

REPORT TITLE: Budget Setting Report and Medium-Term Financial Strategy 2026/27

To: Cabinet

10 February 2026

Report by:

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Wards affected:

All

1.	Recommendations
1.1	It is recommended that Cabinet recommends that Full Council:- Council tax: a) <i>Confirms delegation to the Chief Finance Officer of the calculation and determination of the Council Tax base which is set out at Appendix A(a).</i> b) <i>Approves the increase to the city council share of council tax for 2026/27 at 2.99%, and the updated council tax levels as set out at section 10 of the Budget Setting Report 2026/27.</i> Housing rents and charges: c) <i>Approves an increase in rents for all Social Rent, Social Rent shared ownership and Affordable Rent properties of 4.8% (September 2025 CPI plus 1%), with effect from 1 April 2026.</i> d) <i>Agrees to fully implement rent convergence for all Social Rent tenants at a maximum rate of £1 per week from 1 April 2027, then £2 per week from 1 April 2028, in line with recent government announcements, for a period of up to 10 years.</i>

- e) Approves an increase in rents for Affordable Rent shared ownership properties in line with the maximum permitted in each individual property lease (generally RPI plus 0.5%).
- f) Approves that garage and parking space charges are increased by up to 4.8%, as set out at section 10 of the Budget Setting Report 2026/27.
- g) Approves the methodology for calculating Housing Revenue Account service charges and leasehold administration costs as set out at Appendix K, and delegates authority to the Chief Finance Officer to carry out the detailed calculation of 2026/27 charges in line with this methodology, noting that the council will endeavour to limit increases to 4.8% where possible.

Revenue budgets:

- h) Approves the General Fund revenue proposals shown at Appendix E.
- i) Approves the Housing Revenue Account revenue proposals shown at Appendix H.

Capital budgets:

- j) Approves the General Fund capital proposals set out at Appendix F(a) and the revised General Fund capital plan set out at Appendix F(c).
- k) Approves the Housing Revenue Account capital proposals set out at Appendix I(a) and the revised capital plan set out at Appendix I(b).
- l) Approves the proposed capital financing plans set out at section 5 (General Fund) and section 7 (Housing Revenue Account) of the Budget Setting Report 2026/27, whilst noting that the constitution delegates all executive decisions on borrowing, investment or financing to the Chief Finance Officer, who is required to act in accordance with CIPFA's Code of Practice for Treasury Management in Local Authorities.

m) Notes in particular that the council's ambitious Housing Revenue Account investment programme, including the 10-year new homes programme, will require new borrowing of around £483 million over the next 10 years, as set out at section 7 of the Budget Setting Report 2026/27.

Risks and reserves:

n) Notes the key risks to the council financial standing and sustainability, and mitigations in place, as set out at section 8 of the Budget Setting Report 2026/27.

o) Notes the impact of the Budget Setting Report 2026/27 on General Fund and Housing Revenue Account reserves, as set out at section 8 of the Report.

p) Approves the new allocations to earmarked reserves set out at section 8 of the Budget Setting Report 2026/27, namely:-

- £2.5 million to a new Local Government Reorganisation Reserve; and*
- £1.0 million to the Civic Quarter Development Reserve.*

q) Sets the 2026/27 prudent minimum balance at £8.059 million for the General Fund, and £6.801 million for the Housing Revenue Account, with a working target balance of 120% of the prudent minimum balance in each case, in line with the advice of the Chief Finance Officer.

Medium-Term Financial Strategy:

r) Approves the council's Medium-Term Financial Strategy for the General Fund and Housing Revenue Account as set out at section 9 of the Budget Setting Report 2026/27.

s) Notes the key assumptions used in the development of the Medium-Term Financial Strategy at Appendix C, and in particular the sensitivity of the Housing Revenue Account 30-Year Business Plan to changes in these assumptions, as set out in detail at Appendix J.

