

**REPORT TITLE: BUDGET SETTING CONTEXT 2027/28**

**To:**

Cabinet

7 July 2026

**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.

<b>1.</b>	<b>Recommendations</b>
1.1	<p>It is recommended that Cabinet:</p> <ol style="list-style-type: none"> <li>1. Note the economic update and emerging pressures set out in sections 4 and 5.</li> <li>2. Agree the high-level approach to budget setting for 2027/28 set out in section 6.</li> <li>3. Agree the high-level approach to public consultation set out in section 8.</li> </ol>
<b>2.</b>	<b>Purpose and reason for the report</b>
2.1	This report provides an update on emerging financial risks, and asks the Cabinet to agree the early strategic direction for setting the council's 2026/27 budgets.
<b>3.</b>	<b>Alternative options considered</b>
3.1	The council could choose not to hold strategic budget challenge meetings, which would come with a saving in senior officer time. However, 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 resources may be lost.																		
3.2	The council could adopt a different approach to public consultation, for example by implementing a detail-focussed public consultation later 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.																		
<b>4.</b>	<b>General Fund</b>																		
4.1	<p>The Budget Setting Report (BSR) 2026/27, approved by full council in February 2025, set out the savings targets for the General Fund for the next five years, as follows:-</p> <table border="1"> <thead> <tr> <th></th> <th>2027/28</th> <th>2028/29</th> <th>2029/30</th> <th>2030/31</th> <th>2031/32</th> </tr> <tr> <th></th> <th>£m</th> <th>£m</th> <th>£m</th> <th>£m</th> <th></th> </tr> </thead> <tbody> <tr> <td><b>Savings target per BSR 2026/27 (cumulative)</b></td> <td><b>0.375</b></td> <td><b>0.750</b></td> <td><b>1.125</b></td> <td><b>1.373</b></td> <td><b>1.638</b></td> </tr> </tbody> </table>		2027/28	2028/29	2029/30	2030/31	2031/32		£m	£m	£m	£m		<b>Savings target per BSR 2026/27 (cumulative)</b>	<b>0.375</b>	<b>0.750</b>	<b>1.125</b>	<b>1.373</b>	<b>1.638</b>
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4.2	Work is ongoing to refresh the above targets in the context of emerging pressures, updated economic forecasts and prior year outturn figures. A new set of targets will be presented for Cabinet approval at its September meeting. However, it is currently anticipated that savings targets will increase, for the reasons set out below.																		
4.3	<p><u>Economic conditions</u></p> <p>The BSR included an assumption for general inflation of 2.6% for 2027/28, and 2.0% for future years in line with the Bank of England target. However, since the BSR was published, global events (and in particular the war in Iran) have seen inflation rates continue to trend higher than previously forecast. The latest independent forecasts published by HM Treasury show CPI inflation at 3.6% for the 2026 calendar year, which will feed directly into 2027/28 prices. For context, a similar movement in forecast inflation rates last year increased the five-year savings target by almost £1.0 million.</p>																		

4.4	<p>Global conditions have also had an impact on borrowing costs. The BSR assumed an average PWLB borrowing rates for 2025/26 of 5.55%, however the current equivalent rate as at 29 June 2026 is 6.16%. Forecasters are anticipating the impact to be short-term – however given the extent of external borrowing required in 2025/26 (forecast at £45.8 million in the BSR), even a small increase in rates will have a lasting effect on the council's budgets. Increased borrowing costs may also put pressure on the financial sustainability of key capital projects, such as the new build housing programme and Civic Quarter project. The council will continue to work with its treasury management advisers to ensure that the approach to raising capital finance is optimised.</p>
4.5	<p><u>Greater Cambridge Development Corporation</u></p> <p>In June 2026, the government published its response to public consultation on the establishment of a new development corporation for Greater Cambridge. The government proposal will hand some of the council's planning powers to the new Development Corporation. Whilst the full details are not yet known, this is likely to cause significant financial pressures for the council, including costs associated with potential redundancies and/or TUPE arrangements. It is also likely that the council will lose a significant portion of its planning income in the future.</p>
4.6	<p><u>Local government reorganisation (LGR)</u></p> <p>The LGR programme continues to gather pace, with a government decision on the new unitary arrangements anticipated in July 2026. Whilst a £2.5 million reserve has already been set aside to cover transitional costs ahead of vesting day, actual costs remain highly uncertain. As well as the activity which will be necessary to ensure the council is ready for vesting day, there remains a risk that LGR will have a significant impact upon staff turnover and the council's ability to recruit to key vacancies, which will potentially add to cost pressures.</p>
4.5	<p><u>Local government funding reform</u></p> <p>The council has now received an indicative multi-year settlement from government</p>

