Public Document Pack

Finance Committee

Date: TUESDAY, 18 FEBRUARY 2025

Time: 12.45 pm

Venue: COMMITTEE ROOMS - 2ND FLOOR WEST WING, GUILDHALL

7. **CITY FUND BUDGET REPORT AND MEDIUM-TERM FINANCIAL STRATEGY**

   Report of the Chamberlain.

   For Decision
   (Pages 3 - 150)

8. **CITY'S ESTATE BUDGET REPORT AND MEDIUM-TERM FINANCIAL STRATEGY**

   Report of the Chamberlain.

   For Decision
   (Pages 151 - 176)

9. **REVIEW OF RECHARGES – UPDATED POSITION**

   Report of the Chamberlain.

   For Decision
   (Pages 177 - 190)

17. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**

   a) **Treasury Management Strategy Statement and Annual Investment Strategy (relating to Treasury Management) 2025/26**
   Report of the Chamberlain.

   For Information
   (Pages 191 - 194)

Ian Thomas CBE
Town Clerk and Chief Executive

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Committee(s): Finance Committee – For decision Court of Common Council – For decision	**Dated:** 18th February 2025 6th March 2025
Subject: City Fund 2025/26 Budget and Medium-Term Financial Plan	**Public report:** For Decision
This proposal: • **delivers Corporate Plan 2024-29 outcomes** • **provides statutory duties** • **provides business enabling functions**	All
Does this proposal require extra revenue and/or capital spending?	Yes.
If so, how much?	Proposals for additional funding both permanent, one-off and capital are set out within the report
What is the source of Funding?	City Fund
Has this Funding Source been agreed with the Chamberlain's Department?	Yes
Report of:	The Chamberlain
Report author:	Daniel Peattie – Assistant Director, Strategic Finance

Summary

This report presents the overall financial position of the City Fund (i.e. the City Corporation's finances relating to Local Government, Police and Port Health services).

Economic Stability and Government Actions:

After a period of significant economic volatility and the effects of high-inflation, the past twelve months have seen a gradual return to stability. However, the high inflation's impact continues to exert pressure as increased costs are now embedded in contracts and wages. Despite stagnation last year, the broader economy is projected to grow annually by no more than 1.8% through to 2028.

Against this backdrop, the new government confirmed its first local government finance settlement on 3rd February 2025. This settlement provided a larger increase in Core Spending Power relative to current inflation rates, but it also indicated an intent to redistribute funding across the country, using comparators such as deprivation more heavily.

Specifically for the Corporation, the planned reset of Business Rates income retention in 2026/27, highlighted in last year's Medium Term Financial Plan (MTFP) paper and reaffirmed by the new government, has the potential to reduce annual City Fund income by £27m, necessitating a strategic and urgent response.

We will advocate that proposed transitional relief arrangements over funding reform more generally may partially mitigate the impact, more information is expected to be released in the Spring.

Financial Challenges:

While the City Fund is projected to achieve a balanced budget in 2025/26, significant factors suggest that 2026/27 will fall into a deficit that could only be managed through the use of reserves. Although this approach enables the City Fund to remain balanced within the medium-term financial plan, it is not sustainable and requires urgent action.

Financial modelling on potential transitional relief indicates that the move into deficit could be delayed until 2027/28. Therefore, it is advised to focus on developing savings plans though a staged approach over the next two years within the City Fund, to be implemented from 2027/28 with further savings delivered by 2028/29, to address the anticipated loss of business rate income growth. To date, efforts have been more focused on income generation but will also require priority decisions for the Corporation, including difficult decisions about ceasing certain activities.

The Housing Revenue Account is under significant pressure and fiscal sustainability is extremely fragile; and there is a need to address the condition of some part of the housing stock.

In December 2024, approval was granted to proceed with the first phase of the Barbican renewal works, committing over £290m in resources to the project, including risk budgets. This approval came with the necessity to ensure the long-term financial stability of the Barbican, aiming to reduce future revenue contributions from the Corporation while making future stages of capital works self-funding through partner contributions or disposals.

Although the Final Local Government Financial Settlement includes a welcome increase of £1.2m, this amount only just covers pressures within children's social care, leaving ongoing pressure on adult social care and future homelessness costs. The expectation continues from Government that more will be raised from local taxpayers. The new Governments' approach to allocation of funding alongside the proposed redistribution of Business Rate growth means the Corporation does not benefit from the same level of funding increases as other local authorities. In fact, the Corporation is set to see one of the lowest increases in Core Spending Power within London in 2025/26. The same position applies for the Police Funding settlement. To support increased local funding for other forces, Government has increased the flexibility for increasing Precepts by up to £14 without a referendum being required. Following the steer from Resource Allocation Sub Committee in the summer, income raising proposals for City Fund are recommended via Business Rates Premium and Council Tax.

The final settlement also approved the extension of the '8 Authority Pool' with 7 neighbouring billing authorities, which will enable the pool partners to keep more of the business rate growth they generate – this pool will cover 4 of the 6 most deprived boroughs. For City Fund this will potentially yield £9m. This pool is an extension for one year only. Due to the expected reset of business rate income in April 2026, 2025/26 is expected to be the final year where these pooling arrangements remain financially viable to continue. This is one-off funding and is not recommended to support business as usual and needed to support the major projects programme, reducing the impact on City Fund deficits in later years.

To address some of these challenges, Members have endorsed a new Investment Strategy aimed at diversifying investment property to ensure a higher rental yield. Despite this, tough budget decisions are needed to remain within the overall envelope across the medium term to 2028/29.

The medium-term financial outlook, with no tax increases, is summarised in table 1 below:

Table 1: City Fund five-year outlook

Surplus/ (Deficit)	2024/25 £'m	2025/26 £'m	2026/27 £'m	2027/28 £'m	2028/29 £'m
City Fund surplus/(deficit)	73.4	29.9	(9.7)	(26.6)	(24.5)
City of London Police surplus/(deficit)	0.0	(1.0)	(1.0)	(1.0)	(3.9)
[1]Proposed funding changes	0.0	8.9	8.9	8.9	8.9
Proposed use of BRP to fund SSD/FPEP	0.0	(6.3)	(6.3)	(6.3)	(6.3)
Transfer to and from Police Reserve	0.0	(1.1)	(1.1)	(1.1)	2.8
City Fund incl. Police surplus/(deficit)	**73.4**	**30.4**	**(9.2)**	**(26.1)**	**(22.5)**
[2]General Fund Reserve – working capital	*20.0*	*20.0*	*20.0*	*20.0*	*20.0*
[3]Business Rates Risk Reserve	*5.3*	*5.3*	*5.3*	*5.3*	*5.3*
[4]Major Project Financing Reserve	*135.5*	*125.9*	*81.3*	*37.9*	*8.4*
[5]Cyclical Works Programme Reserve	*64.6*	*49.0*	*32.4*	*21.1*	*0.0*
[6]Climate Action Reserve	*13.7*	*13.0*	*12.5*	*12.5*	*12.5*

[1]Proposed funding changes include tax rises on council tax at 4.99% and business rate premium at 0.4p in the £
[2]General fund reserve maintained at minimal prudent amount for working capital.
[3] Business Rate Risk Reserve held to mitigate future risks.
[4]Major project financing reserve includes: adjustments for financing the revenue element of major projects which is not included in the deficit/surplus, plus is used to smooth budget surplus/deficits over the medium-term financial plan.
[5]Cyclical Works Programme Reserve includes ring-fenced funds to support the essential funding needed on backlog and forward plan over 5 years from 2024/25 and included in the surplus/deficit.
[6]Climate Action Reserve includes adjustments for financing the revenue element of climate action and savings from climate action and similar programmes.

The Police started 2024 with a balanced MTFP, but new pressures have made this unsustainable. The 2025/26 Police Funding Settlement provided an additional £6.5m, covering 2024 costs, officer pay awards, National Insurance, and more Neighbourhood Policing officers. Despite this support, a funding gap of £1m p.a. remains due to unfunded London Allowance costs and the 2024 staff pay award. The Corporation is unable to levy taxes in the same way other Police Crime Commissioner Offices through precept on Council Tax – for 2025/26 up to £14 without needing a referendum. Consequently, additional local funding is necessary, as has been the case with other forces, most of whom have increased the precept by £14.

City Fund (including Police) is balanced over the medium-term financial plan (MTFP), taking one year with the next, with a surplus of £35.5m without tax increases (£45.4m with tax increases). Useable reserves are expected to decrease by £193m, as these funds will be necessary to offset future deficits and support the major projects, CWP and climate action programmes. The announcement from the Final Local Government Settlement has already been incorporated into the MTFP and is expected to result in the City Fund losing the benefit of additional Business Rate growth which has been instrumental in generating surpluses used to fund Major Projects. Interest returns have provided short-term relief against inflationary and other pressures. However, significant pressures persist, now looming just a year away. Further measures are required to ensure City Fund remains in balance beyond 2025/26. Previously, business rate growth was earmarked for major projects. However, due to rising inflation, reduced property income, and ongoing pressures in adult and children's services including homelessness, such separation has not been feasible during the current financial year and will continue to be unfeasible in 2025/26 and later years. Without this growth in Business Rates, and one-off benefit from releasing part of the provision for appeals, the City Fund would face a deficit of £22m in 2025/26. Projected deficits in later years jeopardise the statutory duty to remain balanced across the 5-year medium-term, leaving little room to manage unforeseen financial challenges. Reliance on reserves to balance future years is unsustainable beyond 2028/29.

Projecting the impact of the reset and redistribution of business rates is very difficult due to the complexity of the system and variation of options the government may implement. For MTFP purposes, a prudent approach has been taken, however there is the potential for some kind of transitional period to avoid a 'cliff edge' where authorities lose growth income built up over 10 years. An early estimate of this could be worth c£29m of additional business rate income to the Corporation over the MTFP from a smoothing of the redistribution. More detail is expected to be released in the Spring, so it is not recommended to include these amounts at this point. However, table 2 below demonstrates the potential impact.

Table 2: City Fund position with transitional Business Rate redistribution

CITY FUND	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**	**2027/28 £m**	**2028/29 £m**
City Fund total including Police	73.4	30.4	(9.2)	(26.2)	(23.0)
Potential transitional relief from BR reset			18.5	9.7	1.0
Revised Surplus/(Deficit)	**73.4**	**30.4**	**9.3**	**(16.5)**	**(22.0)**

Based on the above modelling savings required could be pushed out by a year of approximately £16m by 2027/28 increasing to £22m p.a.by 2028/29 onwards.

There is a statutory duty to remain balanced across the medium-term taking one year with the next over the five-year period. There are several options being recommended within this report to close the medium-term deficits, however this leaves very little margin to support unforeseen financial challenges.

For 2025/26, Members will need to consider whether to:

- Increase Adult Social Care precept by 2% which raises £194k p.a. – in response to the ongoing pressures in adult social are of £0.2m.
- Increase in core Council Tax by 2.99% which raises £298k p.a.- to address pressures on children services and other future pressures in homelessness estimated at £2m p.a. from 2026/27 onwards.
- Increase Business Rates Premium by 0.4p in the £ which raises c£8.4m p.a. - to support Police inflationary pressures and rising costs of funding the Future Police Estate Programme.
- Increase rents for social tenants within the Housing Revenue Account by 2.7%. as approved by the Children's & Community Services Committee on 16th January 2025 to balance the HRA across the MTFP.

Capital - Business as usual

Turning to the **capital position**, due to the wider financial pressures no new proposals were solicited as part of the 2025/26 process. Instead, it is proposed that £7m be held as contingencies from 2026/27 per annum to address any unforeseen pressures, however a re-prioritisation of existing allocations is also recommended to identify future capacity and avoid overstretching available resources.

Capital – Major projects

The budgets for Major Projects have been updated to reflect recent decisions. Additionally, this report recommends measures to fund the tactical firearms training facility and to increase optimism bias for the remainder of the Future Police Estate Programme. For further information please refer to Appendix A, paragraphs 22-30.

Options to stabilise the position

This report recommends a number of measures to stabilise the position in 2025/26 and that will support the steps that will need to be taken over the medium-term, supported by:

- **One-off spends** addressed within resource envelope/added to MTFP, with exceptional items funded from underspends of approximately £22m projected to be carried forward from 2024/25 (including inflation contingency - paragraph 18).

- **Medium-term savings plans** – require ongoing radical thoughts to reduce the future projected annual operating deficit for both City Fund and City's Estate. Developing a savings plan under the Town Clerk's Transformation Programme aligned with the Fantastic Five Years vision, designed to support organisational excellence, financial sustainability, and prepare the City Corporation for a digitally focused, AI-driven future (see paragraphs 46 to 54).

- **Tax increases –** have been modelled and recommendations made.

- **Savings programme**. While income generation must remain a priority across City Fund, if there is no transitional relief, additional savings of approximately £9m are required by 2026/27, increasing to £26m p.a. by 2027/28 onwards. This will necessitate tough decisions on changes or reductions in existing services and grants.

- **For Major Projects:**
    - Development opportunities to attract investment must continue to be prioritised as demand is outstripping available resources. The Corporation is only able to fund the first stage of the Barbican Renewal.
    - The initial phase of the Barbican renewal, approved by the Court of Common Council on 5th December 2024, includes a funding gap of £101m to be financed from the disposal of investment assets, plus the identification of £56m funding for optimism bias. It is essential for the Corporation to focus on mitigating the financial burden. Leveraging the commercialisation of the Exhibition Halls will be crucial in reducing funding requirements. Furthermore, the future estate requirements cannot be supported by the City Fund. This necessitates consideration of long-term ambitions, the operating model, and third-party funding solutions alongside existing revenue funding for the centre.
    - Several factors, including high-inflation, an expanded scope of the Salisbury Square Development (SSD), a national decision to increase police officers, and the recent tendering of the 17 Fit Out works packages on Salisbury Square, resulted in significant budget pressures for SSD and the Future Police Estates Programme (FPEP). Alternative funding solutions have been identified. Investment Committee has reprioritised use of capital receipts to the commercial element of the building and a recommendation to increase the Business Rate Premium to deliver the tactical firearms training facility is included in this report, supported by the Police Authority Board. Additionally, with several projects within the FPEP still in their early stages and existing risks, members must consider raising the optimism bias for the remaining projects, as the current optimism bias has been depleted. It is recommended that optimism bias be increased by an additional £30m. Without a further increase in the Business Rates Premium of 0.4p in the £, additional disposals from the investment property will be necessary, adding an additional £1.2m p.a. pressure on City Fund’s current deficit.
    - Given that ambitions and current commitments exceeds resources priority otherwise continues to be directed towards statutory or health and safety needs, alongside the already approved Cyclical Works Programme.

