

REPORT TITLE: BUDGET SETTING CONTEXT 2026/27

To:

Cabinet

15 July 2025

Report by:

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Wards affected:

All

Director Approval: Chief Finance Officer Jody Etherington confirms that the report author has sought the advice of all appropriate colleagues and given due regard to that advice; that the equalities impacts and other implications of the recommended decisions have been assessed and accurately presented in the report; and that they are content for the report to be put to the Cabinet for decision.

1.	Recommendations
1.1	<p>It is recommended that Cabinet:</p> <ol style="list-style-type: none"> 1. Accept the proposed updated savings targets for the General Fund for the next five years, as set out at paragraph 4.1, and a new headline target to save £1.5 million per year over the next two years. 2. Endorse the proposal to undertake a detailed review of the 30 Year Business Plan for the Housing Revenue Account over the summer, using external advice where appropriate. 3. Agree the high-level approach to budget setting for 2026/27 set out in section 4. 4. Agree the high-level approach to public consultation set out in section 6.
2.	Purpose and reason for the report
2.1	<p>In previous years, the council has produced a Medium-Term Financial Strategy (MTFS) in the autumn, which included setting savings targets for the following year's budget</p>

	<p>setting round. However, under the council's new governance model, it has been agreed that the MTFS will now be updated alongside the Budget Setting Report (BSR) in the spring. This will allow for a more integrated approach to strategic financial planning and management, for example through ensuring that the council's key financial strategies (MTFS, Treasury Management Strategy and Capital Strategy) are aligned with each other and the council's budget.</p>
2.2	<p>This report therefore asks Cabinet for early strategic direction for setting the council's 2026/27 budgets, both in respect of the savings target to be achieved, and the high-level approach to budget setting, scrutiny and public consultation.</p>
3.	<p>Alternative options considered</p>
3.1	<p>General Fund savings targets – the council currently holds reserves in excess of its target level, and this provides some flexibility for the phasing of future savings. The council could choose to delay savings until later years by using reserves in the short-term, but this approach is not recommended as it risks a 'cliff-edge' of more significant savings needed in a few years' time, and arguably does not result in the best use of council reserves which could be applied to specific projects and member priorities. Alternatively, the council could increase savings targets in the earlier years to increase confidence around delivery and free up resources sooner for other priorities – however the council has just delivered the highest single year net budget saving of the past few decades in 2025/26, so there is a need to be mindful of capacity to deliver and the impact on services of further significant savings. The proposed approach takes into account both the medium-term target of achieving a balanced budget by year 5, together with a realistic appraisal of the council's capacity to deliver further savings in the short-term.</p>
3.2	<p>HRA Business Plan review – the council could decide to stick with its existing 30 Year Business Plan model, which would avoid the costs of carrying out a review and procuring a new model. However, the current model is somewhat dated, and the 2024/25 outturn has shown that HRA budgets are not currently aligned with actual spending requirements. The council would also potentially miss an opportunity to identify potential efficiency savings through benchmarking and working with external consultations.</p>

3.3	Budget setting approach – the council could choose not to introduce strategic budget challenge meetings, which would come with a saving in senior officer time. However, in the context of further savings requirements on top of the significant savings already made from services, there is a very real risk that detailed budget setting could become misaligned from the council's strategic goals, and opportunities to optimise the prioritisation of ever-scarcer resources may be lost.
3.4	Public consultation – the council could replicate last year's approach of a detail-focussed public consultation late in the budget setting process, once individual budget proposals are clearer. However, this would remove the ability of the public to influence the strategic direction of budget setting and feed in suggestions for budget proposals early enough for these to be considered.
4.	Background and key issues
4.1	<p>General Fund Savings Targets</p> <p>The Budget Setting Report (BSR) 2025/26, approved by full council in February 2025, set out the savings targets for the General Fund for the next five years. These have been reviewed in the context of updated economic forecasts, government consultations on local government funding reform and business rates retention, and other information which has come to light since the Budget Setting Report which is anticipated to have a significant effect on council finances. This has resulted in a new headline savings target of £1.5 million per year over the next two years, as set out in detail in the table below:-</p>

