

## Appendix 9

### Robustness of the 2026/27 Budget and Medium-Term Financial Strategy

Section 25 of the Local Government Act 2003 requires the Corporate Director of Finance and Resource, as the Council's Responsible Financial Officer (Section 151 Officer), to report on the robustness of the 2026/27 budget and the adequacy of reserves to assist you in making your decisions on the Budget and the level of Council Tax. Further, this is an opportunity for me to provide some commentary in respect of the period covered by the Medium-Term Financial Strategy (MTFS).

#### Robustness and Budget Setting

At the time of writing, the 2025/26 outturn for the Council is reporting a favourable variance of £1.234m compared to budget in respect of service expenditure. This is due to a variety of factors including, b/f budgets, increased interest receipts and a mix of overspends and the additional use of earmarked reserves. The detail behind the underspend can be found in the Q3 Forecast report but the biggest reason for this is the use of £2.627m of earmarked reserves to fund specific costs. This includes the use of £1.514m from the Leisure Facilities Reserve to fund the development of our leisure facilities, £0.347m from the Local Plan Reserves to fund additional expenditure within the local plan, £0.153m from the LGR reserve to fund the costs of LGR consultancy, and £0.120m from the Civil Parking Enforcement reserve to fund the Cicil Parking Enforcement project.

The Council has reviewed its service expenditure in consultation with the Executive Councillors. In collaboration with the Senior Leadership Team, proposals for savings and growth, as summarised in Table 2, were developed by officers and Executive Councillors using a rigorous process that challenged and validated each proposal. The Finance Team provided the central support and advice to services, and the entire process has been and overseen by the Corporate Director of Finance and Resources (S151 officer).

In addition to the Executive Councillor review, the Council:

- will continue to review services and develop funding proposals that help to mitigate the current uncertainty driven by external economic factors and only a one-year focus on the spending review from Government; and;
- the Executive has chosen to increase Council Tax for 2026/27 to protect frontline services.

## Challenges Facing the Council

The challenges that the Council faces are like those being faced by many councils across the local government community. The principal challenges that the Council is tackling are illustrated below:

### Public Sector Funding

The recent multi-year Local Government Finance Settlement provides greater certainty than the single-year settlements that have characterised the funding regime in recent years and is therefore a welcome development for financial planning across the sector. However, the increases in Core Spending Power (CSP) within the settlement remain modest and are heavily reliant on assumptions of continued business rates growth and the application of maximum council tax increases. It is unlikely that these increases will be sufficient to fully offset the significant cost and demand pressures facing councils.

Cost pressures in 2025/26 have increased sharply compared with 2024/25, driven primarily by rising statutory service demand and workforce-related costs. In this context, the scale and pace of funding growth present an ongoing challenge to financial sustainability.

In addition, major funding reforms and uncertainty regarding the transitional impact on Huntingdonshire District Council mean that the Council must continue to take proactive and prudent action to manage its future finances and mitigate the effects of external funding pressures.

### Programme of Service Review

The Executive have reviewed and scrutinised their budgets, considering the impacts of external demand and cost pressures, whilst looking for opportunities to mitigate pressures with cost savings and income generation.

### Governance

Noted within the 2023/24 Annual Governance Statement (AGS) both the Executive Leader and the Chief Executive consider not only internal controls: Risk Management, Cyber Security and Network Controls, Financial Management, Programme delivery and GDPR, but also external factors such as:

1	Morbidity/Growing number of years of ill health/Continued impact of COVID	Impacting on people's ability to be self-reliant and generating additional cost through support needs.
2	Wider economic environment	Impact of Commercial Investment Strategy/Business rates receipts and level of need from residents.
3	Housing Affordability	Leading to homelessness and constraining growth.

4	Environmental pressures and sustainability challenge	Challenges to the long-term sustainability and attraction to our area.
5	Partner agency operational pressures	Challenges to the long-term sustainability and attraction to our area.

## Risks

Because of the nature of the macro and microenvironment that the wider local government family and the Council operate within, there are a whole host of risks that the Council faces on a day-to-day basis. In such an environment, budget setting is not a science but more a guide on how financial resources will be allocated to services over the forthcoming year and to give an indication into the medium term. There will always be items that emerge after the budget has been approved and these can range from a programme under or overachieving or an unexpected event occurring.