Recommendations

The Finance Committee is asked to endorse the below recommendations to the Court of Common Council:

1.0 To note and approve the overall budget envelopes for City Fund.

1.1 Additional funding is required to be approved for new on-going cost pressures and have been included as budget uplifts:

- 1.1.1 Net 2% inflation uplift to local risk budgets.
- 1.1.2 £1.3m p.a. for City Fund Adult Social Care and Children Services.
- 1.1.3 £232k p.a. City Fund for Health & Safety officers (Environment and Barbican Centre)
- 1.1.4 £165k p.a. for increased internal control (Internal audit) split across funds.

1.2 Following the Government's announcement to increase employers' national insurance from 13.8% to 15%, it is recommended that additional funding be allocated to City Fund (the final Local Government Settlement confirmed £873k of grant).

1.3 Ongoing pressures identified through the budget-setting process and supported by Members are addressed through savings made elsewhere, remaining within the overall budget envelope. These pressures are outlined in paragraph 17.

1.4 Other one-off pressures and opportunities for transformation in 2025/26 outlined in paragraphs 18 to be funded from forecast carry forward underspends from 2024/25 Members are asked to comment whether they are supportive of these.

1.5 Uplift the grant to the Museum of London by 3% (£170k) pending confirmation that the GLA are matching the uplift; and a provision to uplift the grant to the London Symphony Orchestra by up to 3% (£61k), subject to funding discussions with the Arts Council. Any such additional funding will be funded from savings found.

1.6 As in previous years, it is recommended the earmarked security reserve retains £1m as a minimum and is reviewed regularly.

1.7 Approve the overall financial framework and the revised Medium-Term Financial Strategy (paragraphs 9 to 83).

1.8 Approve the City Fund Net Budget Requirement of £241.8m (Appendix A, paragraph 7).

2.0 **Medium Term Corporate Plan Alignment and Financial Sustainability** – Members are asked to note and approve the following recommendations:

2.1 Revenue:

2.1.1 Additional resource requests and inflationary pressures: Going forward, assumptions include 2% uplift from 2025/26 onwards.

2.1.2 Homelessness £2m p.a. pressure added from 2026/27 (paragraph 81).

2.2 For Cyclical Works Programme (CWP):

2.2.1 £7.5m p.a. built in from 2028/29 onwards to support ongoing works and avoid a backlog.

2.2.2 Funding for City Fund has been identified and allocated from reserves for 2028/29 only. Futures years funding will necessitate disposal of assets.

Key decisions:

The key decisions are in setting the levels of Council Tax and National Non-Domestic rates:

3.0 **Council Tax and Housing and Council Tax Benefits** – paragraph 42

3.1 An increase of 2% social care precept, raising c£194k p.a. in response to the ongoing pressures in adult social care totalling £0.2m.

3.2 An increase of 2.99% on core Council Tax raising c£298k p.a. to address pressures in children's social care, the gap in pressures from the national insurance increase and other pressures outlined under section 1 i) above.

3.3 To note if both increases are approved, the 4.99% increase will result in the Band D rate increasing from £1,051.62 to £1,102.82 (before GLA precept).

3.4 To retain a fully funded means tested council tax reduction scheme for those on low incomes who are least able to pay and providing continued support to vulnerable members of society.

3.5 Continuing the Local Discretionary discount for Care Leavers between the ages of 18 to 25 for 2025/26.

3.6 The current 100% discount awarded to unoccupied and unfurnished and uninhabitable dwellings is continued at zero (0%) for 2025/26.

3.7 Continuing the premium levied on long-term empty property of 100%, 200% and 300% on properties that have been empty for 2, 5 and 10 years respectively in 2025/26.

3.8 Continue the long-term empty property premium of 100% for properties that have been empty for longer than 12 months in 2025/26.

3.9 Introduce the Second Home Premium of 100% in 2025/26.

3.10 Determine that pensions received by veterans under the War Pension Scheme or War Compensation scheme are fully disregarded in the calculation of Housing and Council Tax Benefit.

3.11 It is recommended that, having regard to the government guidance issued, the Chamberlain be given the discretion, delegated to the Assistant Director, Financial Shared Services, to reduce or waive the long-term empty premium charge in exceptional circumstances.

3.12 Approve that the cost of highways, street cleansing, waste collection and disposal, drains and sewers, and road safety functions for 2025/26 be treated as special expenses to be borne by the City's residents outside the Temples (Appendix B).

4.0 **Business Rates and Business Rate Premium** – paragraphs 43-44

4.1 To approve an increase the Standard City Business Rate Premium from 0.018p to 0.022p. Setting the overall standard business rate multiplier as 0.577p

4.2 To approve an increase the Small Business City Premium from 0.016p to 0.020p, setting the overall small business multiplier as 0.519p

4.3 To note for every 0.1p increase in the £ - this raises c£2.1m, therefore an increase in Business Rates Premium by 0.4p in the £ (as per above) - raises £8.4m p.a.

4.4 Award a Discretionary Discount under S47 Local Government Finance Act for qualifying Nursery Schools of up to 100%.

4.5 Note that, in addition, the GLA is levying a Business Rate Supplement in 2025/26 of 2.0p in the £ on properties with a rateable value of £75,000 and above (Appendix A, paragraph 11).

4.6 Delegate to the Chamberlain the award of discretionary rate reliefs under Section 47 of the Local Government Finance Act 1988 (Appendix A, paragraph 11).

4.0 **HRA Rent**

4.1 Approve an increase on rents for social tenants within the Housing Revenue Account by 2.7% for 2025/26, as proposed to the Children's & Community Services Committee on 16th January 2025 in order to balance the HRA across the MTFP.

5.0 **Capital Expenditure**

5.1 Approve the Capital Strategy **(Appendix F).**

5.2 Approve the Capital budgets for City Fund and the allocation of central funding from the appropriate reserves to meet the cost of 2025/26 – release of funding being subject to approval at the relevant gateway and specific agreement of the Resource Allocation Sub Committee at gateway 4(a) (paragraphs 55 to 64)

5.3 Approve the continuation of the allocation of central funding in 2025/26 to provide internal loan facilities for the HRA, currently estimated at £11.0m respectively.

5.4 Approve the Prudential Code indicators (Appendix D).

5.5 Delegate authority to the Chamberlain to determine the final financing of capital and supplementary revenue project expenditure.

6.0 Treasury Management Strategy Statement and Annual Investment Strategy 2025/26 (Appendix E)

6.1 Approve the Treasury Management Strategy Statement and Annual Investment Strategy for 2025/26, including the treasury indicators – Appendix E.

6.2 Approve the authorised limit for external debt (which is the maximum the City Fund may have outstanding by way of external borrowing) at £348.0m for 2025/26; and the Minimum Revenue Provision (MRP) for 2025/26 at £1.4m (MRP policy is included within Appendix E – Treasury Management Strategy Statement and Annual Investment Strategy Statement 2024/25 - Appendix 2).

7.0 Chamberlain’s Assessment

7.1 Take account of the Chamberlain’s assessment of the robustness of estimates and the adequacy of reserves and contingencies (paragraphs 68-72 and Appendices A, C and H respectively).

Main Report

Background

1.0 This report sets out the revenue and capital budgets for City Fund for the Finance Committee and Court of Common Council to approve.

2.0 Global events continue to create significant uncertainty around the economy and the ongoing impacts of recent high inflationary pressures continue to be significant. Whilst inflation has fallen around 2%, future projections are more uncertain and the potential for future increases remains.

3.0 The new Government has provided increased political stability on a national level, but global events could still impact the wider economy. Therefore, there are still a significant number of risks which could impact on the MTFP.

4.0 The autumn 2024 Budget confirmed the commitment to implement a redistribution of funding for local government more aligned to deprivation and tax raising powers from 2026/27. This has the potential to make material changes to the level of funding generated and received by the Corporation within City Fund. The Final Local Government Settlement released on the 3rd February 2025 provided some insight into the new government's approach for allocating local government funding. Overall, Core Spending Power (CSP), which measures resources available to local authorities for service delivery, increased by 6% nationally. Within London the average increase was slightly lower, but for the Corporation, the increase was only c3%. Some of the larger reductions across London included the removal of the Services Grant (£15m across London and £0.1m within CoL) and the end of 2024/25 funding guarantee amounts (£9m across London and £0.4m for CoL).

5.0 Whilst income generation through CSP is proportionally smaller for CoL due to the income received from Business Rates retention, further consultation on future funding reforms for 2026/27 onwards has reaffirmed the intention to reset business rates baselines, which is expected to have a significant impact on the Corporation as seen in the projections within this report. We hope, and will advocate, that transitional relief as mooted in the Government's consultation on funding reform will partially mitigate the position until we can grow the business ratepayer base again, but until we have further information from government, we cannot predict how much this will mitigate the anticipated £27m loss.

6.0 Despite significant budget reductions over the past decade across City Fund and City's Estate, there continues to be considerable pressures on the City Fund. These pressures are attributed to the financing of major projects, inflation increases, projected lost income from business rates and challenges in retaining and recruiting staff under the current salary structure. To address some of these challenges Members have endorsed a new Investment Strategy aimed at diversifying investment property to ensure a higher rental yield.

7.0 Another significant decision made in 2024 was the approval of phase 1 of the Barbican Renewal Programme. This initiative is to address critical infrastructure issues, ensuring continued operations at the Barbican while modernising its spaces and venues to meet future requirements. The programme introduces additional cost pressures on City Fund amounting to £230.6m in capital and £19.9m in revenue support. Although £90m in capital funds has been allocated from existing resources, there remains a shortfall of £101m after considering a fundraising effort of £40m. Addressing this funding gap requires asset disposal and leveraging the commercialisation of the Exhibition Halls in the coming years. Third party funding is needed for subsequent phases.

8.0 While individual budgets have undergone changes, several overarching messages from the 2024/25 MTFP remain consistent. Those being:

a) City Fund (including Police) is expected to fall into deficit within the MTFP period.
b) The scale of the Capital programme and major projects is placing significant pressure on the resources available.
c) The HRA remains finely balanced for the next two years, with an anticipated improvement in outlook as additional properties become available upon completion of new developments, but with significant requirements to improve the condition of housing stock.

Overall Financial Strategy

9.0 The City of London Corporation's overall financial strategy seeks to:

- manage inflation impacting on the economy and income;
- maintain and enhance the financial strength of the City Corporation through its investment strategies for financial and property assets;
- pursue budget policies which seek to achieve a sustainable level of revenue spending and create headroom for capital investment and policy initiatives,
- create a stable framework for budgeting through effective financial planning;
- promote investment in capital projects which bring clear economic, policy or service benefits;
- manage the affordability to support major capital projects now and in the future; and

Measures to the 2025/26 budget

10.0 In considering the options Members should be aware that:

- **Ongoing inflationary pressures** impacting pay and prices – inflation has been highly volatile and significantly above the Bank of England's 2% target in recent years, reaching levels over 11% in 2022/23 but currently down to c2%. In 2025/26 this is expected to drop below 2% before rising back to around 2% during 2027. Pay contingencies have been included for 2024/25 uplift through the reprioritisation of existing resources, for future years an uplift of 2% for pay and prices on net local risk budgets has been included.

- Notable degree of uncertainty and risk surrounding the economic forecast for 2025. Several factors influence this outlook. While the labour market has shown signs of softening, significant global events such as geopolitical tensions and economic policies in other countries may contribute to economic instability. There remains a risk on income streams, particularly: rental income from investment properties, event bookings and events at the Barbican needs close monitoring.

- **Pressures highlighted by departments** through officer deep dives, business planning and Efficiency and Performance Working Party – i.e. HR, the Barbican Centre and Guildhall School Music & Drama (GSMD). It is recommended that we either reprioritise current resources or determine which activities can be discontinued to create headroom to support existing/new areas requiring investment or identify opportunities to drive efficiencies. This approach aims to achieve a significant shift in our services, rather than merely delivering substantial savings.

- **Pressures on social care and children's services:** Despite receiving additional funding in 2024/25 additional pressures amounting to £1.3m are expected to persist into 2025/26 for social care and children's services. Efforts have been made to reduce costs in children's social care and implemented targeted interventions to decrease the necessity of residential placements, thereby enabling individuals to remain at home longer. However, these pressures are anticipated to continue to increase in future years. Whilst additional funding is received, not increasing taxes will further exacerbate the financial strain on City Fund finances.

- **Impending rates reset in 2026/27:** As anticipated in last year's MTFP, the government have reaffirmed the intention for reform of local government and business rate funding allocations from 2026/27. This reform is expected to see the income received within City Fund fall by c£27m p.a. Given the statutory duty to set a balanced budget each year for City Fund, this places significant pressure on the financial planning for the next fiscal year. Whilst reserves can be used to mitigate the impact temporarily, relying on them to balance the budget is not a sustainable long-term strategy. The potential of transitional relief may partially mitigate the impact.

- **Ongoing Cyclical works programme**, although the £133m cyclical works backlog for City Fund, City's Estate, and £12.5m for GSMD was approved in March 2024, institutions (who are required to) must set aside suitable funding within their own budgets to manage regular repairs and maintenance to their properties. Sustainable funding for cyclical works has been incorporated into future years from 2028/29 as approved by Court of Common Council on 7th March 2024. This approach is designed to prevent issues like those at the Barbican Centre, where a substantial amount of funding is required to be included in one go to address critical repairs and upgrades. The profile of the original £145.5m backlog works now also covers this period so there is a decision as to whether there is capacity to deliver further works in 2028/29. Members should note that capital programmes have been reduced to accommodate the budgeting of the ongoing cyclical works programme.