Capital and Treasury Management Strategy:

- t) *Approves the Capital Strategy attached at Appendix O.*
- u) *Approves the Treasury Management Strategy 2026/27 at Appendix P, including the prudential and treasury management indicators set out at Annexe C.*
- v) *Approves an increase in the council's authorised limit for external debt to £650 million in 2027/28, £700 million in 2028/29, £750 million in 2029/30, then £850 million in 2030/31 in order to accommodate the borrowing required to support the new build homes programme.*
- w) *Approves an increase in the deposit limit for enhanced money market funds from £5 million per fund to £10 million per fund, and an increase in the deposit limit for money market funds from £15 million per fund to £20 million per fund, as set out at Annexe A to the Treasury Management Strategy 2026/27 (Appendix P).*

Other:

- x) *Delegates authority to the Chief Finance Officer to reallocate budgets between services in relation to corporate and/or departmental restructuring, and any reallocation of support service and central costs in accordance with the CIPFA Service Reporting Code of Practice for Local Authorities (SeRCOP) (including where necessary the recalculation of recharges between the General Fund and Housing Revenue Account).*
- y) *Delegates authority to the Chief Finance Officer to approve an in-year increase or decrease in the capital budget for Disabled Facilities Grants in any year, in direct relation to any increase or decrease in the capital grant funding available for this purpose, and to determine the most appropriate use of any additional Disabled Facilities Grant funding for the wider benefit of the Shared Home Improvement Agency.*
- z) *Delegates authority to the Director of Communities to review and amend the level of fees charged by the Shared Home Improvement Agency for Disabled Facilities Grants and repair assistance grants, in line with any recommendations made by the Shared Home Improvement Agency Board.*

	<i>aa)Notes the Equality Impact Assessments undertaken in respect of budget proposals in the General Fund (Appendix S(a)) and Housing Revenue Account (Appendix S(b)).</i> <i>bb)Approves the schedule of proposed fees and charges for 2026/27 set out at Appendix T(A) and confidential Appendix T(b).</i> Section 25 report: <i>cc) Notes the Chief Finance Officer's section 25 report, covering the robustness of estimates and adequacy of reserves, included at section 11 of the Budget Setting Report 2026/27.</i>
2.	Purpose and reason for the report
2.1	Under the council's constitution, the Leader and Cabinet, supported by officers, are required to formulate draft plan or strategy decisions in respect of the council's budget and policy framework for submission to Full Council. Full Council will then either adopt these or inform the Leader of any objections or proposed amendments.
2.2	The attached Budget Setting Report (BSR) and appendices set out the council's draft budget proposals for 2026/27, Medium-Term Financial Strategy for the following five years, 30-Year Housing Revenue Account Business Plan, Capital Strategy and Treasury Management Strategy. These items have been integrated into a single report this year following the recent Group Redesign Programme (which brought together the General Fund and Housing Revenue Account Finance functions) and changes to council governance.
2.3	The draft BSR was scrutinised by the Performance, Assets and Strategy Overview and Scrutiny Committee at its meeting on 27 January 2026. In response to comments raised at the meeting, some of the narratives to support budget proposals set out at appendices E, F(a) and H have been expanded to provide more detail. In addition, the Chair of the Committee will provide comments to Cabinet at its meeting on 10 February 2026. The

	Chair of the Housing Advisory Board will also provide comments to Cabinet in respect of items which fall within the Board's remit.
2.4	This budget has been set in the context of the Budget Setting Context 2026-27 Report, which was agreed by Cabinet in July 2025 and set out the council's savings targets and approach to budget setting.
2.5	The draft BSR includes details of the provisional local government finance settlement for 2026/27. The announcement of the final settlement is expected on 9 February. Officers will provide an update to Cabinet at its meeting on 10 February, and the BSR will be updated with any material changes prior to Full Council consideration.
2.6	The final decision on whether to adopt the budget will be made by Full Council at its meeting on 26 February 2026.
2.7	There is an exempt appendix (Appendix T(b)) attached to this report that is not for publication by reason of paragraph 3 of Schedule 12A of Part 1 of the Local Government Act 1972 because it contains information relating to the financial or business affairs of any particular person (including the authority holding that information). The public interest test has been applied to the information contained within this exempt appendix and it is considered that the need to retain the information as exempt outweighs the public interest in disclosing it.
3.	Alternative options considered
3.1	To not provide a balanced budget would be contrary to the council's legal responsibilities.
4.	Updates following recent government policy announcements
4.1	On 28 January 2026, the day after the Overview and Scrutiny Committee considered the draft budget, the government made several announcements about the future of social and affordable housing, including its plan to implement rent convergence over the next 10 years. These announcements will have a material impact on the council's Housing Revenue Account (HRA) over the life of the 30-Year Business Plan. As such, it has been

