding	**77**	**173**	**222**	**245**	**261**
Current Council Tax Income	-77	-77	-77	-77	-77
Budget Gap	**0**	**96**	**145**	**168**	**184**

Schools DSG

£Million	2026/27	2027/28	2028/29	2029/30	2030/31
Schools (DSG) Expenditure	90	96	97	98	99
Schools (DSG) Grant	-71	-73	-74	-76	-77
Schools (DSG) Overspend	**19**	**23**	**23**	**22**	**22**

Housing Revenue Account

£Million	2026/27	2027/28	2028/29	2029/30	2030/31
Housing (HRA) Expenditure	182	193	208	219	229
Housing (HRA) Income	-197	-203	-210	-216	-223
Housing (HRA) Net Budget	**-15**	**-10**	**-1**	**4**	**6**

CAPITAL

General Fund Capital - approved programme

£Million	2026/27	2027/28	2028/29	2029/30	2030/31
General Fund Capital Programme	**162**	**107**	**54**	**28**	**0**
Funded by:					
Grants and Other Contributions	-13	-9	-2	-2	0
Section 106 and CIL Receipts	-95	-60	-10	-6	0
Earmarked Reserves	-3	-1	-1	0	0
Revenue Contribution	0	-1	-1	0	0
Capital Reciepts	-7	0	0	0	0
Borrowing	-43	-36	-40	-20	0
Total Financing	**-162**	**-107**	**-54**	**-28**	**0**

Housing Revenue Account Capital

£Million	2026/27	2027/28	2028/29	2029/30	2030/31
Housing (HRA) Capital Programme	**236**	**238**	**170**	**246**	**243**
Funded by:					
Capital Receipts	-2	-2	-2	-77	-109
Right to Buy 1-4-1 Receipts	-1	0	0	0	0
Capital Grant	-92	-18	-17	-6	-20
Leaseholder Major Works	-7	-18	-21	-10	-9
Borrowing	-108	-174	-102	-123	-73
Major Repairs Reserve Use	-27	-27	-28	-30	-32
Total Financing	**-236**	**-238**	**-170**	**-246**	**-243**

Part Three
Responding to the Challenge

The challenges outlined above are real and require an immediate response. The administration is determined to take action to return the Council to a stable, sustainable financial footing, while exploring every avenue to limit the required Council Tax increase. To do this, the Spending Review is examining all areas of expenditure and planned borrowing, which will be guided by the following core principles:

Value for money

The Council will return its focus to providing value for money for our residents. The Spending Review will examine all areas of discretionary spend and all planned borrowing, considering whether it is appropriate for the Council to continue to progress. In some instances, this will lead to programmes or projects being halted, particularly where they do not reflect residents' priorities or wishes. In other cases, the Spending Review will roll-back 'gold-plated' schemes, where plans go beyond what is needed to deliver good quality services for residents, or insert the Council into roles better served by other partners. The Council will also cease the use of reserve funding for projects, only allowing ongoing, day-to-day expenditure where there is adequate base budget to do so.

Address demand pressures

The Spending Review will also highlight areas where the Council could, and should, take action to address growing service demand pressures. This includes examining how eligibility for some services is determined, to ensure they best serve Wandsworth residents, alongside an increased focus on prevention and early intervention. The Council will rebalance how homelessness services, children's social care and adult social care operate to ensure that they best serve Wandsworth residents at the earliest opportunity.

Implement service efficiencies/improvements.

In addition to managing rising demand, the Council will modernise its services, drawing on new technologies and innovative practice to ensure they are fit for the future. This will include work on developing new AI-enabled tools, rationalising the Council's digital systems and improving data. Together, this will make it easier for services to provide joined-up support to residents and support work to prioritise prevention, while freeing up officer time. The reforms will also make it simpler for residents who wish to do so to self-serve, making it more straight-forward to raise and resolve their own service requests.

Service improvement plans will also examine where services are located, as part of a wider review of the use of Council assets. The review will look at where there are opportunities to consolidate services into single-sites, improving inter-service working and freeing up sites for alternative use or disposal to raise capital receipts to fund improvements elsewhere.

Protecting core services

The Spending Review will involve difficult decisions, where the Council simply cannot afford to continue some discretionary programmes. However, core neighbourhood services will be protected. The services that matter most to residents will not only be protected but, where possible, enhanced. In a heavily constrained environment, the Council will continue to provide Wandsworth residents with the services that deliver safe and clean neighbourhoods, including maintaining weekly bin collections, increasing the enforcement of littering and fly-tipping and investing in community safety measures, including funding additional dedicated police officers. The Council will also maintain its high-performing social care services for children and adults.

In addition, the Spending Review will make provision for investment in the Council's housing stock, ensuring that the issues identified in the 2025 Regulator of Social Housing inspection are addressed, and the Council's housing service meets the needs of council tenants and leaseholders, including ensuring homes meet decent standards.

Outcomes

Where the Spending Review identifies immediate action needed to control spending and reduce waste, proposals will be taken through the Council's normal decision-making processes. This will include a return to pre-decision scrutiny at OSCs from September.