- **Housing Revenue Account (HRA)** With previous high inflation and rent caps in place, the increases in costs have not been matched by increases in rent. There is a requirement to balance HRA across the MTFP and a 2.7% increase in rent is permitted and recommended for 2025/26. HRA reserves are forecast to be under significant pressure in the medium term; however, additional properties being completed as part of new developments should enable small surpluses to begin rebuilding resilience. Further cost pressures or loss of income in the coming years would be challenging to absorb with the HRA reserve. There is a large amount of unfunded major works that members are keen to carry out on existing stock, but these are currently unaffordable within the HRA envelope. Members are asked to note that s106 funds can only be used against new builds and cannot support the future maintenance of existing units. Government has recognised there is an issue nationally for HRA resilience and further flexibilities may be permitted. If not sufficient, there may be potential for a capital grant from City's Estate to be explored (approximately £50m-£60m over 10 years). While new units will increase the income stream, they will also bring future pressures on repairs and maintenance in the long term as well as increase the depreciation charge. Members should note the inability to manage future costs from further new builds within the HRA budgets will continue to place a strain on the HRA.
- **Significant inflationary pressures on Police**, arising from higher than budgeted pay and allowance increases for officers and staff, along with pressures from the Fraud & Cyber Crime Reporting & Analysis Programme, loss of Transport for London (TfL) funding and increased operational demands and cost pressures. While the 2025/26 police funding settlement announced in December has provided £6.5m additional funding over 2024/25, much of this was to cover the increased costs of 2024 and future officer pay awards, employers National Insurance contributions and an uplift in Neighbourhood Policing officers. Without additional local funding, there is likely to be a residual gap of c.£1m pa in the Police budget, linked mainly to unfunded London Allowance costs (if Metropolitan Police Service applies the increased maximum), 2024 staff pay award and future year staff pay awards. Members should note most other forces are looking to maximise use of their additional precept flexibility of £14.
- **Savings programme** – In order to meet the significant future funding challenges, further savings need to be identified and delivered from 2026/27 onwards if no transitional relief it provided. This needs a cross-Corporation approach in order to achieve the budget gap within City Fund.

Corporate Plan

11.0 When considering the allocation of resources and competing pressures and priorities, the Corporate Plan provides a framework to ensure decisions are aligned to one or more of the approved six key outcomes.

12.0 Having been approved in January 2024, the alignment of the MTFP, Corporate Plan and Business Planning is still in a relatively early stage. However, ensuring a clear link between the MTFP and Corporate Plan will support the effective allocation of resources and provide a framework for discussions around prioritisation and breaking away from silos. If expenditure cannot be linked to one of the outcomes there should be scrutiny as to why we are incurring it and potentially the need to stop doing it in order to ensure efficient allocation of resources.

13.0 The corporate plan can serve as a useful framework when evaluating activities that the City Corporation may need to discontinue to manage financial resources. It is important to consider that some services are governed by statutory legislation that must be taken into account.

14.0 The budget setting process for 2025/26 and beyond began back in May 2024 with a series of officer led star chamber meetings. These meetings reviewed pressures and potential savings within each service area. Several common pressure areas were identified, London Living Wage increases, ongoing pressures from the 2024/25 period that may contribute, and impact on enabling services due to the scale of demand.

15.0 Following the star chamber, and steers provided by Resource Allocation Sub awayday the budgets were built with the following key principles.

i. 2% increase in net local risk budgets;
ii. No new bids process for City Fund capital programme, with a reduced contingency budget of £7.5m City Fund within each year;
iii. Continued work on workstreams to review operational property utilisation and income generation;
iv. All other inflationary pressures to be contained within the budget envelopes.

Cost pressures included to align funding or support Corporation's ambitions

16.0 As a result, from the budget setting discussions a number of pressures were identified to either align funding to more appropriate source or support the Corporation's ambitions. These have been added to the budget and are set out within this report having been supported by Resource Allocation Sub away day:

i. Additional funding for Adult & Children's social care City Fund - £1.3m. We have seen a notable increase in the number of children with severe complex needs. The demand in this area is highly unpredictable, and even one placement can significantly impact the budget ranging from £250k up to £1m. The increasing needs of children with Early Help Care Plans underscore the persistent challenges of increasing demand. Despite additional funding allocated under the Final Local Government Settlement, Chamberlains' recommendation is that taxes are increased to help reduce the ongoing pressures. Provisional figures for the social care grant show an increase of £135k which will help to reduce the pressure, but is not expected to cover the full cost pressure.

ii. Additional Health & Safety (H&S) resource for Environment Department & Barbican Centre City Fund - £232k. An audit has recommended strengthening the H&S team to enhance staff capabilities.

iii. Funding to strengthen the Corporation's Internal Audit Team and the deliver the extensive audit programme - £165k across funds. This is allocated to reinforce the internal audit team and ensure the successful execution of the comprehensive audit programme.

On-going cost pressures or bids for new activities

17.0 Service Committees have identified cost pressures or new activities that need funding within the overall budget, 2024/25 underspends or increased in income generation. £2.6m savings have been identified during the 2025/26 budget process. Therefore, it is recommended that new pressures be reprioritised from these savings to support these cost pressures:

- The following pressures will be shared 50:50 across City Fund and City's Estate:

  i. Following the project governance review, the Policy and Resources Committee endorsed the proposals for the new Commercial, Change, and Portfolio Delivery (CCPD) at its meeting on December 23. Therefore, it is recommended that the £701k of identified savings be allocated to the CCPD budget starting from the fiscal year 2025/26 to support the progress of income generation.

  ii. Last year, we indicated that an assessment of EEDI pressures was in progress. A total of £401k (across funds) has been allocated from the identified savings for EEDI and added to their budget for the fiscal year 2025/26.

  iii. £300k has been added to DiTS budget to realign where savings from the Agilysys contract relating to Police services were formerly received. This cost pressure has been offset against the original Agilysys savings achieved.

- The following pressures fall under City Fund:

  iv. The Policy and Resources Committee has directed that £391k for the Electoral Engagement Campaign & Enhanced Political and Strategic Engagement be reallocated from existing resources. Identified savings have been earmarked and will be added to their resource base.

  v. Additional pressures from London Living Wage inflation have impacted a number of areas, this is still being felt in the Barbican costing £891k. It is recommended additional funding is provided offset by savings delivered.

  vi. The Museum of London requested a 3%/£170k annual uplifts for 2024/25 and the two subsequent years from both the City Corporation and the GLA. Given that funding is approved annually, members are asked to revisit for 2024/25. The Museum has provided a business case and with the London Wall site closed, income loss and cost reduction have been factored in.

Pending confirmation that the GLA is matching, Members are asked to consider a 3% uplift.

vii. London Symphony Orchestra (LSO) received 3% in 2024/25 following flat funding for the previous 3 years. The LSO have requested a three-year funding settlement from both the City Corporation and the Arts Council. However, given that we only have a one-year funding settlement from Government, it is recommended that we enter discussions with the LSO and the Arts Council supportive of a three-year settlement, subject to an annual review. Discussions are expected to take place over the Summer; and it is recommended that a 3% increase is provided for should it be needed following these negotiations (amounting to £61k).

These are all on-going pressures and have been added in with no impact on the overall envelope as met from savings identified elsewhere.

One-off or time limited funding

18.0 When setting the budget for 2025/26, the intention has been to capture and consider pressures as part of that process. Therefore, the use of 2024/25 underspends to fund additional pressures has been considered for exceptional and one-off events. The wider intention is that any underspend on 2024/25 go into reserves in order to support the funding of major projects and the capital programme. Q3 forecasts indicate underspends of c£22m on City Fund and c£15m on City's Estate. The below one-off or time limited funding has been requested by Committees or recommended:

➢ The following pressures will be shared 50:50 across City Fund and City's Estate:

i. It is recommended that the current transformation funding agreed for 2024/25 be reviewed and, if necessary, supplemented to continue supporting the shift service delivery and cultural change required. The estimated amount needed is likely to be an additional £2m to £3m in 2025/26, to be funded from 2024/25 underspends.

ii. The current budget allocated to the Human Resources department is insufficient to cover essential business operations, let alone advance the new people strategy. The Corporate Services Committee, Finance Committee, and Policy and Resources Committee have acknowledged that budget cuts in previous years have severely impacted services. Consequently, they have supported temporary funding of £1.8m p.a. for up to three years to assist in revitalising the department. The implementation of the new Enterprise Resource Planning (ERP) system will significantly enhance efficiency and improve service delivery. It is therefore recommended that the temporary funding be supported through the underspend carried forward from the 2024/25 budget.

iii. With the Learning & Development Strategy now embedded as a core component of our People Strategy, each element presents essential training demands. Work is underway to review the total training costs being incurred across the Corporation however appreciate that this could take some time to get underway as it involves collating and negotiating with Chief Officers. Recommendation is that Transformation funding be explored for the current year and next - £810k.

iv. £3m funding is required over three years to bring in a strategic partner to support the Town Clerk's Transformation Programme. This programme aligns with the Five Years vision and aims to promote organisational excellence, financial sustainability, and prepare the City Corporation for a digitally focused, AI-driven future. It is recommended that this be funded through the transformation fund.

v. £447k p.a. for the next three years, has been temporarily added to the DITS budget for the ERP Support team and out of hours services, funded by Agilysys savings. Ongoing allocations for the new ERP system will be reviewed and updated post implementation.

vi. £300k, As highlighted last year, the current budget for Corporate Communications and External Affairs is insufficient to cover core basic BAU obligations and roles (with even some statutory obligations that are currently unfunded) - the transformation required of the team and across the City Corporation, or key priority areas, such as the Town Clerk's engagement and People Strategy, due to the lack of any operational budget across many areas of the division. In addition to interim Chief Officer arrangements being in place (commencing Oct 2024), there is a focus on greater efficiency and effectiveness seeing a reduction in overspends, wholesale reform is still required. Therefore, the recommendation for one-off funding is supported for 2025/26 from 2024/25 underspends with permanent funding solution addressed under the 2026/27 budget setting process.

➢ The following pressures fall under City Fund:

vii. It is advisable to carry forward an amount from 2024/25 underspends to mitigate inflationary pressures, such as energy costs and future pay awards. Last year £2.1m was carried forward for inflationary pressures which cannot be contained with allocated budgets. Members should note that a review of energy budgets will be conducted during 2025/26, with proposals to address any budgetary gaps to be presented during the 2026/27 budget setting process.

19.0 Although not specifically updated for 2025/26, one-off funding requests are annually made and approved through sources like Policy and Resources and Finance Contingency funds. There will be a greater focus on ensuring these allocations generate a financial return or prevent extra costs. Transformation allocations will also emphasise on return on investment and follow a monitoring regime similar to that used for savings.

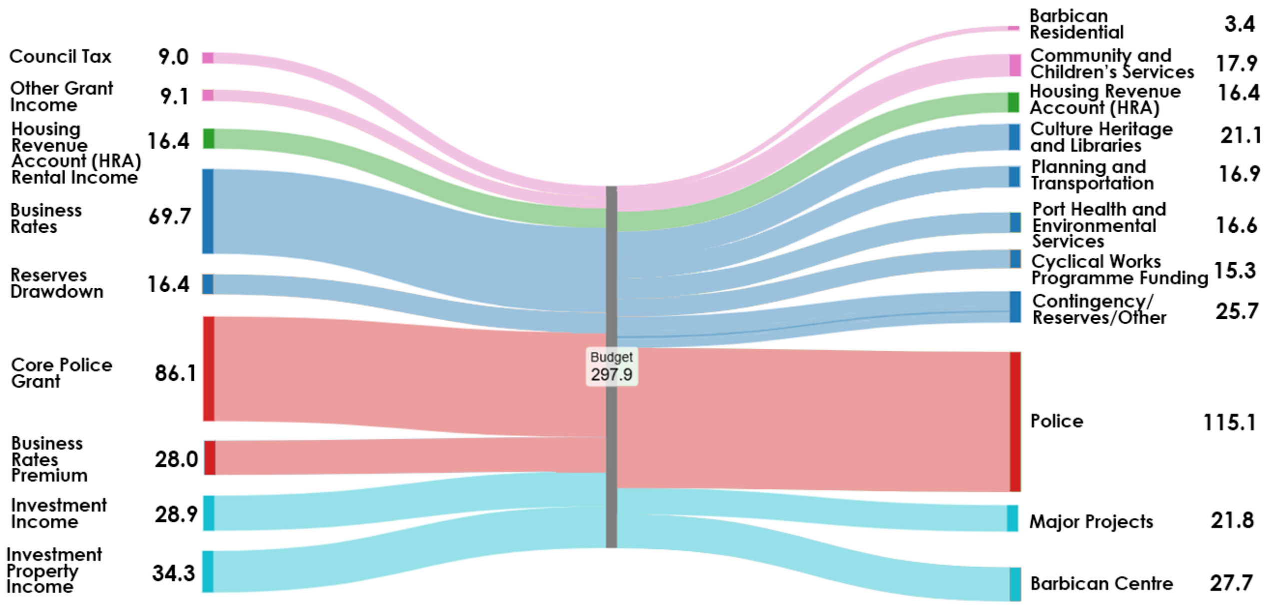
20.0 Efforts must be made to avoid additional revenue pressures during 2025/26 fiscal year, and any that do arise should be managed within local risk. **Policy and Resources Committee and Finance Committee have provided clear guidance that new on-going pressures should be contained within local risk. Where prioritisation is not feasible, services will need to be reviewed in line with Corporate Priorities or through the Transformational workstreams.**

Latest forecast position

21.0 The City Fund covers the local authority aspects of the City Corporation and as a result has a statutory requirement to set a balanced budget on an annual basis and also across the MTFP period. Whilst this can be achieved using the application of reserves, ensuring an appropriate level of reserves is maintained is crucial to mitigate risks.

22.0 The Sankey chart 1 below illustrates the allocation of the 2024/25 net budgets, depicting the sources of funding on the left-hand side and the areas of expenditure on the right-hand side. Certain income streams, such as the HRA rents and £80m of police grants are designated for specific expenditure and cannot be used to subsidise other services.

<u>Chart 1: 2024/25 City Fund</u>



23.0 Although City Fund (excluding Police) is in surplus in 2025/26, the forecasts indicate a move into deficit from 2027/28 onwards. The surplus in 2025/26 is attributed to an estimated £52m of business rate growth and one-off benefit from releasing appeals. Approximately £27m growth is expected to be lost with the introduction of a planned reset of the business rates system in 2026/27, as forecasted in the MTFP for a number of years. Previously the assumption had been that the surplus business rate income would not be used to subsidise ongoing revenue spend and would be transferred to reserves to support the funding of the major projects. However, in 2025/26 the impact of price increases and reductions in income mean that this is not possible in full. Although, the City Fund is overall in surplus by £35.5m (without raising taxes and taking one year with the next over the 5 years), City Fund faces challenges in accommodating on-going pressures, particularly with the deficit pressure in 2026/27 being imminent.