		2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	2030/31 £m
	Savings target per BSR 2025/26 (cumulative)	1.128	2.949	4.347	5.814	7.173
	Changes to economic assumptions:-					
	- Inflation	0.439	0.753	0.924	0.947	0.972
	- Interest rates	0.045	0.072	0.094	0.108	0.127
	Changes to employee cost assumptions:-					
	- Proposed 2025/26 pay award	0.189	0.194	0.197	0.201	0.205
	- Reduction in employer pension contributions	(1.355)	(1.333)	(1.315)	(1.297)	(1.273)
	- Creation of turnover contingency	0.750	0.771	0.790	0.808	0.832
	Changes to funding assumptions:-					
	- Estimated change to overall funding following government consultations	0.016	(0.100)	(0.271)	(0.348)	(2.335)
	- Rebalancing of funding from business rates growth to grants	(2.529)	(2.182)	(3.703)	(3.761)	(1.889)
	Changes to service forecasts:-					
	- Estimated additional cost of waste reform	1.044	1.044	1.044	1.044	1.044
	- Release of Park St commercial income	(1.283)	(1.283)	(1.283)	(1.283)	(1.283)
	Contributions to/from reserves to smooth savings targets:-					
	- Reverse contributions from reserves proposed in BSR 2025/26 to smooth savings targets	0.848	0.677	0.533	-	-
	- Contributions to/(from) reserves to smooth current savings targets	1.458	(0.062)	0.843	0.667	-
	Proposed updated savings target	0.750	1.500	2.200	2.900	3.573
4.2	<p><u>Assumptions</u></p> <p>The key changes in assumptions reflected in the above table are set out at Appendix A. Generally speaking, inflation and interest rates have proved stickier than previously forecast, remaining higher for longer. The Bank of England now forecasts average CPI inflation of 3.2% for 2026/27, compared to the 2.3% assumed in the BSR, and the 25-year PWLB borrowing rate is now expected to settle at 4.9% by the second half of</p>					

	<p>2027/28, compared with the 4.5% previously forecast. Employer pension contributions are expected to decrease as a result of the forthcoming triennial valuation, which is likely to show that the pension fund is currently over-funded.</p>
4.3	<p><u>Turnover contingency</u></p> <p>Currently, most service budgets include a 4% turnover allowance against their staff costs, i.e. staffing budgets are reduced by 4% to recognise the likelihood that there will be periods during the year when posts are vacant. However, it is recognised that the council's recent group design programme and transformation work, which has resulted in significant savings in staffing costs, means that services are now leaner and may have less capacity to operate with vacant posts. As such, it is proposed to create a new contingency budget which will bring together the turnover allowance amounts from all services into a centrally managed fund. This can then be used, on a case by case basis, to cover additional costs associated with staff turnover (for example overtime, agency, recruitment and handover costs), or other long-term staff absence (such as maternity and long-term sickness).</p>
4.4	<p><u>Funding assumptions</u></p> <p>The recently published government consultation on the future of local government funding (Fair Funding Review) sets out the government's intentions in respect of the multi-year finance settlement which local authorities have been promised with effect from 2026/27. Whilst the details of the consultation are still being worked through (and clearly are subject to change), initial modelling by the council's external advisors is showing a significant shift in resources away from retained business rates growth, towards core government grants. This reflects the planned 'reset' of business rates from 1 April 2026, when all historic accumulated growth will be lost, coupled with an increase in the council's funding allocation as a result of high population growth. Overall, the council is expected to be around £5.1 million per year worse off as a result of this package of changes, which broadly mirrors the position as forecast in the BSR.</p>
4.5	<p>However, the shift from a reliance on business rates growth income to core government</p>

	<p>grants is welcomed in so much as it provides greater certainty around future funding. The council's policy has been to only use the first £1.5 million of business rates growth income to balance the budget each year, recognising the associated uncertainty and risk. Any forecast income in excess of this amount has been allocated directly to reserves. However, government grant income is more certain, and this switch has therefore allowed significant funds to now be released to be used to fund services in future years. This is not additional money, however, and the knock-on impact will be less excess business rates income to transfer to reserves (for example to put towards capital programmes) in future years.</p>
4.6	<p><u>Waste reform</u></p> <p>There remains significant uncertainty around both the cost of future waste reform, and the extent to which this may be externally funded. Councils have now been informed that there will be funding available, both in respect of new burdens funding and the extended producer responsibility scheme, but based upon past experience there is no guarantee that this will cover the full costs incurred. For the time being, a very early estimate of additional costs has been made, using the assumption that government and producer funding will cover a combined 50% of such costs.</p>
4.7	<p><u>Park St commercial income</u></p> <p>Previously, the council's Medium Term Financial Strategy has assumed that excess commercial income from the Park Street redevelopment would be transferred to an earmarked reserve, on the understanding that HM Treasury required this to be recycled into future regeneration projects. Following a review of the relevant guidance, and consultation with HM Treasury, it has now been concluded that this income can in fact be released to fund council services.</p>
4.8	<p><u>General Fund reserves</u></p> <p>Appendix B sets out the forecast level of General Fund reserves over the next five years, assuming that the savings targets set out above can be achieved. Even without the</p>