### Mitigation of Unforeseen Events

During the budget setting for 2025/26, a fixed General Fund Reserve of £2.175m was agreed based on the likely financial risks facing the council. The General Fund Reserve will be maintained at this level for 2026/27.

To mitigate the impacts of any event that could have a potentially negative impact on the council's finances the council has clear processes in place:

Where a situation has occurred that is service specific, the

- first call for funding will be from compensating savings from elsewhere within the service, and if none are possible then savings from the wider Council's budget (service first, wider Council thereafter),
- second call for funding will be general service reductions. Such an approach will inevitably have an impact on service delivery; and
- finally, the use of General Fund reserves would be considered.

Where a situation arises that is corporate in nature, then consideration will be given to the first and second calls, but there is likely to be earlier consideration of using General Fund reserves.

During 2016/17 the Council introduced the Budget Surplus Earmarked Reserve; the aim of this reserve is to "mop-up" service underspends that would cause the General Fund to be higher than the minimum threshold.

The technical definition of General Fund Reserves includes the General Fund (Unallocated) Reserve as well as all 'revenue' Earmarked Reserves. In the context of making General Fund Reserve balances available to meet unforeseen events, the Council has self-limited this to the General Fund (Unallocated) Reserve itself as well as the Budget Surplus Earmarked Reserve. The Commercial Investment Reserve is not included in the following risk

modelling assessment as this is how the Council is able to invest to provide medium-term financial sustainability – to include the Commercial Investment Reserve could give an overly optimistic view of financial resilience. Consequently, to mitigate such events and secure the delivery (and security) of day-to-day business, the schedule of call-off would be:

- General Fund (Unallocated) Reserve; and then the
- Budget Surplus Earmarked Reserve.

As an absolute last resort, only then would the Commercial Investment Earmarked Reserve be applied.

### Risk Modelling

It is essential that relevant risks are identified, and appropriate sensitivity analysis applied to determine the impact of such risks on the Council's financial standing – and consequently the delivery of the Council's day-to-day business. The most significant potential risks to the budget are:

- under achievement of savings.
- higher inflation.
- further reductions in income (mainly from fees and charges).
- non-achievement of savings; including Shared Services.
- failure of a borrower.
- an emergency.
- estate property enhancement/development.
- increased demand on services (e.g. benefits and homelessness).
- level of retained business rates.

Taking each of the above in turn:

- **Underachievement of Savings & Additional Income**

The savings and increased income budgets included within the budget total £3.959m and cover a broad range of services. Achieving them is dependent on market, management and political conditions prevailing at the time. It is therefore prudent to assume that some of these savings may not be achieved.

- **Inflation**

With regard to:

- Pay

The budget for 2026/27 assumes a budget envelope for pay awards equivalent to a notional 5% increase in staffing costs for 2026/27 and for the period of the MTFS. This includes increases for increments, non-consolidated bonuses, and the increase to National Living Wage.

- General Inflation

No general inflation has been included in the 2025/26 budget except where there are contractual price increases. Inflation has been included at 3% for the payment of business rates.

- **Reduced income: Fees and Charges**

Total fees and charges are £22.290m, therefore, for sensitivity analysis a 2% loss of income from fees and charges would amount to £0.446m. The largest income streams that are susceptible to variation include Car Parks (Off-Street) Leisure Centres, Commercial Estates, and Planning Fees.

- **Failure of a Borrower**

The current counterparty limit is lending of £5m to a single institute except for lending to other local authorities. The limit in relation to local authorities has been increased in the 2026/27 TMSS from £4m to £20m. This increase will allow HDC to maximise its income from interest within a low-risk environment.

The main borrowing risk rests on whether the lending is either on a short or long-term basis. The £5m limit is restricted to strategic funds the highest limit for other funds (excluding government and local government) is £4m. The impact of a “failure of borrower” will be the loss of revenue cash flow and the potential costs involved of “making good” the lost investment.