24.0 The Final Local Government Financial Settlement, released on 3rd February 2025, indicates a shift in approach by the new government. Taxes will still be levied locally to support rising pressures. Core Spending Power (CSP) has only risen by an average of 6% nationally and 5.7% in London, but the Corporation's CSP has only risen by 2.9% (excluding National Insurance compensation grant), merely keeping in pace with inflation without addressing demographic or demand pressures. Due to the City Corporation's Business Rate income growth, this has less impact in the financial year 2025/26 compared to other local authorities. The Government plans to reset the Business Rates Baseline in 2026/27, will result in the Corporation losing up to £27m in growth from one year to the next, representing a significant reduction of 8% in gross expenditure budgets (excluding police). If other alternatives were not available, the impact would be a significant cliff-edge for the Corporation which need to be aware of and act on.

25.0 The final settlement has extended the '8 Authority Pool' to 2025/26, potentially generating £9m for City Fund. The City of London along with Brent, Barnet, Enfield, Hackney, Haringey, Tower Hamlets and Waltham Forest, formed a tactical pool in 2022/23 with the aim of retaining levy payments made by the City of London within London. This is one-off funding and should not be used to support business as usual; it is needed to support the major projects programme, reducing the impact on City Fund deficits in future years. Due to the expected reset of business rate income in April 2026, 2025/26, is expected to be the final year where these pooling arrangements remain financially viable to continue.

26.0 Police: The Court of Common Council in March 2023 and 2024 approved an increase in Business Rates Premium by 0.2p and 0.4p (in the £) respectively, to move towards parity in local funding allocations and address the structural deficits which have arisen in the Force's finances. From a balanced Police MTFP position in April 2024, significant further pressure and risk has arisen, in particular from the Fraud & Cyber Crime Reporting & Analysis Programme, termination of £1.4m pa TfL funding, higher pay awards and allowances (not fully funded) and increased operational demands and cost pressures. CoLP savings plans over the last 5 years are cumulatively £19.9m (16.9% of Net Revenue Expenditure) which is significantly higher than the national policing average. Also, while local funding (including the Precept Grant and rent-free benefit CoLP receives) has caught up with the national average, it should be noted that Precept flexibility for 2025/26 has been set at a higher than expected £14 – and City remains well below the local funding % of other Southeast forces (excluding Metropolitan Police Service). While the 2025/26 police funding settlement announced in December has provided £6.5m additional funding over 2024/25, much of this was to cover the increased costs of 2024 and future officer pay awards, employers National Insurance contributions and an uplift in Neighbourhood Policing officers. Without additional local funding, there is likely to be a residual gap of c.£1m p.a. in the Police budget, linked mainly to unfunded London Allowance costs, 2024 staff pay award and future year staff pay awards.

27.0 Recent events linked to anonymity and accountability of firearms officers has also contributed to a shortage of authorised firearms officers. Ensuring regular and rigorous training is an essential part of attracting and retaining these officers as well as for meeting accreditation requirements. It is vital not only for public confidence but to bolster the morale and competence of the officers who are tasked with these critical and high-risk responsibilities. By prioritising this training, we can work towards rebuilding trust and demonstrating our commitment to maintaining the highest standards of policing. Members have previously supported smaller and regular increases to support security on City Fund and Police inflationary pressures, is this still the case?

28.0 Looking ahead, there are notable risks and a great deal of uncertainty. The medium-term financial position is shown in table 3 below. Despite the additional income from retained Business Rates growth and additional funding, the medium-term outlook for City Fund finances including Police, are precarious with significant deficits projected across the remainder of the medium-term financial plan:

Table 3: City Fund MTFP overview

CITY FUND	**2024/25 Budget £m**	**2025/26 Budget £m**	**2026/27 Forecast £m**	**2027/28 Forecast £m**	**2028/29 Forecast £m**
Net cost of services (exc. police and security)	(56.9)	(71.8)	(81.3)	(85.6)	(85.3)
Projects					
Supplementary Revenue Projects	(1.8)	(10.1)	(0.1)	0.0	0.0
Cyclical Works Programme (Existing Revenue)	(4.1)	(1.3)	0.0	0.0	0.0
Cyclical Works Programme (Bow Wave & Forward Plan)	(3.4)	(11.7)	(9.3)	(6.1)	(16.9)
Major Projects Revenue Implication	(2.2)	(4.4)	(9.5)	(10.3)	(11.0)
Direct Revenue Financing	(5.5)	(6.2)	(8.7)	(5.6)	(2.2)
Surplus/(Deficit) Before Funding	**(74.0)**	**(105.5)**	**(108.9)**	**(107.6)**	**(115.4)**
Financing	132.1	119.2	64.9	63.9	64.4
Surplus/(Deficit) After Funding, before use of reserves	**58.2**	**13.7**	**(44.0)**	**(43.8)**	**(51.0)**
Drawdown of Reserves for Revenue	15.28	16.21	34.23	17.14	26.52
Surplus/(Deficit) after Revenue use of reserves	**73.4**	**29.9**	**(9.7)**	**(26.6)**	**(24.5)**
Proposed - Adult Social Care 2%	0.0	0.2	0.2	0.2	0.2
Proposed - Council Tax 2.99%	0.0	0.3	0.3	0.3	0.3
Surplus/(Deficit) after the application of potential CT increase	**73.4**	**30.4**	**(9.2)**	**(26.1)**	**(24.0)**
City of London Police surplus/(deficit)	***0.0***	***(6.0)***	***(5.3)***	***(5.1)***	***(8.0)***
Further Mitigations proposed	0.0	5.0	4.3	4.1	4.1
City of London Police Total	**0.0**	**(1.0)**	**(1.0)**	**(1.0)**	**(3.9)**
Proposed - Increase in Business Rate Premium 0.4p to £	0.0	8.4	8.4	8.4	8.4

Proposed - transfers to and from police reserve		(1.1)	(1.1)	(1.1)	2.8
Proposed - use of BRP to support FPEP		(6.3)	(6.3)	(6.3)	(6.3)
City Fund total including Police	**73.4**	**30.4**	**(9.2)**	**(26.1)**	**(22.5)**

29.0 The following areas are significant movements from last year's MTFP position for 2025/26:

i. Increased income from interest on balances and investment property income due to projected higher interest rates (£12.8m)

ii. Increased financing income through including the one-off surplus business rate income for 2025/26, release of business rate appeals, and investment property income based on latest projections (£41.6m)

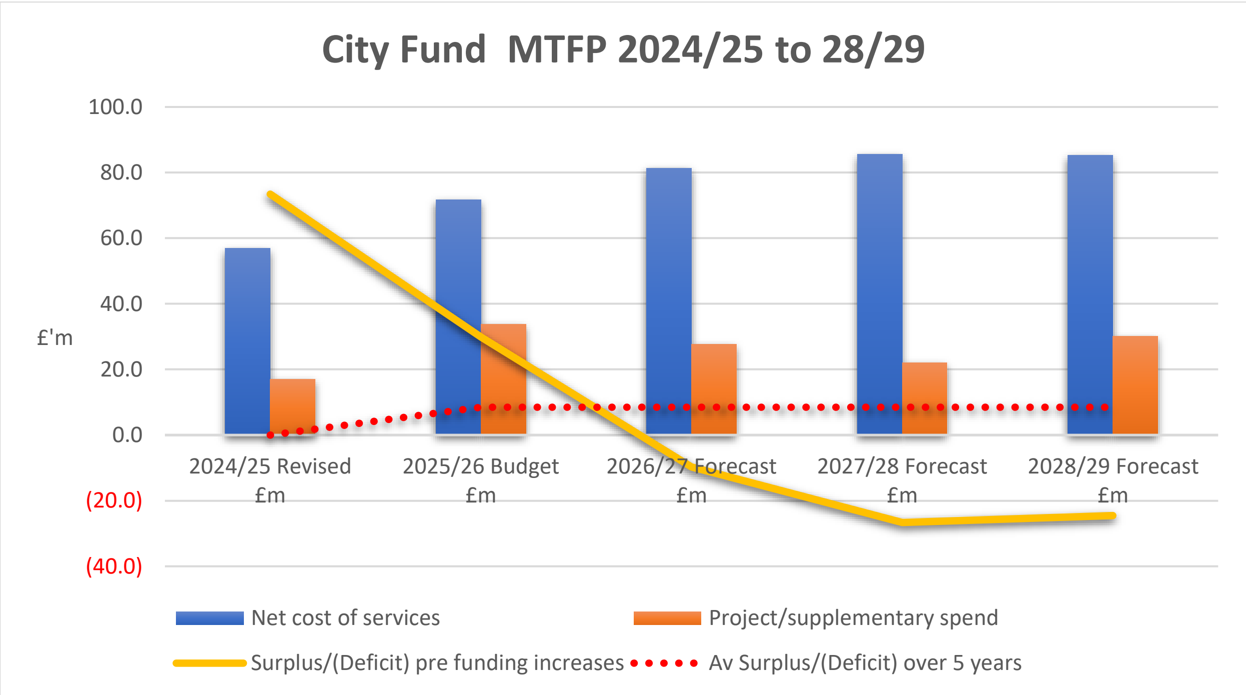
iii. Increase in Supplement Revenue Programme costs £10.6m from reprofiling and the inclusion of the Barbican fire safety works.

iv. Additional pressures as set out in Appendix A (£2.0m)

30.0 Looking beyond 2025/26, one of the major income streams within City Fund is investment property. Rents forecasts reduced over the MTFP period from £167m over a five-year period last year, to £155m. A significant contributor to the reduction is the disposal of 5 properties and lease expirations.

31.0 The projected income and expenditure over the MTFP period are summarised in chart 2 below.

Chart 2: City Fund MTFP (Surplus)/Deficit



32.0 The HRA position remains precarious over the medium term however additional units coming on stream at the completion of new developments should help ease the situation. For 2025/26 the social rents are to be uplifted by 2.7% which is the cap limit.

City Fund Reserve

33.0 Reserves are crucial component of financial planning. They serve two primary purposes; to mitigate risks or to invest in the Corporation’s priorities. City Fund holds two categories of reserves, usable and unusable:

i. Usable reserves are defined as those that the Local Authority could utilise to fund capital or revenue expenditure. Some of these reserves could be applied generally but others will have stipulations attached on their use.

ii. Unusable reserves hold unrealised gains or losses for assets not yet disposed of and accounting adjustments, which are required by statue. These reserves cannot be used to fund capital or revenue expenditure.

34.0 City Fund has a statutory requirement to set a balanced budget each year and over the medium-term financial plan after taking account of the use of reserves. As a result, usable reserves are monitored to ensure there are sufficient resources to meet this requirement and also to fund the requirements of the Capital programme. The key useable reserves included are;

i. General Reserves – This is the ‘General Fund Balance’ held at a minimum balance of £20m

ii. Business Rate Risk Reserve – Held to help smooth the timing differences of business rate income hitting the general fund

iii. Major Project Reserve – Built up from surpluses on City Fund in previous years and used to support the financing of the Major Projects. In future years amounts are also required to offset projected deficits

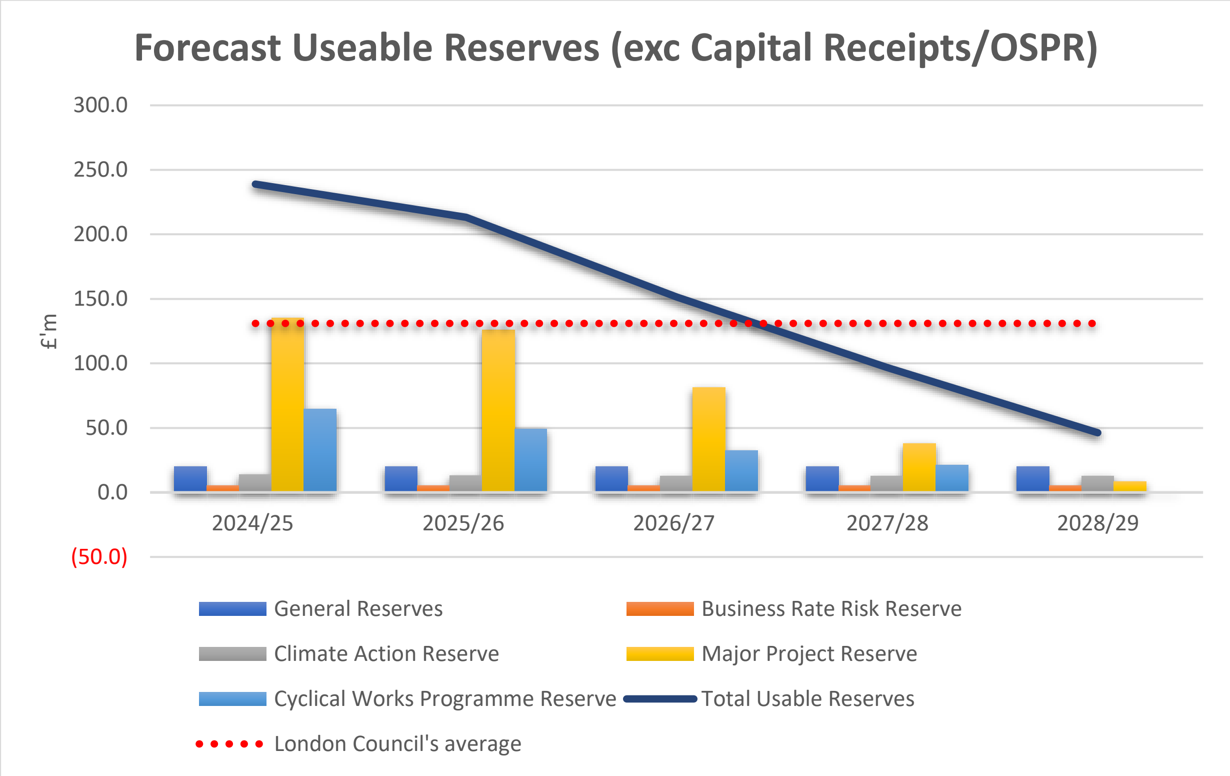
iv. Climate Action Reserve – used to fund the approved Climate Action Strategy

v. Cyclical Works Programme Reserve – approved in 2024/25 to fund the backlog of CWP works within City Fund.

35.0 In 2024 two Major Programmes had a significant impact on the projected balances of these reserves. The inclusion of the Barbican renewal works and increased costs of the Sailsbury Square Development, combined with projected deficits from 2026/27 onwards, indicate that the balance of usable reserves is expected to decrease from the current £240m to £47m by the end of 2028/29. Should this occur, the ability of City Fund to meet unexpected pressures and ongoing demand growth for services would be severely constrained. Whilst there is no mandated level of reserves, general reserves are usually kept at £20m. A target of 10% of annual gross expenditure would require c£40m/£50m excluding/including Police.