	benefit of future business rates growth income (which is uncertain), reserves are forecast to remain comfortably above the current target level of £7.849 million over the five year period.
4.9	<p>Housing Revenue Account (HRA)</p> <p>As set out in the 2024/25 Outturn Report, the HRA reported a net overspend of £2.3 million against its planned operating surplus last year. This was mainly due to overspends on repairs and maintenance, including DCM (damp, condensation and mould), legal disrepair costs, void costs, and unbudgeted spend in respect of identified fire risks (such as waking watches).</p>
4.10	<p>Whilst it is too early in the year for any detailed forecasting of the 2025/26 position, it is fair to say that many of the pressures which led to last year's overspend have not gone away, and are unlikely to do so. As a statutory ringfenced fund, the HRA spends its money ensuring that council homes are safe, decent and well-managed, and there is very little discretionary spend. Management of overspends, therefore, needs to focus on more efficient operations, savings through good procurement and contract management, and/or different delivery mechanisms, rather than cutting services which in most cases are statutory in nature.</p>
4.11	<p>At the same time as overspending against its revenue budget, the HRA experienced significant capital slippage in year. The reasons for this are varied, but project delays and capacity to deliver capital works (in house and through contractors) are recurring themes.</p>
4.12	<p>The HRA Medium-Term Financial Strategy, approved by full council in November 2024, highlighted the risks around over-reliance upon borrowing to fund the council's ambitious new homes and retrofit programmes, and included an assumption that significant government grant income would be received (in excess of the amounts available under current schemes) to finance some of this work. Whilst the government announced more money for new homes in the recent Comprehensive Spending Review, we await further details from Homes England as to how and when this will be distributed.</p>

4.13	Taking all of the above into account, the time is right for a detailed review of the HRA 30 Year Business Plan, covering both revenue and capital spend, informed by external advice and benchmarking. It is proposed that such a review take place over the summer, with a view to feeding into the HRA budget setting process in the autumn.
4.14	<p>Budget Setting Approach</p> <p>This year will be the first budget setting cycle since the recent implementation of business partnering within the Finance team. The proposed overall approach and timetable is set out below.</p>
4.15	<p><u>Strategic Budget Challenge Meetings (August)</u></p> <p>Over the coming weeks, budget challenge meetings will be held for each of the council's groups. These will be chaired by the Chief Executive, and attended by the Chief Finance Officer, relevant Director and Assistant Directors, and other officers as appropriate. The meetings will have a strategic focus, and will include:-</p> <ul style="list-style-type: none"> - Review of 2025/26 savings and risks to delivery - High-level review of Q1 forecasts and emerging risks and opportunities - Consideration of current and future service pressures, and member priorities - Consideration of potential savings opportunities, timescales and actions to progress these to formal budget bids - High-level review of significant contracts, including identification of opportunities for savings - High-level review of service standards and delivery mechanisms, including identification of opportunities for savings
4.16	For shared planning and waste services, relevant council officers have been invited to attend the equivalent budget challenge meetings hosted by South Cambridgeshire District Council, as lead authority. A separate budget challenge meeting will also be held in respect of the council's capital programme.
4.17	Following the budget challenge meetings, Directors and Assistant Directors will communicate to their budget managers the agreed strategic objectives of the budget-