There are, however, good governance arrangements around the Council’s Treasury activity and therefore the likelihood of loss is minimal. However, with the current financial situation and the possibility of a recession and of increasing bad debts, and therefore creditworthiness, it would be prudent to include some sensitivity in respect of cash flow. Therefore, the average maximum amount lent to an institution at any given time is around £4m; if this amount was lost and the Council had to borrow from the PWLB, at current rates this would amount to a cost of £0.2m at an assumed rate of 5%. This block amount is included in the sensitivity analysis.

- **Emergency**

As is normal for a business, different types of risk are mitigated in many ways. Some risks are insured against, so losses are limited to the excesses payable and, the Government’s Bellwin Scheme meets a large proportion, over a threshold, of the costs of any significant peacetime emergencies (e.g., pandemics, severe flooding). The Council maintains its General Fund Reserves at a fair ‘minimum’ level and their use in respect of Mitigation of Unforeseen Events is discussed in detail within the report.

With specific regard to flooding, the Council does reside within a flood risk area and there have been occasions where the Council has been required to meet the cost of local flooding incidents; however, such costs have been met from within current resources. With the reduction in budgets, it is anticipated that such ad-hoc spend will not be able to be as easily accommodated so it would be prudent to include an element within any sensitivity to meet this cost. The Code of Financial Management permits the Chief Executive or the Responsible Financial Officer to incur “emergency spend” of up to £0.500m, with retrospective reporting to Cabinet. A 50% allocation (£0.250m) of the £0.500m is included within the sensitivity analysis.

- **Estate property enhancement/development**

With the Council increasing its CIS Estate and the ‘ageing’ of its current Operational Estate, it is fair to include a risk in respect of future property enhancement. For sensitivity modelling purposes, the currently estimated cost of enhancement is £0.182m for sensitivity purposes if 80% of this was required this would give a cost of £0.146m.

- **Increased demands on services**

Many of the services provided by the Council are susceptible to an increase in demand. However, over the past few years the most susceptible that have had a significant revenue impact is homelessness.

- **Council Tax**

The Council has chosen to increase Council Tax by £5 this year, equivalent to 3.01%.

## **Sensitivity for 2026/27 Budget**

Considering the risks, budget assumptions, and the likelihood of all these risks occurring at the same time, the council will have sufficient resources to meet the costs of the risks.

## **Revenue Reserves**

### **Reserves for 2026/27 and the MTFS Period (2027/28 to 2029/30)**

There is no statutory minimum level of reserves, however, as noted at 8.5.2 the minimum threshold for the General Fund (Unallocated) Reserves of £2.175m that Cabinet approved during 2025/26 budget setting will be maintained. The primary aim of the General Fund is to provide a safety net for unforeseen expenditure.

In addition to the General Fund, and as shown in Appendix 7, the Council operates several reserves, including the Budget Surplus Reserve,

the Commercial Investment Reserve and a number of specific Earmarked Reserves. The purpose of the latter is to meet known potential liabilities arising from statutory commitments, known risks, future or political commitments and costs associated with transformation and commercialisation.

## **Conclusion**

### **2026/27 Budget**

Considering all the factors noted within the Robustness statement in respect of 2026/27, I consider that given the combination of the councils:

- commitment to continue to find service efficiencies.
- intended direction of travel in relation to governance.
- clear intention to invest in services; and
- prudent position relating to income recognition.

the budget proposed for 2026/27 should not give Members any significant concerns over the Council's financial position.

### **Medium Term Financial Strategy (2027/28 to 2029/30)**

Although the MTFS period presents some ongoing funding risks for the Council, the combined impact of the recent Business Rates reset, and the Fair Funding Review 2.0 has been more favourable than anticipated last year. The significant income reductions that were previously expected have not materialised. Last year's MTFS incorporated a prudent worst case scenario due to the high level of uncertainty; however, the Council's ability to retain a proportion of Business Rates growth, alongside the effects of damping (transitional relief), means that income levels are expected to remain broadly stable over the medium term.

The Council continues to take proactive steps to manage its financial position. Through ongoing work to identify efficiencies and deliver savings, the Council has established a resilient financial foundation that supports its long term ambition of achieving greater financial self sufficiency.

**Lydia Morrison**

Responsible Financial Officer (Section 151)