36.0 Chart 3 below sets out the projected balances of City Fund usable reserves up to 2028/29.

Chart 3: Projected City Fund Reserve Balances



City Fund – Long Term projections

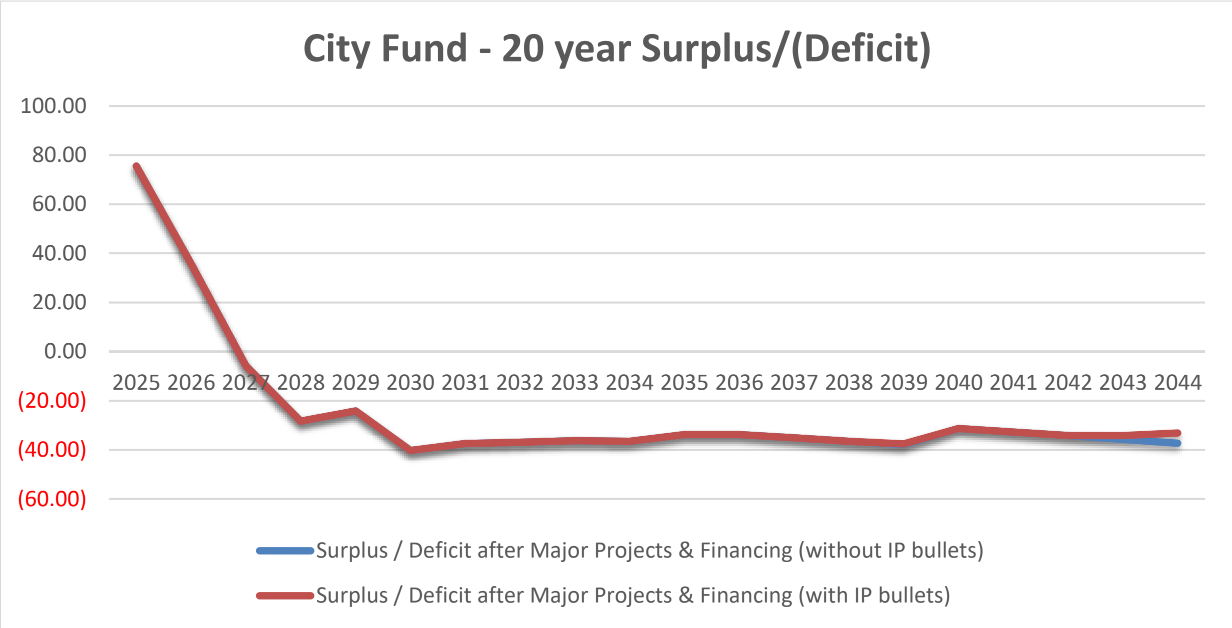
37.0 In addition to the five-year medium-term projections, work has also been undertaken on the 20-year horizons for City Fund. The funding landscape, in particular around Business Rates makes this highly subjective and subject to a high level of tolerance nevertheless provides an insight into future pressures within the Fund.

38.0 When Members approved the decision to invest in the first phase of Barbican centre renewal works, they included a condition to bring back a 10-year plan. Understanding the implications and requirements of this plan is essential, and longer-term City Fund financial modelling plays a key role in this process.

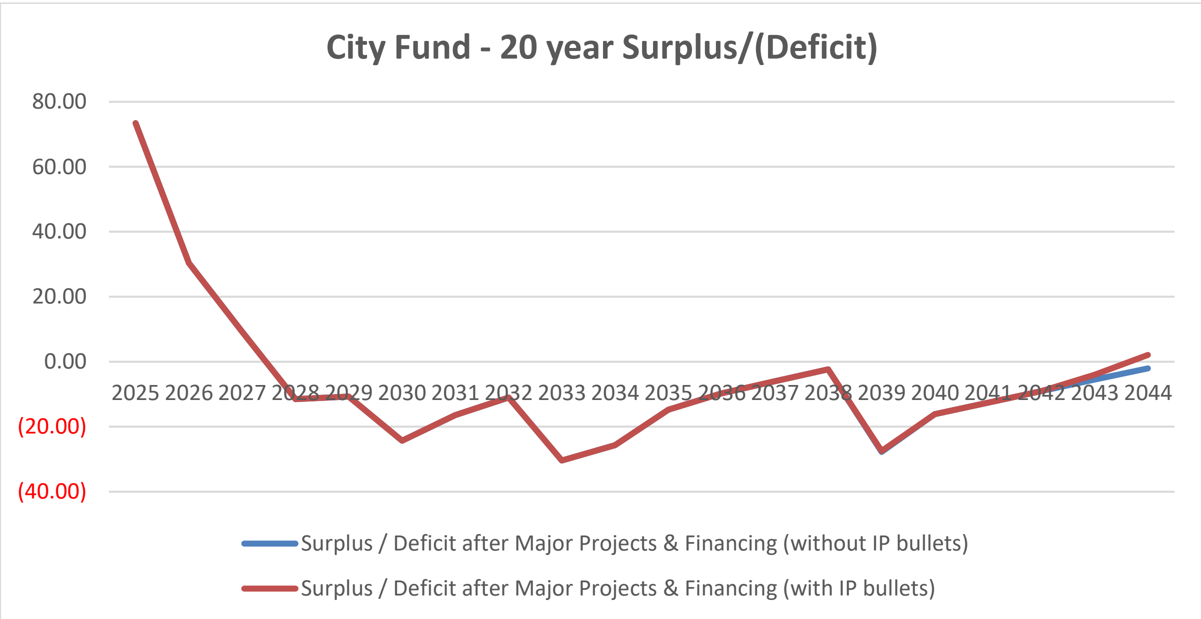
39.0 Chart 4 below sets out the projections for City Fund surplus/deficit over the next twenty-year period. This demonstrates the impact of a business rates reset in 2026/27 and ongoing expected deficit of between £20m to £40m per year. This is set against a gross budget (exc. police) of c£350m per annum so the deficit would be close to 10% of gross spend.

40.0 This projection does not include any growth in business rate income over and above inflation. Previous policy has been for growth in business rates income to be used to support major project spend rather than supporting operational business as usual activity so the chart represents the position should this approach be maintained.

Chart 4: City Fund 20-year projection



However, scenario testing early indications of potential transitional relief, as shown in table 2 of the report, along with the steady increase in business rates scheduled for six yearly resets, reduces the impact on future savings to an average of £13m p.a. over the next 20 years. This has not been factored into the MTFP due to significant uncertainty, with more details expected to be released in the Spring.



Consultation

41.0 The annual resident and Business Rate Payers consultation took place on 3rd February 2025 as part of the City Question Time event, where the Chairman of Policy and Chairman of Finance, alongside the Deputy Commissioner presented a compelling narrative to ratepayers and residents in support of an increase in Business Rate Premium. The questions and responses from those that attended did not push back on the proposals.

42.0 As Table 3 in the report demonstrates, income from Council Tax is a relatively small proportion of the overall funding. ***However, given the limited options available to increase revenue to counteract inflation and expenditure pressures, Members will wish to consider council tax increases. Local authorities are permitted to levy a social care percept of 2% and uplift of Council Tax by 2.99% to address funding pressures and this has been modelled in the 2025/26 budget. Local Authorities are permitted these uplifts without a referendum. In this context, Members may wish to consider:***

i. Increase Adult Social Care precept by 2% - to address £0.2m pressures within Adult Social Care and will also be beneficial to the City Corporation for the Fair Funding Review, as low Council Tax and limited increases in Council Tax will not position us well.
ii. Increase in core Council Tax by 2.99% - to address pressures in childrens social care, the gap in pressures from the national insurance increase and other pressures identified throughout the report.
iii. Those on lowest incomes will be eligible for council tax relief (Council Tax Reduction Scheme). The City continues to operate a fully funded 100% relief scheme.
iv. The Council Tax for the current year, 2024/25, is £1,217.89, expressed at band D and including the GLA precept of £166.27 for comparative purposes, Westminster band D including the GLA precept of £471.40 is currently £973.16; Wandsworth, £961.14; and Hammersmith and Fulham is £1,386.77.
v. Maintaining the Local Discretionary discount for Care Leavers between the ages of 18 to 25 in 2025/26.
vi. Maintaining the current 100% discount awarded to unoccupied and unfurnished and uninhabitable dwellings at zero (0%) for 2025/26.
vii. Maintaining the premium levied on long-term empty property of 100%, 200% and 300% on properties that have been empty for 2, 5 and 10 years respectively is continued in 2025/26
viii. Maintain the long-term empty premium of 100% for properties that have been empty for more than 12 months that was introduced in 2024/25.
ix. Introduce the second home premium of 100% for 2025/26.
x. Introduce a change to the Housing Benefit and Council Tax Benefit scheme to determine that pensions received by veterans under the War Pension Scheme and other British military compensation schemes are fully disregarded in the calculation of Housing and Council Tax Benefit.

43.0 The other area where the City Corporation retains significant income generating powers is through the setting of Business Rates premium. ***Given the inflationary pressures on City of London Police (CoLP) and a funding gap in the Future Police Estates Programme impacting the City Fund's financial position. Members to consider increasing Business Rate***

44.0 Members may also wish to consider:

i. Due to the very small residential population, the Corporation is unable to levy taxes in the same way other Police Crime Commissioner Offices do through precept on Council Tax – for 2025/26 flexibility has been increased to £14 without needing a referendum. This restricts the amount that can be raised by the Corporation and means that if we do not increase the BRP by 0.4p for Police inflationary pressures and rising costs of funding the Future Police Estate Programme, City Fund could only be balanced across the medium-term due to the retained business rates growth without this further aggressive savings and support to Police is required.

ii. Members are to note several factors affecting the full delivery of the Future Police Estate programme (FPEP) necessitate exploring alternative funding sources. The Police Authority Board supported 0.1p in the £ of the proposed BRP increase is allocated towards funding the Tactical Firearms Training Facility. Failure to do so will require further disposals of investment properties within City Fund, thereby impacting rental income and exacerbating existing deficits by £300k p.a.

iii. Additionally, with several projects within the FPEP still in their early stages and facing existing risks, members must consider increasing the optimism bias for the remaining projects. Currently, the optimism bias within the Salisbury Square Development cost plans is fully utilised (please refer to paragraph 64). Without allocating 0.2p in the £ of the proposed BRP increase to top up optimism bias, additional disposals from the investment property will be necessary, incurring a loss of £900k p.a. in rental income within City Fund. Officer recommendation is to increase optimism bias by an additional £30m.

iv. Members have supported smaller and regular increases. For every 0.1p increase in the £ - this raises c£2.1m, therefore an increase in Business Rates Premium by 0.4p in the £ - raises £8.4m p.a.

v. The Government is reforming Business Rates and is introducing a number of new multipliers in 2026/27. These reforms could lead to additional uncertainty around business rate bills particularly for larger businesses in the City.

vi. Continuing to support a Discretionary Discount under S47 Local Government Finance Act for qualifying Nursery Schools of up to 100% for 2025/26. This will cover three nurseries operating in the City. The minimal cost of awarding the relief is split between the City (45%) and the GLA (55%) basis.

45.0 Key assumptions used in the forecast have been set out in Appendix A.

Savings Programmes

46.0 Significant progress has been made against the Corporation's savings programmes. Two main savings programmes have been undertaken in the City Corporation to try and reduce the pressure on the revenue budgets. These were the Fundamental Review Savings and Target Operating Model (TOM)

/12% savings programmes. These have been built into the budgets of both City Fund and City Estate over a number of years.

47.0 Having two separate savings programmes has led to a lack of clarity around how delivery of these savings has progressed and has been commented on by external auditors as an area to improve. Current assessment of the position indicates that c£4.4m of savings are still unidentified over the MTFP, of which £2.8m savings are planned to be achieved by 2025/26, and £1.6m by 2026/27.

Table 4: Update on savings programmes

Department	£m	Savings Programme	Fund	Feedback - from Star Chambers
Barbican	2.80	Fundamental Review - due 2025/26	City Fund	Fundamental Review Savings of which £1.5m relate to cross cutting business events, recommended that this is met from income generation
Chamberlains	0.60	Fundamental Review - due 2026/27	Guildhall Admin*	Fundamental Review Savings to be delivered as part of Enterprise Resource Planning (ERP) implementation
Chamberlains	0.50	Fundamental Review - due 2026/27	Guildhall Admin*	Fundamental Review Savings - Income Generation under Commercial
Chamberlains	0.50	12% savings	Guildhall Amin*	Savings initiatives are being worked on and are expected to be delivered in 2026/27
Total	**4.40**			

*Guildhall Admin savings will be passed onto all service areas as a reduction in the central support recharge.

48.0 Ongoing radical thoughts are required to reduce the annual operating deficit for City Fund. While top slicing of budgets can provide short term financial relief, it is important to carefully consider the potential long-term risks and impact on service quality, employee morale, and overall organisation efficiency. Therefore, it is not recommended to top slice budgets unless absolutely necessary. Instead, the Town Clerk has emphasised the need for efficiency and transformation across services. Star Chambers led by the Town Clerk and Chamberlains will take place in early 2025 to focus on key areas that will be presented at the next Resource Allocation Sub Committee away day.

49.0 While temporary support from major project reserves alleviates the financial pressure from the introduction of the Barbican Renewal Programme in the medium term, it requires a long-term reduction in revenue contributions by £3m p.a to address ongoing losses. Additionally, long-term reductions are necessary to support future deficits. Moreover, while income generation should remain a priority, additional savings of approximately £9m are required for 2026/27, increasing to £26m p.a. in 2027/28 onwards. This will require making decisions on changes or reductions in existing services and grants with the support of the transformation programme.

Transformation Programme

50.0 The Transformation Programme is aligned with the Town Clerk's Fantastic Five Years vision and is designed to support organisational excellence, financial sustainability, and prepare the City Corporation for a digitally focused, AI-driven future. The programme aims to harness the potential of our unique positionality within the Square Mile and beyond and is focusing on four themes:

i. Organisational Excellence
ii. Entrepreneurial Spirit
iii. Innovative Collaboration
iv. Future City (digital Transformation)

51.0 Beyond the realisation of medium-term financial opportunities, the first phase of the Transformation in the financial year 2025/26 will focus on making the City Corporation a great place to work, bolstering organisational readiness for Transformation. We are preparing the organisation for Transformation by getting the basics right and understanding the current gaps to our ambitious goals.