	<p>covering the period to 2028/29, and this has been used to inform the BSR and the savings targets above. However, there remains significant uncertainty around business rates income following the 2026 revaluation (which has generated significant rating appeals) and baseline reset (which has removed all previously accumulated business rates growth). There is both downside and upside risk here – with the potential to start modelling future business rates growth if and when this materialises – however it remains too early to be certain of this. For context, the 2025/26 Outturn Report shows a shortfall in business rates income of almost £1.0 million. Income will be monitored closely over the coming months to inform the approach to setting business rate budget expectations for 2027/28 onwards.</p>
4.6	<p><u>Service pressures</u></p> <p>At this early stage, the following emerging unavoidable service pressures have been identified which are likely to impact upon council budgets for 2027/28 and beyond:-</p> <ul style="list-style-type: none"> <li>• The ongoing review of asset compliance across the council’s operational estate is likely to identify some immediate requirements for capital works and remediation, which may be significant.</li> <li>• Initial indications show that, nationally, the new Extended Producer Responsibility (EPR) Scheme for packaging waste is not generating the level of income anticipated. Whilst the council was reasonably prudent in setting budget assumptions for future years, it remains to be seen whether the forecast income levels can be achieved.</li> </ul>
<b>5.</b>	<b>Housing Revenue Account (HRA)</b>
5.1	<p>During 2025/26, the HRA reported a net operating overspend of £6.9 million. This was mainly due to overspends on repairs and maintenance. The implementation of Awaab’s Law has significantly added to cost pressures in this area, particularly around damp, condensation and mould (DCM). In addition, void costs continue to be significantly higher than comparable benchmarks, whilst the council has also been impacted by one-off costs relating to fire safety actions (waking watch) and insurance incidents in-year.</p>
5.2	<p>The 2026/27 BSR included significant ongoing investment of an additional £1.7 million per year into this service, recognising that many of the causes of overspend are demand-</p>

	led and structural, and are unlikely to reduce soon. Focussed work is ongoing with the service to bring costs within the new budget envelope, but this remains hugely challenging. Any overspends on HRA services increase the amount that the council needs to borrow to fund its new build housing programme, which has a knock-on impact on future years' budgets through increased interest costs.
5.3	Furthermore, the 2026/27 BSR and 30-Year Business Plan assumes that the council will be successful in its bid to Homes England for a strategic partnership which will unlock significant capital grant funding. The outcome of this bid is expected shortly, and following this the 30-Year Business Plan will need to be refreshed.
<b>6.</b>	<b>Budget Setting Approach</b>
6.1	Assuming LGR proceeds as planned, this will be the final budget setting round for Cambridge City Council. However, it will still be necessary to take a medium-term view in order to ensure the financial sustainability of the council's services as they transfer to a new unitary authority. It is therefore proposed that a similar approach to budget setting is taken as last year.
6.2	Following the local elections in May 2026, the council is now in no overall control, with a minority Labour administration. In recognition of this fact, an informal Group Leaders' Finance Working Group has been established to ensure that each of the main political groups has full oversight of the budget setting process. The main steps to be followed over the coming months are as follows:-
6.3	<p><u>Strategic Budget Challenge Meetings (July/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"> <li>- Review of 2026/27 savings and risks to delivery</li> <li>- High-level review of Q1 forecasts and emerging risks and opportunities</li> </ul>