	necessary to update the BSR. The most significant announcements are summarised below.
	Rent convergence
4.2	Social rent properties are let with reference to 'formula rent', which in Cambridge is around 40% of market rent. Due to historic below-inflation rent increases, many social tenants are currently paying below formula rent. Government has announced a period of rent convergence to gradually increase rents for these tenants back towards the formula rent level over a number of years. This will ensure greater equity for all council tenants.
4.3	Based on the government's consultation, the draft BSR submitted for scrutiny included an assumption that rent convergence would be implemented at a rate of £2 per week for a 10-year period. The government has now responded to the consultation and decided that rent convergence will be phased in as follows:- • No convergence for 2026/27 • A maximum of £1 per week for 2027/28 • A maximum of £2 per week for 2028/29 and subsequent years (assumed to be up to 2035/36, given the government's preference for a 10-year rent settlement)
4.4	This means that it will take longer for the HRA to realise the benefits of rent convergence. Whereas the original BSR assumed additional rent income of around £2.1 million per year by 2030/31, this figure is now estimated at £1.4 million. This represents a permanent reduction in rental income from that which was previously assumed.
	HRA preferential borrowing rate
4.5	The government has announced an extension to the current preferential PWLB borrowing rate for the HRA for a further year, until 31 March 2027. This will see the HRA continue to be able to borrow at 40bp less than the standard PWLB certainty rate. Since the BSR allows for around £47 million of new HRA borrowing in 2026/27 to support the new-build housing programme, this will lead to a saving in projected interest costs. It is possible that the government could extend this discounted rate further, but since this can not be guaranteed then no further discounts have been modelled beyond 2026/27.

	Right To Buy receipt flexibility
4.6	Although not a new announcement, some further work has been completed to assess the council's projected receipts from the sale of council homes under the Right to Buy (RTB) scheme. Previously, only 40% of the cost of new build properties could be funded from these receipts, but this restriction was recently lifted as part of RTB reforms. In addition, from April 2026, restrictions on combining RTB receipts with other sources of finance (such as Homes England grants) will also be significantly relaxed.
4.7	As such, it has now been assumed that from 2031/32 to 2052/53 inclusive, RTB receipts will fund 50%, rather than 40%, of the future new homes programme (outside of the current 10-year new build programme).
4.8	There may be further opportunities to utilise the council's RTB receipt balances sooner in the capital programme, and this will be examined in more detail prior to submission of the council's bid to Homes England for a strategic partnership under the Social and Affordable Homes Programme (SAHP) – see section 7 of the BSR for more details. If the council can apply RTB receipts earlier, this will have a positive impact on the 30-Year Business Plan by reducing the need to borrow over the next few years.
	Energy efficiency requirements
4.9	Based upon previous government announcements, the draft BSR assumed that the council would have a statutory obligation to improve all of its existing housing stock to at least EPC 'C' rating by 2030/31. The government has now indicated that there may be extensions to the deadline available where the cost per property exceeds £10,000. Further detailed modelling is required to assess how many of the council's properties this may apply to. For the purposes of this BSR the base assumption that the entire stock will need to be improved by 2030/31 has been retained. However, there may be opportunities to defer some of this work to later years should conditions require it, for example if economic conditions worsen from the assumptions made in the BSR.