52.0 To achieve this, we intend to engage a strategic partner for Transformation delivery over a three-year period, on-boarded in Q2 2025. This partner will initially play a crucial role in bolstering and developing the City Corporation's Transformation capability and accelerate achievement of our financial ambitions. The successful delivery partner will help us bridge the gaps between our current state and our ambitious agenda by providing much-needed specialist Transformation capacity and capability including behavioural science and change management, service design, project management, business analysis, commercial modelling and benefits management and delivery. In Phase 2, the partner will support the City Corporation in designing and delivering a Transformation framework to achieve our ambition to become a modern, efficient organisation. In parallel, the partner will be focused on identifying specified savings to meet in-year challenges and inform the 2026/27 budget setting process and mitigate the medium-term financial situation.

53.0 The Transformation team are currently launching soft market testing for this opportunity and developing a commercial model for this partnership, including exploration of outcome-based payments and risk and reward models, to align incentives and ensure mutual success. The proposed approach will ensure strong corporate oversight and collaboration between relevant departments and institutions to ensure effective management of the chosen strategic partner as well as realisation of benefits.

54.0 Other areas already in progress include income generation, implementation of the new investment strategy, review of underutilised operational assets and charities review. An update on these is provided below:

- Income generation - The income generation initiatives have progressed with the appointment of a new commercial programme manager to review, audit and take ownership of the current programme. This work has identified issues with data quality, modelling assumptions, and gaps in outline business across the following areas:

- (Film Office, Events, Advertising and Fees and Charges). Work is being done to ratify these figures and realise opportunities where relevant. Early indications suggest that the current proposals will generate between £3m and £6m, which is lower than initially expected. The first £3.3m (Barbican £2.8m & Chamberlain £0.5m) raised will offset against the existing Fundamental Review Savings already baked in – paragraph 47, table 4 above.
- However, as part of the wider Transformation programme, several dependencies have been identified as potential enablers of significant income generation in the medium-term. These dependencies include the successful implementation of a commercial strategy, a holistic fee schedule, a branding review, a sponsorship framework, a flexible advertising policy, a business engagement strategy, a Square Mile digital platform, and an Intellectual Property review and retail policy.
- Additionally, we are developing a pipeline of commercial opportunities and exploring future prospects related to the Lord Mayor's Show. Some of these initiatives are currently being tested, with the potential for larger-scale expansion post-2025.

- Investment Strategy - The investment strategy aims to achieve returns of CPI + 3% for the City Fund and CPI + 4% for the City's Estate investment portfolios. The modelling of the implementation of this strategy significantly improves the long-term sustainability of the City Fund and City's Estate finances, with projections indicating implementation from the 2028/29 fiscal year. Ongoing work requires member support to diversify investment assets. It is recommended that no additions be made to the current major projects programme; instead, efforts should focus on development and reinvestment to stabilise the financial position of the City Fund and City's Estate.

- Operational Property – A Combined total of £424.5m receipts over the period 2025/26 - 2029/30 (City Fund £140.5m and City’s Estate £284m) are expected from the disposal/anticipated disposal of surplus operational property have been allocated to support major project programmes. It is unlikely that further disposals will be generated beyond those already identified. A review of underutilised assets is ongoing, with an update provided to the Resource Allocation Sub Committee and Policy and Resources Committee in December, with the aim to continue this process through 2025. Opportunities identified include Epping Forest (in collaboration with the Natural Environment Charity Review), public conveniences, and other assets. These opportunities are being assessed for alternative uses, leasing, or reallocation. In addition, several vacant assets have been identified including: Epping Forest’s Loughton Golf Course and retail/office units on Kennington Road and Lindsey Street, these are actively marketed for lease to generate revenue. Some assets have attracted offers, with negotiations in progress, while others continue to undergo marketing activities.

- Charities Review - The Natural Environment Charities Review (NECR) focuses on ensuring that the eight Natural Environment Charities in scope are well managed, governed, and set up for a sustainable future. Proposals will be taken into consideration in the coming months to progress with implementation during 2025/26.

Capital programme – Business As Usual (BAU)

55.0 The City of London has a significant programme of property investments, works to improve the operational property estate and major capital projects to benefit wider London. The total anticipated capital expenditure, including forecasts against approved budgets and the indicative cost of schemes awaiting approval is as follows:

Table 5: City Fund Capital Programme

CITY FUND	**MTFP Budget 2024/25 £'m**	**MTFP Budget 2025/26 £'m**	**MTFP Budget 2026/27 £'m**	**MTFP Budget 2027/28 £'m**	**MTFP Budget 2028/29 £'m**	**MTFP Budget Later Yrs £'m**	**MTFP Total Budget £'m**
BAU Capital	180.8	160.4	94.6	50.1	40.1	13.8	**539.8**

56.0 The City Fund capital project budgets are being submitted to the Court of Common Council in March. Further detail is contained within the Capital Strategy (Appendix F).

57.0 In setting the Capital Programme for 2025/26 Policy and Resources Committee approved in principle an envelope of £7m contingency. Due to existing pressures no new bids were invited.

58.0 Moving forward, due to pressures on the budgets, the current assumption is that there will be no formal new bids in 2025/26 due to the need to the requirement to ensure current programmes are affordable. The focus will shift to reallocation and re-prioritisation of budgets, while maintaining the £7m contingency to provide some small headroom for critical requests. New expenditure will need to be managed within the overall capital envelope through reallocation resources, using the Corporate Plan and potential for generating financial efficiencies as a guide to those conversations. Members are to note future proposals beyond 2025/26 on capital bids/contingencies will be subject to recommendations at the next Resource Allocation Sub Committee.

59.0 The financing of the City Fund capital and supplementary revenue projects programmes needs to reflect the optimum reserves position of each fund. Therefore, approval is sought for authority to be delegated to the Chamberlain to determine the final financing of capital and supplementary revenue project expenditure.

Capital Programme – Major Projects

60.0 The commitment against Major programmes equates to over £1bn of expenditure over the project lifetime. This scale of investment puts significant strain on the balances of City Fund and so consideration of the affordability and alternative funding options of each scheme need to continue to be reviewed. City Fund has expanded the commitment to the Barbican renewal works which remove almost all the headroom over a five-year period.

61.0 Within City Fund, the Major Projects (further detail within Appendix A and Appendix F) are;

a) Museum of London relocation (inc London Wall West/Bastion House) – joint project with the Museum of London (MoL) and Greater London Authority (GLA) to relocate the MoL to a new site at the former Poultry Market.
b) Sailsbury Square Development – construction of a new courts building, commercial offices and Police accommodation.
c) Future Police Estate Programme – the remainder of the Police accommodation.
d) Barbican renewal – this relates to the first five years of works required to upgrade and modernise the infrastructure and conservatory.

Table 6: Major Projects City Fund

Major Projects - CITY FUND	**2024/25 Budget**	**2025/26 Budget**	**2026/27 Budget**	**2027/28 Budget**	**2028/29 Budget**	**Later Years Budget**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Barbican Renewal	6.3	44.4	50.4	62.5	48.6	37.2	249.4
FPEP	15.7	40.9	35.8	9.5	9.5	32.6	144.0
London Wall West	0.1	5.0	-	-	-	-	5.1
Museum of London	130.5	73.8	-	-	-	-	204.3
Salisbury Square	113.2	263.1	88.7	13.7	-	-	478.7
Barbican Risk	-	-	-	-	28.5	28.5	57.0
Total	**265.8**	**427.2**	**174.9**	**85.7**	**86.6**	**98.3**	**1,138.5**

62.0 To support the longer-term ambitions within the Barbican, there is the need to attract external financing. This may only be possible alongside an ongoing revenue contribution from the City Corporation in order to be attractive to an external investor. Without the details of any potential scheme, it is very difficult to estimate the potential cost impact. However, the expectation is that this would be in a similar format to an income strip where an investor would be paid an annual fee indexed each year over a fixed time period. Any agreement such as this would reduce the need for capital investment, however it would add to the annual deficit. Any such proposal therefore needs to be considered carefully against this context.

63.0 It should be noted that the scale of ambition and needs of the current asset portfolio within the City Corporation exceed the resources available. Therefore, a number of pipeline projects are not included within the MTFP assumptions. This includes Guildhall refurbishment and the London Metropolitan archives.

Sailsbury Square / FPEP

64.0 Since inception, the budget has not been re-baselines to accommodate a number of changes and pressures set out in appendix A (paragraphs 28-30). In addition to the original core budget of £656.4m, other funding has been identified as outlined below to address these:

Table 7: Breakdown of Salisbury Square/FPEP Budgets

	£m
Approved Funding	
SSD Original Core Funding	596
FPEP Original Core Funding	60.4
Total	**656.4**
Additional Funding Identified to date	
Contribution from CoLP for fit out and IT	7.7
Guildhall Yard East CWP contribution	9.6
Major Project Reserve funding for Bastion House strip out	2
Secure City funding from CIL transferred to GYE JCCR	2.2
Police Accommodation funding – Mounted Unit	0.5
Climate Action for SSD Commercial Building BREEAM	3
Contribution from a Joint Venture for TFTF*	10
Investment Committee to fund additional pressures relating to the commercial building	34
Support from Police Authority Board to repurpose revenue funding currently allocated for the New Street lease upon planned conclusion in March 2028	11.3
Total	**80.3**
Proposed Further Funding	
Support from Police Authority Board to finance the TFTF through an increase in the Business Rate Premium – as outlined in this report.	13.5
Total Funding**	750.2

** Subject to negotiation with third parties – the actual amount may change*
*** Excluding recommendation to add £30m optimism bias, adding this brings the total funding to £780.2m*

A Strategic Response to the Continuing Challenges

65.0 As set out throughout the report there are significant financial pressures impacting City Fund over the MTFP period which have the potential to require significant intervention. This report recommends a number of measures to stabilise the position in 2025/26 and that will further support the steps that will need to be taken to shore up the medium-term. Potential opportunities are being worked through in relation to the investment strategy and impact on future interest and rental income. There also remains a significant amount of uncertainty around the reset of business rates, and any transitional relief would significantly lesson the pressure on 2026/27 and 2027/28, although at this stage it is too early to include any assumptions around this.

66.0 Further options to shore up the medium-term through tax rises; development of a savings plan under the Town Clerk's Transformation Programme; ensuring continuation of permanent year on year savings; building on collaboration breaking silos and increasing efficient ways of working; progressing with existing service transformation workstreams – supporting the change in the operating model which includes a review of underutilised operational property, opportunities for income generation need to be kept as part of the forward planning. This will require a focus on transformation underpinned by a clear communication to all Members and officers, so they are aware of the challenges ahead progressing with service transformation workstreams.

67.0 Another significant contributing factor to the financial pressures within City Fund is the scale of the major projects programme, further enhanced by the inclusion of the Barbican renewal works. Some of these schemes have been underway for a number of years, over which cost inflation has been at particularly high levels. The need to drawdown on other assets to avoid the need to borrow to finance these projects has grown. Consideration therefore needs to continue to be given to considering how these schemes are delivered and the scope of ambition, balanced against the potential returns at the end of the programme, as well as containing the cost of existing major projects and other capital programmes. External funding where applicable to support the contribution of the City Corporation also needs to be a key part of future strategy.

Robustness of Estimates and Adequacy of Reserves and Contingencies

68.0 Section 25 of the Local Government Act 2003 requires the Chamberlain to report on the robustness of estimates and the adequacy of reserves underpinning the budget proposals.

69.0 In coming to a conclusion on the robustness of estimates, the Chamberlain needs to assess the risk of over or under spending the budget. To fulfil this requirement the following comments are made:

- as part of preparing this budget all services were asked to identify cost pressures as well as deliverable savings and these were robustly challenged;
- the estimates and financial forecast have been prepared at this stage on the basis of the Corporation remaining debt free until such time as internal borrowing may be needed to bridge the gap for major capital projects (the Museum of London relocation and the Salisbury Square Development project);
- prudent assessments have been made regarding key assumptions;
- The likely impact form economic risks have been evaluated in so far as that is possible and a contingency fund is to be carried forward from 2024/25;
- although the City Fund financial position is vulnerable to inflationary pressures and a potential recession, impacting - income, rent levels and student numbers, it should be noted that:

    - the City Surveyor has carried out an in-depth review of rent incomes; and
    - an increase in interest rate on Treasury balances has been very beneficial in countering inflationary and other pressures, whilst recognising this is short term;

- a strong track record in achieving budgets gives confidence on the robustness of estimates;
- on-going cost pressures or new activities aligned to the Corporate plan have been reprioritised through savings made elsewhere.
- balancing 2025/26 with 'one-off' measures will give more time to move to service transformation and culture shift, plus ensuring permanent year on year savings;
- continuation of workstreams within the transformation programme will realign existing resources to new corporate priorities, where this is not possible to create headroom to reallocate funds through income generation – noting finding sustainable efficiencies will require time, capacity and upfront investment which has been requested under one-off measures.
- support for a more radical approach to bring down the annual operating deficits through a renewed approach to transformation underpinned by a clear communication strategy to all Members so they are aware of the challenges ahead.
- provision has been made for all known liabilities, together with indicative costs (where identified) of existing major projects and business as usual capital schemes. The financial year 2025/26 will be used to review the current capital programme to ensure they remain a priority, with a contingency allocated to support critical capital programmes during this period. Additionally, provision has been made to support the forward plan of cyclical works on our operational properties through reprioritisation of reserves, provision has been included to support the first phase of the Barbican renewal works. However, the full cost of essential works at the Barbican Centre is exceeds current estimates and therefore requires a fundamental review on how to meet the extensive refurbishment needs at the Barbican Centre supported by a 10-year business plan/operating model.

70.0 The highest risk is in relation to the Housing Revenue Account- reserves have been depleted to fund necessary improvement works and until additional properties being completed as part of new developments, the financial position is therefore extremely fragile. Further cost pressures or loss of income in the coming years would be challenging to absorb with the HRA reserve. There is a large amount of unfunded major works that members are keen to carry out on existing stock, but these are currently unaffordable within the HRA envelope.

71.0 An analysis of usable City Fund Reserves is set out in Appendix C. Depletion of City Fund reserves is a consideration for the medium-term in chart 3: although reserve balances are forecast to remain healthy in 2025/26, the potential call on reserves to support revenue and capital expenditure beyond

2025/26 reinforces the need for further efficiencies and income generation. A target of 10% of annual gross expenditure would require c£40m/£50m (excluding/including Police) in reserves. Current forecasts suggests that the reserves will fall within this range.