	setting round. Outputs will also be shared with the relevant Cabinet member(s).
4.18	<p><u>Early Budget Scrutiny (September)</u></p> <p>The September meeting of the Performance, Assets and Strategy Overview and Scrutiny Committee will have the opportunity to scrutinise and comment on the strategic approach to budget setting, including the savings target and high-level approach to public consultation (see section 6 below).</p>
4.19	<p><u>Service Budget Setting (October)</u></p> <p>The setting of detailed service budgets will take place during October, alongside the Q2 forecast process. This will ensure an effective and efficient process, replacing two meetings with one, and ensuring that the most up to date financial information is available to budget holders when setting their budgets for the following year. Budgets will be reviewed by the budget manager and relevant finance business partner working in partnership.</p>
4.20	<p>The detailed budget setting process will be similar to last year's, including a line-by-line review of all service budgets. A key objective is accurate budget setting, therefore, as last year, there will be no lower limit set on individual budget proposals. However, proposals which increase net service budgets will generally only be considered for:-</p> <ul style="list-style-type: none"> - Invest to save opportunities which will deliver clearly identifiable savings in future years - Cost pressures which are genuinely unavoidable - Strategic member priorities <p>It is important to note that the savings targets set out above are net, i.e. any budget proposals which result in increased spend will increase the savings required elsewhere.</p>
4.21	<p>As last year, inflationary increases will only be applied to non-pay expenditure budgets where a clear justification exists, for example an inflation-linked contract, or other expenditure where there is a reasonable expectation of an unavoidable cost increase (such as utility bills). For more general expenditure (training, stationery etc), services will be expected to manage within existing budgets, or to submit a budget bid where there is</p>

	a strong business case to increase these.
4.22	Following the service budget setting meetings, draft budget proposals will be collated for review and sign-off by the relevant Cabinet members, no later than the end of November. These will also take into account the results from the public consultation (see section 6 below).
4.23	<p><u>Budget Scrutiny and Approval (January/February)</u></p> <p>Based upon past experience, the draft local government finance settlement is likely to be published in late December. Following this, a final draft Budget Setting Report will be published for scrutiny at the meeting of the Performance, Assets and Strategy Overview and Scrutiny Committee meeting on 27 January 2026. The Chair of this Committee has agreed to exercise her discretion to invite members of the Services, Climate and Communities Overview and Scrutiny Committee to participate in the budget debate should they so wish.</p>
4.24	Cabinet will meet on 10 February 2026 and will be invited to recommend the Budget Setting Report to full council, after taking account of any comments raised during the scrutiny process and public consultation.
4.25	Full council will be invited to approve the final Budget Setting Report at their meeting on 26 February 2026, which will be subject to the usual constitutional requirements, including the opportunity for opposition groups to submit budget amendments. Finance officers will provide appropriate support to opposition groups in the run up to this meeting.
5.	Corporate plan
5.1	<p>The council's budget is underpinned by all aspects of its corporate plan:</p> <p>Corporate plan 2022-27: our priorities for Cambridge - Cambridge City Council</p>
6.	Consultation, engagement and communication

6.1	A 6-week public consultation will take place during September/October. This is earlier in the process than last year, with the intention that it will allow the public to have a meaningful input into the prioritisation of council resources and development of budget proposals, rather than simply commenting on proposals which have already been developed. As such, the consultation will be more strategic in nature, for example seeking public views on the prioritisation of corporate priorities and council services.
6.2	The consultation will take place on the council's online consultation platform, and in line with the approved Code of Best Practice on Consultation and Community Engagement. It is recognised that the respondents to last year's consultation were not fully representative of the city's demographics, and this is an ongoing challenge for many local authorities. Holding the consultation at a more strategic level may help to engage some of the groups which are historically under-represented, by ensuring questions are concise and easy to understand. Alongside this, the Communications team continue to explore alternative options for engagement with under-represented groups.
6.3	In addition, we will explore alternative ways for residents who don't want to complete a full survey to give their views, such as trialling a virtual suggestion box.
6.4	Detailed work on the public consultation will be carried out by officers in August, with the intention of launching in early September. Results will be fed into the budget setting process in late October, as part of the process of developing detailed budget proposals. Summarised results will be shared alongside the full budget papers at the budget scrutiny meeting on 27 January, and with full council at their budget meeting on 26 February.
7.	Anticipated outcomes, benefits or impact
7.1	The benefit of adopting the approach set out in this report will be a robust budget setting and challenge process, which ensures allocation of resources is in line with corporate and public priorities, and a council which is financially sustainable and fit for the future.

8.	Implications
8.1	<p>Relevant risks</p> <p>There is inherent risk and uncertainty in agreeing council savings targets. The areas of greatest uncertainty at present remain the future of local government funding, and the costs of waste reform (and the extent to which this is funded by government). Should the assumptions in this report prove to be incorrect, revised savings targets may need to be brought forward throughout the budget setting process.</p>
8.2	<p>Financial Implications</p> <p>The financial implications are set out throughout this report. Appendix B shows the impact on General Fund reserves. The HRA position will become clearer following the review of the 30 Year Business Plan over the summer, but the 2024/25 Outturn Report shows it is financial sustainable in the short-term. The budget-setting work to be carried out will be procured from existing service budgets.</p>
8.3	<p>Legal Implications</p> <p>The approach set out in this report will allow the council to meet its statutory duty to set a balanced budget under the Local Government Finance Act 1992.</p>
8.4	<p>Equalities and socio-economic Implications</p> <p>The public consultation will be carried out in accordance with the Code of Best Practice on Consultation and Community Engagement, which requires full consideration of accessibility and inclusiveness. The Communications team will be fully engaged in this process to ensure best practice is followed.</p>
8.5	<p>The equalities and socio-economic implications of individual budget proposals will be considered as part of the budget setting process. The final Budget Setting Report (BSR) will include a full Equalities Impact Assessment (EqIA) covering all budget proposals</p>