	Decent Homes Standard																														
4.10	The government has confirmed its intention to apply a new Decent Homes Standard (DHS) to take effect from 2035. It is too early to fully understand or model the likely financial impact of this change. Therefore, for the time being existing assumptions have been retained. Further work will need to be carried out in this area over the coming years, and mitigations put in place for any adverse financial impacts. From a risk perspective, it is worth noting that 2034/35 is the year in which the HRA’s debt headroom begins to increase again as the 10-year new homes programme starts to wind down. This provides a buffer against any additional costs arising from the new DHS. Sensitivity analysis shows that even if currently assumed DHS expenditure were to increase by as much as 50% from 2034/35 onwards, the HRA would still remain financially sustainable based on its key sustainability metric, the interest cover ratio.																														
	Impact on HRA budget and 30-Year Business Plan																														
4.11	Following the recent policy announcements noted above, the HRA financial model, the BSR and 30-Year Business Plan have been updated.																														
4.12	The HRA business model relies upon revenue surpluses being used to fund capital expenditure, to reduce the need for the HRA to borrow for this expenditure. As a result of updating the financial model, the change in the level of revenue surplus available for this purpose is set out in the following table:- <table><tr><th>HRA revenue surpluses available for capital financing (£m)</th><th>2026/27</th><th>2027/28</th><th>2028/29</th><th>2029/30</th><th>2030/31</th></tr><tr><td>Original BSR – Revenue contribution to capital financing</td><td>8.641</td><td>8.756</td><td>9.133</td><td>9.511</td><td>9.563</td></tr><tr><td>Delay to rent convergence – decreased income (net of bad debt provision)</td><td>(0.526)</td><td>(0.778)</td><td>(0.773)</td><td>(0.732)</td><td>(0.549)</td></tr><tr><td>Reduction in net interest cost</td><td>0.151</td><td>0.151</td><td>0.117</td><td>0.086</td><td>0.059</td></tr><tr><td>Other adjustments</td><td>-</td><td>(0.001)</td><td>-</td><td>-</td><td>-</td></tr></table>	HRA revenue surpluses available for capital financing (£m)	2026/27	2027/28	2028/29	2029/30	2030/31	Original BSR – Revenue contribution to capital financing	8.641	8.756	9.133	9.511	9.563	Delay to rent convergence – decreased income (net of bad debt provision)	(0.526)	(0.778)	(0.773)	(0.732)	(0.549)	Reduction in net interest cost	0.151	0.151	0.117	0.086	0.059	Other adjustments	-	(0.001)	-	-	-
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4.13	In addition, there are changes to the mix of capital funding assumed over the 30-Year Business Plan. Lower rent income, which will increase the requirement to borrow, is mitigated slightly by the increased use of RTB receipts. The capital financing plan can be seen at section 7 of the BSR. In summary, over the next 10 years:- • Projected use of available revenue surpluses has decreased from £104 million to £94 million. • Projected use of capital receipts has increased from £41 million to £46 million. • The projected borrowing requirement has therefore increased from £478 million to £483 million.						
	Risk and sustainability						
4.14	The key financial sustainability metric applied to the HRA is the interest cover ratio (ICR). This compares the future forecast HRA operating surplus (before interest and revenue financing of capital expenditure) with the future forecast interest costs. An ICR of 1 or greater indicates that the council would have sufficient income to cover future interest costs. However, in order to generate prudent headroom a target ICR of 1.25 has been adopted. This is as recommended by external consultants Savills and is broadly in line with the wider council social housing sector.						
4.15	The original BSR showed that the ICR was projected to reach a minimum of 1.29 in 2033/34, at which the council’s available debt headroom (to remain within target) would be £22.2 million. The impact of the changes above, including lower rental income and a greater need to borrow, mean that this headroom has been reduced significantly. The minimum projected ICR is now 1.25 in 2033/34, with a minimum debt headroom of £1.4 million.						
4.16	Whilst this does increase the inherent risk that the ICR target may be breached in the future, on balance the current HRA plans are still considered affordable, because:- • The use of a target ICR of 1.25, rather than 1, means there is a reasonable degree of						

	prudence already built in to the affordability assessment. For comparison, the borrowing headroom against an ICR of 1 would not drop below £143 million over the life of the 30-Year Business Plan. • Commitments of future capital expenditure for new build development and energy efficiency works will be made over a number of years, and the 30-Year Business Plan will be refreshed on at least an annual basis to support the decisions made. Should economic conditions become unfavourable to the extent that the ICR target was likely to be breached, it would be possible to take mitigating actions for example by reducing or slowing future discretionary capital spend.
4.17	Further information on risks and sensitivities is set out at sections 8 and 9 and Appendix J of the BSR.
5.	Service charges
5.1	Following the completion of a detailed review of service charges in the HRA, amendments have been made to Appendix K to ensure that the 2025/26 charges quoted reflect those actually being charged in the current year. In all except one case, the changes result in a reduction to the previously quoted range of charges. The only charge which has increased is the alarm charge, which has changed from 84p per week to 86p per week. Note that this represents a correction of the previously reported figures to reflect actual charges – this is not an actual change to charges tenants currently receive. The methodology for calculating 2026/27 charges has not changed.
6.	Corporate plan and council vision
6.1	The budget has been set with due consideration to the council's Corporate Plan and vision. Corporate plan 2022-27: our priorities for Cambridge - Cambridge City Council Our vision - Cambridge City Council
7.	Consultation, engagement and communication
7.1	A public consultation on the council's Priorities and Budgets 2026/27 was held between