72.0 In assessing the adequacy of contingency funds, the Chamberlain has reviewed the allocation and expenditure of contingency funds over the past four years and concluded that the estimates are robust. This takes account of the Finance Committee contingencies, the Policy and Resources Committee contingency and the Policy Initiatives Fund. In each of the past four years the provision of funds has been more than sufficient resulting in an uncommitted balance for each contingency fund in each year. On this basis the existing contingency provision will remain unchanged for 2024/25. A full analysis of contingency fund provision and expenditure is provided in Appendix H.

Key risks and uncertainties

73.0 Business Rate reforms – Business Rate growth provides c£27m of additional income to the City Fund each year. The proposed reform to business rates in 2026/27 will have a fundamental impact on the City Fund budget and the ability to meet the statutory requirement to set a balanced budget. Previously the working assumption was that the growth would not be used to subsidise ongoing expenditure and would be set aside to support the major projects programme. However, recent inflationary pressures and projected reductions in property income have meant that this policy is not possible in 2025/26.

74.0 Climate Action – with the current budget envelope expiring at the end of 2026/27, additional funding will be required to support delivery of the 2040 net zero and climate resilience targets between 2027/28 and 2039/40. A paper was endorsed by Policy & Resources Committee in January 2025 to develop the next evolution of the Climate Action Strategy. Costed options for the future strategy will be brought to Committee in summer 2025, with initial estimates between £10-22m annually.

75.0 Inflation and interest rates – over recent years the impact of inflation has been the single biggest external driver of financial pressures. Having peaked at over 10%, inflation has now fallen significantly to reach 2% by Q2 of 2024. However, the price increases incurred are now embedded in a number of areas. The Office for Budget Responsibility (OBR) are forecasting that inflation will fall further to a level below 2% before stabilising at around 2% from 2027 onwards. Conversely over this period the increase in interest rates has provided additional income which has supported City Fund. Forecasts are again that interest rates will stabilise continue to reduce in 2025 so this additional income cannot be seen as ongoing. The resource requirements for the Capital programme also mean that investment and cash balances which are benefiting from these increased rates are likely to deplete over the MTFP period.

76.0 Collection Fund surplus/deficit timing – The Collection Fund is the mechanism by which Council Tax and Business Rates income is collected and processed through the City Fund accounts. The timing of when changes in collection rates, provisions and appeals can make the amounts flowing through the revenue budget fluctuate significantly. The proposed changes to Business rates make forecasting these income streams very difficult on a year-by-year basis. Work is ongoing with external partners to ensure forecasts are as accurate as possible and updated where new information comes available.

77.0 Barbican roof works – no provision has been made at this stage for any potential liability resulting from roof repair issues on the Barbican Estate.

78.0 ERP implementation – The Corporation must adopt best practice processes. Key benefits are to support a more mobile workforce; automate processes and introduce AI capabilities through a modern platform; provide direct access to staff and free up strategic capacity; provide a single source of the truth with enhanced analytics. If the Corporation fails to adopt to new ways of working the consequence will be that the current manually intensive processes with inbuilt failure demand will continue and the directly planned benefits of £600k pa (which are planned to commence in 2026/27 full finance go live) will not be realised in additional to impact the wider organisation transformation planned benefits of £500k pa.

79.0 Ongoing operational building upkeep and renewal – whilst the CWP programme address the historic backlog of cyclical works required for those assets within this programme (excludes ringfenced schools, service charged assets and CoLP), a forward look is also needed to consider the financial cost of future building upgrade and fabric refurbishment in line with property lifecycles. Due to the post war age of much of the portfolio and funds available focussed on cyclical works this means a significant proportion of the estate require upgrading works over the next twenty-year period. Consideration of the ongoing costs and benefits of properties and the services delivered from them need to therefore be carefully considered to ensure any such investment is aligned to corporate plans and strategies.

80.0 IFRS 9 statutory override – as part of the local government funding settlement the current statutory override which excludes gains and losses of pooled investment funds being recognised within budgets is to be removed from 1st April 2025. This could see the Corporation having to realise up to £12m in accumulated losses. Work is therefore underway to understand the implications on historic gains/losses and the potential to create necessary reserves from potential surpluses to mitigate the impact. Only 13% of respondents to the governments consultation supported the proposal to remove the statutory override, as a result the consultation response includes the recognition that "there may be a case for additional transitional support for historic investments", officers will continue to monitor announcements to assess the potential risk and liability to the Corporation.

81.0 Homelessness pressures - There has been a significant increase in numbers of rough sleepers at regional and local level along with increased number of people presenting themselves to the City as homeless and the need to provide temp accommodation. The rough sleeping assessment centre is now operational and has 14 beds and the complex needs hostel in Southwark is also operational with 29 beds. Continued funding is required to support these and without provision the numbers of rough sleepers will continue to rise at a quicker rate than they might otherwise. The homelessness team will continue to attempt to reduce the numbers via implementation of the new Homelessness and Rough Sleeping Strategy along with working with MHCLG / Homeless Link to review our temporary accommodation model with the aim of reducing the numbers of people living on the streets. At present that is estimated at an additional £2m of funding required in 2026/27 which has been built into estimates.

82.0 Ability to retain / recruit staff under the current salaries structure; Our Ambition 25 programme of change will create solutions to address this risk.

- Create a new total reward strategy designed to meet the ambitions of a world class organisation, attracting and retaining the best talent.
- Create a job family framework that supports the Corporation's Head of Profession approach, tackles existing silos and promotes transferable skills.
- Implement a proven, robust job evaluation method to enable risk management, equity and fairness.
- Create and implement new pay grading structures that address current challenges regarding market competitiveness and prevalence of allowances, with the appropriate controls to manage risk.

Equalities Implications

83.0 During the preparation of this report, all Chief Officers were asked to consider and will be confirmed at this meeting of any potential adverse impact of the various budget policy proposals on equality of service. This was with particular regard to service provision and delivery that affects people, or groups of people, in respect of disability, gender and racial equality.

Conclusion

84.0 Despite an overall trend towards a more stable economy given recent global events and high-inflation, there are still significant pressures impacting on the City Corporation. This is combined with uncertainty around the funding position for City Fund with the new government and their approach to the redistribution of local government funding.

85.0 Additional funding will be required across the medium term for cost pressures within children and community services; to accommodate changes in pay (including national insurance for providers) and price uplift assumptions. Decisions are also required as to the approach to addressing the projected future cyclical works and forward plan on our operational properties following the resolution of the backlog.

86.0 The scale of the ambition, within City Fund Major Projects in particular continues to put significant pressure on resources and work to ensure programmes deliver longer term benefits and financial sustainability are key.

Appendices

- Appendix A – Key Assumptions
- Appendix B – Calculating Council Tax
- Appendix C – City Fund Useable Reserves
- Appendix D – Prudential Indicators
- Appendix E – Treasury Management Strategy Statement and Annual Investment Strategy 2024/25
- Appendix F – Capital Strategy
- Appendix G – City Fund Budget Policy
- Appendix H – Review of contingency funds
- Appendix I – Court Resolution

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Key assumptions used in the forecast

The following paragraphs detail the key assumptions that have been used in the construction of the 2025/26 budget and Medium-Term Financial Strategy (MTFP) for City Fund and City's Estate:

Income

1. The City Fund has two key income streams outside of core local government funding: investment property rental and treasury income. Detailed analysis has been carried out on key income assumptions for all funds and more sophisticated funds modelling has enabled a holistic assessment of overall financial health, including ability of net assets and underspends from 2024/25 carried forward to meet risks of potential funding shortfalls.

    - Property rental income is forecast on the expected rental income for each property, allowing for anticipated vacancy levels, expiry of leases and lease renewals. It should be noted a further reduction in rental income is anticipated in as a consequence of the planned disposal of properties to fund the major projects. Outside these changes, the City's rental income is protected to some extent: 1) through investing in a diversified property portfolio - reducing the risk, and 2) in the short-term as our leases are long term with medium-term specified break clauses. Forecast rental income is regularly reviewed and reported, with any potential reduction factored into updates to the medium-term financial plan.

    - Cash balances are invested in a diversified range of money market and fixed income instruments in accordance with the Treasury Management Strategy Statement with the aim of providing a yield once security and liquidity requirements have been satisfied. The forecast for treasury management income takes account of the likely path of short-term interest rates (chiefly, the Bank of England base rate) over the upcoming financial year. The Bank of England's Monetary Policy Committee (MPC) voted to cut interest rates for the first time since March 2020 at its August 2024 meeting with a reduction to 5.00%, and a further reduction to 4.75% in November 2024. The expectation is for a further 25bps rate cut in Q1 of 2025, reaching 4.50% by March 2025, with further quarterly reductions of 25bps reaching 3.75% by March 2026, with no further changes until December 2026 where it assumed to reach 3.50% and plateau. However, there remains uncertainty surrounding the forecast, particularly following the impact on the UK from the Government's Autumn Budget, slower interest rate cuts, modestly weaker economic growth over the medium term, together with the impact of uncertainties around US domestic and foreign policy, and the ongoing geo-political risks in Europe, the Middle East and Asia. A change of +/-0.25% to the base rate is expected to translate to approximately £1.00m additional/less income for the City Fund per year, based on current cash balances. Interest income is monitored throughout the year and any potential change to the forecast will be reported through an update to the medium-term financial plan.

Expenditure

2. The starting point for the 2025/26 budget is a 2% inflationary uplift to local risk budgets. The Final Local Government settlement in February 2025 includes a larger increase in Core Spending Power relative to current inflation rates of c6% on average. However, for the City Corporation the increase was only 3% (excluding National insurance contributions grant), the lowest in London. The final settlement also reiterated the intent to redistribute funding across the country, using comparators such as deprivation more heavily. In addition to the inflation the following specific pressures have been added, £1.3m on adult social care and children services, £0.2m for health & safety officers along with £0.08m for increased internal control.

3. Given the financial position, Policy and Resources Committee and Finance Committee have been clear that cost pressures should be managed within existing resources. Where not possible, additional funding has been provided for as outlined in table 1 below. Where one-off funding/time limited resource is required, this is accommodated through underspends from 2024/25 carried forward.

Table 1: Additional pressures included within the City Fund budget

CITY FUND	2025/26 £'m	2026/27 £'m	2027/28 £'m	2028/29 £'m
Children's Social Care (CSC) placements	(1.19)	(1.19)	(1.19)	(1.19)
Adult Social Care (ASC) placements	(0.11)	(0.11)	(0.11)	(0.13)
Homelessness	(0.00)	(2.09)	(2.22)	(2.22)
Health & Safety Officers	(0.23)	(0.23)	(0.23)	(0.23)
Internal Audit	(0.08)	(0.08)	(0.08)	(0.08)
City Fund additional pressures	**(1.61)**	**(3.70)**	**(3.83)**	**(3.85)**

Revenue Spending Proposals 2025/26

4. The overall budget requirements have been prepared and the breakdown for 2024/25 and 2025/26 are summarised by Committee in the table below. Explanations for significant variations from year to year were contained in the budget reports submitted to service committees for approval.

Table 2: City Fund Summary Budget

City Fund Summary by Committee ***Net (Expenditure)/Income***	**2024/25 Budget £m**	**2025/26 Original £m**
Barbican Centre	(29.0)	(31.0)
Barbican Residential	(3.9)	(3.3)
Community and Children's Services	(18.7)	(19.8)
Culture Heritage and Libraries	(22.0)	(22.7)
Finance*	15.2	(4.7)
Licensing	(0.9)	(0.4)
Markets	(0.1)	0.4
Open Space	(2.4)	(2.2)
Planning and Transportation	(18.2)	(18.7)
Police	(114.1)	(122.1)
Police Authority Board	(1.0)	(1.0)
Policy and Resources	(7.4)	(6.9)
Port Health and Environmental Services	(17.4)	(20.6)
Investment Committee	34.0	25.3
City Fund Requirement	**(185.9)**	**(227.7)**

*Finance includes changes to: capital revenue expenditure, supplementary revenue programme, The 24/25 budget has benefited from increased income on cash balances due to the higher interest rates.
Figures in brackets denote expenditure, increases in expenditure, or shortfalls in income.

5. Approved budget movements from the original 2024/25 budget are set out below:

	£'m
2024/25 Original Budget	**(196.5)**
Carry forwards from 2023/24 underspends	(10.8)
Business Rates pooling	(1.0)
Cyclical works programme – transfer from reserves	9.9
Rent income	(1.4)
Interest on cash balances	13.9
2024/25 Revised Budget	**(185.9)**

6. The following table further analyses the budget to indicate:
   - the contributions from the City's own assets towards the City Fund requirement (interest on balances [line 5] and investment property rent income [line 6])
   - the funding received from government grants and from taxes [lines 8 to 11]; and
   - the estimated surpluses to be transferred to reserves, or deficits to be funded from reserves [line 14].

Table 3: City Fund net budget requirement and financing (excluding Police)

		2024/25 Budget £m	2025/26 Budget £m	Para. No.
1	Net expenditure on services	(241.8)	(259.3)	
2	Capital Expenditure funded from Revenue Reserves	(5.5)	(6.2)	
3	Cyclical Works Programme expenditure financed from revenue	(19.1)	(23.1)	
4	Requirement before investment income from the City's Assets	(266.3)	(288.5)	
5	Interest on balances	28.9	27.9	
6	Estate rent income	40.9	32.9	
7	**City Fund Requirement**	**(196.5)**	**(227.7)**	
	Financed by:			
8	Government formula grants	148.7	182.3	
9	City offset	12.8	13.5	
10	Council tax	9.0	10.9	
11	NNDR premium	31.3	35.1	
12	Total Government Grants and Tax Revenues	201.8	241.8	
13	Drawdown on Reserves	16.4*	16.2*	
14	**(Deficit)/Surplus transferred (from)/to reserves**	**21.7**	**30.3**	

**Includes transfer from reserves to support climate action and CWP.

Line 8 in table 3 is shown in further detail below:

Table 4: Analysis of Core Government Grants

	2024/25 Original £m	2025/26 Draft £m	Variance £m	Variance %
Revenue Support Grant	9.1	8.5	(0.6)	(6.6)
Rates Retention: baseline funding	19.0	18.7	(0.3)	(1.6)
Rates Retention: growth	35.2	63.1	27.9	79.3
Subtotal:	**63.5**	**90.3**	**26.3**	30.8
Police	85.4	91.9	6.5	7.6
Total Core Government Grants	**148.7**	**182.2**	**33.5**	**22.5%**

7. The City Fund budget requirement for 2025/26 is £211.5m plus a contribution to reserves of £30.3m resulting in a net City Fund budget requirement of £241.8m, an increase of £39.9m on the previous year. The following table shows how this

is financed and the resulting Council Tax requirement. Appendix B details the consequent determination of council tax by property band.