	<ul style="list-style-type: none"> <li>- Consideration of current and future service pressures, and member priorities</li> <li>- Consideration of potential savings opportunities, timescales and actions to progress these to formal budget bids</li> <li>- High-level review of significant contracts, including identification of opportunities for savings</li> <li>- High-level review of service standards and delivery mechanisms, including identification of opportunities for savings</li> </ul>
6.4	Following the budget challenge meetings, outputs will be discussed with the Group Leaders' Finance Working Group and Informal Cabinet. Strategic objectives will then be agreed with members and then communicated to budget managers.
6.5	<p><u>Service Budget Setting (September)</u></p> <p>The setting of detailed service budgets will take place during September, alongside the Q2 forecast process. Note that this process will take place a month earlier this year, in recognition of the no overall control environment and the need in this context for earlier and longer member engagement.</p>
6.6	<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"> <li>- Invest to save opportunities which will deliver clearly identifiable savings in future years</li> <li>- Cost pressures which are genuinely unavoidable</li> <li>- Strategic member priorities</li> </ul>
6.7	Following the service budget setting meetings, draft budget proposals will be collated for review and shared with the Group Leaders' Finance Working Group and Informal Cabinet, no later than the end of November. These will also take into account the results from the public consultation (see section 8 below). The draft Budget Setting Report will then be published in December, following the steer of Informal Cabinet on which budget proposals they would like to include.

6.8	<p><u>Budget Scrutiny and Approval (January/February)</u></p> <p>The draft BSR will be subject to formal scrutiny by the Performance, Assets and Strategy Overview and Scrutiny Committee on 27 January 2027.</p>
6.9	<p>Cabinet will meet on 11 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.</p>
6.10	<p>Full Council will be invited to approve the final Budget Setting Report at their meeting on 25 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.</p>
<b>7.</b>	<b>Corporate plan</b>
7.1	<p>The council's budget is underpinned by all aspects of its corporate plan:</p> <p><a href="#">Corporate plan 2022-27: our priorities for Cambridge - Cambridge City Council</a></p>
<b>8.</b>	<b>Consultation, engagement and communication</b>
8.1	<p>A 6-week public consultation will take place during July/August. 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. The consultation will be strategic in nature, for example seeking public views on the prioritisation of corporate priorities and council services.</p>
8.2	<p>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.</p>

8.3	Results from the consultation will be fed into the budget setting process in September, 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 25 February.
<b>9.</b>	<b>Anticipated outcomes, benefits or impact</b>
9.1	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.
<b>10.</b>	<b>Implications</b>
10.1	<p><b>Relevant risks</b></p> <p>The key emerging risks to the council's medium-term financial sustainability are set out in sections 4 and 5 above. More detail will be provided in the BSR.</p>
10.2	<p><b>Financial Implications</b></p> <p>This report is concerned with agreeing the budget-setting approach and timetable, therefore there are no direct financial implications. Key emerging financial risks are set out at sections 4 and 5 above.</p>
10.3	<p><b>Legal Implications</b></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>
10.4	<p><b>Equalities and socio-economic Implications</b></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</p>

	accessibility and inclusiveness. The Communications team will be fully engaged in this process to ensure best practice is followed.
10.5	The equalities and socio-economic implications of individual budget proposals will be considered as part of the budget setting process. The final BSR will include a full Equalities Impact Assessment (EqIA) covering all budget proposals where an impact has been identified. For significant proposals, individual EqIAs will be carried out in line with existing policy.
10.6	<p><b>Net Zero Carbon, Climate Change and Environmental implications</b></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 BSR for consideration by full council.</p>
10.7	<p><b>Procurement Implications</b></p> <p>None identified.</p>
10.8	<p><b>Community Safety Implications</b></p> <p>None identified.</p>
<b>11.</b>	<b>Background documents</b>
11.1	Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985: <ul style="list-style-type: none"> <li>- Budget Setting Report and Medium Term Financial Strategy 2026-27</li> </ul>
	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: <a href="mailto:jody.etherington@cambridge.gov.uk">jody.etherington@cambridge.gov.uk</a>