	where an impact has been identified. For significant proposals, individual EqlAs will be carried out in line with existing policy.
8.6	<p>Net Zero Carbon, Climate Change and Environmental implications</p> <p>There are no implications arising directly from this report. As individual budget proposals are developed, each one will be assessed and given a climate rating, which will be reported as part of the Budget Setting Report for consideration by full council.</p>
8.7	<p>Procurement Implications</p> <p>A compliant procurement process will be carried out in order to procure external advice to support the review of the HRA 30 Year Business Plan. This will make use of an existing framework arrangement, and will be fully supported by the procurement team.</p>
8.8	<p>Community Safety Implications</p> <p>None identified.</p>
9.	Background documents
9.1	<p>Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985:</p> <ul style="list-style-type: none"> - General Fund Budget Setting Report 2025/26 to 2029/30 - General Fund Medium Term Financial Strategy 2025/26 – 2034/35 - 2024/25 Outturn Report
10.	Appendices
10.1	<p>Appendix A – Key Assumption Changes from BSR 2025/26</p> <p>Appendix B – General Fund Reserves Forecast</p>
	To inspect the background papers or if you have a query on the report please contact Jody Etherington, Chief Finance Officer, tel: 01223 458130, email:

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Appendix A – Key Assumption Changes from BSR 2025/26

Factor	Current assumption	Previous assumption (BSR 2025/26)
General inflation	Based on Bank of England CPI forecasts (May 2025) 2026/27: 3.2% 2027/28: 2.2% 2028/29: 1.9% Subsequent: 2.0%	Based on Bank of England CPI forecasts (August 2024) 2026/27: 2.3% 2027/28: 1.6% 2028/29: 1.6% Subsequent: 2.0%
2025/26 pay award	Based upon employer side offer (subject to ongoing negotiation) 3.2%	Based upon Bank of England CPI forecasts (August 2024) 2.5%
Pension contributions	Based upon draft actuarial advice ahead of forthcoming triennial valuation, given current overfunded position 18.4% employer contributions plus deficit repair contributions of £2.9m over 5 years from 2026/27 – 2030/31	Based upon current known contribution rates 17.6% employer contributions plus deficit repair contributions of £10.5m over 5 years from 2026/27 – 2030/31
Borrowing rates	Based on actual average rates and forecasts provided by external treasury advisors in relation to 25 year PWLB borrowing: 2024/25: 5.56% 2025/26: 5.55% 2026/27: 5.15% 2027/28: 4.93% Subsequent: 4.90%	Based on forecasts provided by external treasury advisors in relation to 25 year PWLB borrowing: 2024/25: 4.50% 2025/26: 5.25% 2026/27: 4.85% 2027/28: 4.53% Subsequent: 4.50%
Local government funding assumptions	Based upon updated model developed by external funding advisors following publication of consultations on the future of local government funding (version 5.16.1)	Based upon model developed by external funding advisors following publication of 2025/26 local government finance settlement (version 5.14.4)

Appendix B – General Fund Reserves Forecast

General Fund Reserve	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
	£m	£m	£m	£m	£m	£m
Brought forward balance at 1 April	18.863	12.445	13.903	13.841	14.684	15.351
Planned use of reserves for specific items:-						
- Greater Cambridge Impact Fund	(0.800)					
- Transformation & Reinvestment Fund	(1.754)					
- Folk Festival proposal	(0.075)					
Contributions to/(use of) reserve to balance budget in year	(3.789)	1.458	(0.062)	0.843	0.667	-
Carried forward balance at 31 March	12.445	13.903	13.841	14.684	15.351	15.351
Business rates growth – indicative growth element (at risk)	9.515	-	-	0.159	0.834	-
Carried forward balance at 31 March	21.960	23.418	23.356	24.358	25.859	25.859