	7 October and 16 November 2025. The consultation was publicised through a number of digital and offline channels, including outward facing artwork at Mandela House, promotion on the council's website, and social media including paid-for posts. The council received 512 responses, and these have been taken into account in formulating budget proposals. More detail is set out at section 3 of the BSR.
8.	Anticipated outcomes, benefits or impact
8.1	All budget proposals have a number of anticipated outcomes that can be beneficial to the local community or may adversely affect them. The impact of any decision is contained with the BSR and the relevant Equality Impact Assessments (see Appendices S(a) and S(b)).
8.2	A decision not to approve a revenue bid will impact on managers' ability to deliver the service or scheme in question and could have financial, staffing, equality and poverty, environmental, procurement or community safety implications.
8.3	A decision not to approve a capital or external bid will impact on managers' ability to deliver the developments desired in the service areas.
9.	Implications
	Relevant risks
9.1	The significant risks impacting upon the council's financial sustainability are set out at section 8 of the BSR.
	Financial Implications
9.2	Financial implications of budget proposals are set out in detail throughout the BSR.
	Legal Implications
9.3	Approval of the BSR will allow the council to fulfil its legal duty to set a balanced budget.

	Legal implications of budget proposals, where relevant, are summarised in the BSR.
	Equalities and socio-economic Implications
9.4	A consolidated Equality Impact Assessment for the budget proposals is included at Appendix S(a) for the General Fund, and Appendix S(b) for the Housing Revenue Account. Individual Equality Impact Assessments have been conducted to support this where required.
	Net Zero Carbon, Climate Change and Environmental implications
9.5	All budget proposals are assigned a 'climate rating' setting out their impact on climate change – these can be seen alongside each revenue and capital proposal in Appendices E, F(a), H and I(a).
	Procurement Implications
9.6	Any procurement implications are outlined in the BSR.
	Community Safety Implications
9.7	Any community safety implications are outlined in the BSR and the Equality Impact Assessments at Appendices S(a) and S(b).
10.	Background documents
10.1	The following background documents have been used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985: • Quarterly Performance Report • Budget Setting Context 2026-27 • General Fund Budget Setting Report 2025/26 to 2029/30 • HRA Budget-Setting Report (BSR) 2025/26 • General Fund Medium Term Financial Strategy 2025/26 – 2034/35 • Housing Revenue Account (HRA) Medium Term Financial Strategy (MTFS) 2024/25

11.	Appendices
11.1	Budget Setting Report 2026/27 Appendix A(a) – Calculation of Council Tax base 2026/27 Appendix B – Budget 2026/27 consultation responses Appendix C – Key assumptions Appendix D – General Fund expenditure and funding projection Appendix E – General Fund budget proposals – revenue Appendix F(a) – General Fund budget proposals – capital Appendix F(b) – General Fund capital approvals since BSR 2025/26 Appendix F(c) – General Fund capital plan Appendix G – Housing Revenue Account income and expenditure projection Appendix H – Housing Revenue Account budget proposals – revenue Appendix I(a) – Housing Revenue Account budget proposals – capital Appendix I(b) – Housing Revenue Account capital plan Appendix J – Housing Revenue Account sensitivity analysis Appendix K – Service charges Appendix L – Reserves policy Appendix M – Prudent minimum balances Appendix N – Earmarked reserves Appendix O – Capital Strategy 2026/27 Appendix P – Treasury Management Strategy 2026/27 Appendix Q – MUFG interest rate forecast update Appendix R – Savills Housing Revenue Account 30-Year Business Plan commentary Appendix S(a) – Equality Impact Assessment – General Fund Appendix S(b) – Equality Impact Assessment – Housing Revenue Account Appendix T(a) – Fees and charges 2026/27 CONFIDENTIAL Appendix T(b) – Fees and charges 2026/27
11.2	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: jody.etherington@cambridge.gov.uk

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