Table 5: Council Tax requirement

Council Tax Requirement	**2024/25 Original £m**	**2025/26 Original £m**
Net Expenditure	(266.3)	(288.5)
Estate Rental Income	40.9	32.9
Interest on balances	28.9	27.9
Budget Requirement	(196.5)	(227.7)
Drawdown from Earmarked reserves	16.4	16.2
Proposed contribution to reserves	(21.8)	(30.3)
Net City Fund Budget Requirement	**(201.8)**	**(241.8)**
Financing Sources:		
Business Rates Retention	63.3	90.4
Police Grant	85.4	91.9
City Offset	12.8	13.5
NDR Premium	31.3	35.1
Collection Fund Surplus (CoL share)	0.0	0.3
Council Tax Requirement	**(9.0)**	**(10.6)**

8. Included within the net budget requirement is provision for any levies issued to the City Corporation by relevant levying bodies and the precepts anticipated for the forthcoming year by the Inner and Middle Temples (after allowing for special expenses, detailed in Appendix B).

Business Rates

9. The Secretary of State has proposed a National Non-Domestic Rate multiplier of 55.5p and a small business National Non-Domestic Rate multiplier of 49.9p for 2025/26. The increase to the standard multiplier is in line with September CPI. The small business multiplier remains at the 2021/22 levels as Government have opted not to apply the usual inflationary increase. The multipliers both exclude the City's Business Rate Premium.

10. It is proposed the Business Rate Premium is increased up to 0.4p in the £, the proposed premium will result in a National Non-Domestic Rate multiplier of 57.7p and a small business National Non-Domestic Rate multiplier of 51.9p for the City for 2025/26.

11. Authority is sought for the Chamberlain to award the following discretionary rate reliefs under Section 47 of the Local Government Finance Act 1988:

    - **Retail Hospitality and Leisure Relief Scheme:** During 2024/25 businesses in the retail, hospitality and leisure sectors were awarded business rate relief at 75%, capped at £110,000 per business. This will continue in 2025/26 at the reduced rate of 40% and with the same cap.

- A **Nursery Discount** - Under S47 Local Government Finance Act for qualifying Nursery Schools of up to 100%. This is a local discount and is not a national scheme.

Council Tax - Long-Term Property Premiums and Second Homes Premium

12. For council tax purposes a property is defined as empty if it is unoccupied and substantially unfurnished.
13. The empty property premium was introduced by Government in 2013/14 to encourage landlords to bring long-term empty property back into use. The City introduced the long-term empty premium for the first time in 2019/20, with a premium increase of 100%. It has subsequently levied the Premium on long-term empty property of 100%, 200% and 300% on properties that have been empty for 2, 5 and 10 years respectively.
14. In 2024/25 the City introduced a new long-term empty property premium of 100% for properties that have been empty for longer than 12 months which will continue in 2025/26.
15. Government have also introduced legislation to permit a Local Authority to charge a Second Home Premium of 100% from 2025/26. The City intends to adopt this premium.

Council Tax Reduction Scheme

16. In 2013/14, the Government introduced a locally determined Council Tax Reduction Scheme. This replaced the national Council Tax Benefit scheme and assisted people on low incomes with their council tax bills. There are no proposals to make any specific amendments to the Council Tax Reduction Scheme for this or future years, beyond keeping the scheme in line with the national Housing Benefit regulations.
17. The Council Tax Reduction Scheme will therefore remain broadly the same for 2025/26 as was administered in previous years subject to the annual uprating s was administered in previous years subject to the annual uprating s was administered in previous years subject to the annual uprating as was administered in previous years subject to the annual uprating of amounts in line with Housing Benefit applicable amounts with a minor amendment set out in paragraph 18.
18. Determine that pensions received by veterans under the War Pension Scheme and other British military compensation schemes identified in Schedule 5 (1) of The Council Tax Reduction Schemes (Prescribed Requirements) (England) Regulations 2012, Housing Benefit Regulations 2006 Schedule 5 (15) or Housing Benefits (State Pension Credit) Regulations 2006 Schedule 5 (1) are fully disregarded in the calculation of Housing and Council Tax Reduction.

Capital

19. The City Corporation has a significant programme of works to the operational property estate (including residential), investment property redevelopments and highways infrastructure, together with significant expenditure on the major programmes. Expenditure which is purchasing, developing or extending the useful life of these assets is classified as capital expenditure.

20. Capital expenditure is primarily financed from capital reserves derived from the sale of properties, earmarked reserves and grants or reimbursements from third parties. For City Fund, the City has historically not used external loans to finance these schemes, and current plans do not envisage borrowing from third parties. In City's Estate private placement funding has been taken out to support the major projects programme with the first tranche due for repayment in 2044.

21. Appendix F to the main City Fund MTFP report sets out the detail of the Capital programme, funding sources and prudential indicators.

Major Projects

Barbican Renewal

22. It was noted in last year's MTFP that the Barbican renewal programme had reached a critical juncture with decisions needing to be made on the long-term future of the estate. In December 2024, Court formally approved funding of £191m to support the essential works required to support the centre over the next five years. This comes with the commitment of at least £30m of fundraising from the Barbican centre, alongside the use of £10m CIL funding.

23. This level of investment is a significant challenge for City Fund, and it should not be underestimated the impact it will have on reserves and future budget capacity. As a result, the approval in December came with a requirement to bring back an updated long-term strategy for the Barbican centre in January 2026 to consider the long-term options for ensuring the site is sustainable. This will need to consider bringing in external funding and reducing the annual contribution required from City Fund, which is currently c£28m per annum.

24. Within the funding allocations for the Barbican renewal programme is £26.8m for CWP works and costed risk of £57m.

Museum of London

25. The total budget of £319m reflects the City of London Corporation's (CoL) contribution as well as that from the GLA (which is received by CoL for the project). The Museum will also be directly fundraising an additional £120m for the scheme. There remains a risk that if Museum fundraising were to fall short of the target that CoL and GLA will be liable for the difference. On the GLA funding, £55m of the total £95m has been received to date, with the balance expected to be received in 2025/26 and 2026/27, subject to the achievement of delivery milestones.

26. There is also a cashflow risk on the project, as the Museum spend will progress ahead of fundraising totals and therefore the Corporation may need to spend up

to £40m at risk by the end of 2026/27. At the current forecast rate of spending, we could start to exceed our intended funding contribution by the end of 2025/26, though could be deferred (or eliminated) if there is slippage.

27. In the event that forward funding does take place, it is proposed to be paid back to the Corporation in 2027/28 (£8m) and 2028/29 (£32m). This could be liable for an interest charge (payable by the museum to the Corporation, subject to Member agreement (and agreement with the museum). Depending on the exact amount borrowed, the term of the loan, and the underlying interest rate, this could equate to a total charge of c£3m. Although such a charge could potentially have a cyclical impact in terms of the museum's overall costs/fundraising target, leading to a shortfall (which is being underwritten by the Corporation and the GLA).

Sailsbury Square / FPEP

28. The Salisbury Square Development programme and Future Police Estates Programme has a combined total forecast of c£750m. Since its inception, the project has been subjected to significant pressures beyond the Corporation's control including:
    a. The increase in scope of SSD by 65,000 sq. ft between March 2018 and January 2021 was applied without an increase in budget or optimism bias (therefore, the optimism bias effectively reduced to 28.5% from the original proposal of 51%).
    b. The decision to amend the scope of the commercial building, in line with the Corporation's Property Investment Strategy (which will be reflected in a higher rental income).
    c. Hyperinflation in the construction sector and its impact; and
    d. The national decision by Government to increase Police Officers, impacting Police requirements that are fit for the future.

29. Most recently a pressure of c£60m has arisen on the main contract in respect of provisional sum fit out packages. In addition, other elements of the programme are still in their preliminary stages (i.e. the Joint Control and Command Room at the Guildhall Yard East, the Tactical Firearms Training Facility, the Mounted Unit, the Property Store and Eastern Base), and there remains a risk that future costs could still increase.

30. Since inception, the budget has not been re-baselined to accommodate these changes, and with the optimism bias now depleted, significant financial pressures have begun to materialise as the programme progresses. Alternative funding sources have been identified to ensure the programme can deliver a fit for purpose future police estate without delaying these elements of the programme and incurring additional costs. It is also recommended Members consider adding in £30m for optimism bias for the remaining projects, through the increase of Business Rate Premium.

Cyclical Works Programme

31. Over a number of years, a significant backlog of works as part of the cyclical works programme (CWP) had built up, also referred to as the "bow wave". In

response to this, in 2024/25 members directed for total funding of £133m to be included within the ongoing MTFP assumptions to address the backlog and provide sufficient resources for the following three-year period. Progress on delivering these projects has been slowed as the delivery team has just been appointed but this is now in place. The funding has been reprofiled over this updated MTFP so remains in place to deliver these works.

32. An additional £12.5m of funding for the Guildhall School of Music (GSMD) was also included, to be spent over the remaining MTFP.

33. Within the approval for the Barbican Arts Centre renewal was an amount of £25m to fund ongoing CWP works as over the MTFP period. This is in addition to any schemes already in progress.

34. This funding provides certainty for planning over the MTFP period. Beyond this point, there is a need to consider the upcoming asset requirements of the operational and investment estate. The MTFP approved in March 2024 included a proposal to add a further £15m p.a. split across both City Fund and City's Estate from 2028/29 onwards. This is now included within 2028/29 years across both funds. The latest projection of spend for the backlog £133m now also covers this period so there is a question of if a further £15m can be delivered in 2028/29 alongside existing plans.

35. Whilst the funding approach was approved, it should be noted this has significant impact on both City Fund and City Estate budgets. Around 70% of the costs are revenue as set out in the table below.

Table 6: CWP five-year programme

	2024/25 Year 1 £m's	**2025/26 Year 2 £m's**	**2026/27 Year 3 £m's**	**2027/28 Year 4 £m's**	**2028/29 Year 5 £m's**	**Totals £m's**
City Fund (Rev)	2.4	8.2	5.4	4.2	8.9	29.1
City Fund (Cap)	1.0	4.2	4.4	3.6	1.6	14.8
City Fund - Forward Plan	-	-	-	-	7.5	7.5
City Fund Total	**3.4**	**12.4**	**9.8**	**7.8**	**18.0**	**51.4**
City's Estate (Rev)	2.9	9.2	8.6	12.6	9.5	42.8
City's Estate (Cap)	0.1	1.5	1.5	1.1	0.7	4.9
City's Estate (GSMD)		2.5	2.5	2.5	2.5	10.0
City's Estate - Forward Plan	-	-	-	-	7.5	7.5
City's Estate Total	**3.0**	**13.2**	**12.6**	**16.2**	**20.2**	**65.2**
Guildhall Admin (Rev)	1.4	5.6	5.2	3.2	6.6	22.0

Guildhall Admin (Cap)	0.7	1.7	8.4	6.5	3.0	20.3
Guildhall Admin - Total	**2.1**	**7.3**	**13.6**	**9.7**	**9.6**	**42.3**
Total	**8.5**	**32.9**	**36.0**	**33.7**	**47.8**	**158.9**

36. Within City Fund the funding for this phase of work is planned to come from reserves built up from prior year surpluses. Further funding will be required to cover the c£7.5m per annum estimated from 2029/30 and beyond.

Calculating Council Tax

Step One ('B1')

This requires calculation of the basic amount of Council Tax for a Band D dwelling for the whole of the City's area by applying the formula:

$$\text{'B1'} = \frac{R}{T}$$

Where
'B1' is the Basic Amount 'One':

R is the amount calculated by the authority as its council tax requirement for the year;

T is the amount which is calculated by the authority as its Council Tax base for the year. This amount was approved by the Chamberlain under the delegated authority of the City of London together with the Council Tax bases for each part of the City's area.

The above calculation is as follows:

$$\text{'B1'} = \frac{£10{,}581{,}635.10}{9{,}595.07}$$

'B'1 = £1,102.82

Note: Item R consists of the following components:

	£	£
City Fund Net Budget Requirement		241,812,681
Less:		
Business Rates Retention	(81,800,000)	
Government Grant Funding	(8,552,000)	
Police Grant	(91,940,595)	
City's Offset	(13,496,000)	
Estimated Non-Domestic Rate Premium	(35,163,405)	
Estimated Collection Fund Surplus as at 31 March 2025 (City's share)	(279,046)	(231,231,046)
TOTAL COUNCIL TAX REQUIREMENT ®		**10,581,635**

Step Two ('B2')

This calculation is for the basic amount of tax for the area of the City excluding special items. The prescribed formula is:

$$'B2' = 'B1' - \frac{A}{T}$$

Where:

'B2' is the Basic Amount 'Two';

'B1' is the Basic Amount of Council Tax (Basic Amount 'One')
NB included with 'B1' is the aggregate of special items

A is the Aggregate of all special items;

T is the Council Tax base for the whole area

The above calculation is as follows:

$$'B2' = £1,102.82 - \frac{£22,495,020.88}{9,595.07}$$

'B2' = £1,241.62 CR

Note: Item A consists of the following components:

	£	£
Highways Net Expenditure	10,832,000.00	
Street Cleansing	5,937,000.00	
Waste Collection	2,927,000.00	
Waste Disposal	1,639,000.00	
Road Safety	269,000.00	
Drains and Sewers	475,000.00	
Total City's Special Expenses		22,079,000.00
Inner Temple's Precept	237,444.88	
Middle Temple's Precept	178,576.00	416,020.88
Total Special Items		**22,495,020.88**

Step Three 'B3'

The next calculation is for the basic amount of each of the three parts of the City (the Inner and the Middle Temples and the remainder of the City area) to which special items relate (Basic Amount 'Three'). The calculations for each of the areas are as follows:

$$'B3' = 'B2' + \frac{S}{TP}$$

Where:

'B3' is the Basic Amount 'Three'

‘B2’ is the Basic Amount ‘Two’

S is the amount of the special items for the part of the area

TP is the billing authority’s Tax base for the part of the area to which the special items relate as determined by the Chamberlain under the delegated authority of the City of London Finance Committee.

City Area Excluding the Temples

$$‘B3’ = £1,241.62\text{ CR} + \frac{£22,079,000}{9,417.62}$$

‘B3’ = £1,102.82

Inner Temple

$$‘B3’ = £1,241.62\text{ CR} + \frac{£237,444.88}{101.28}$$

‘B3’ = £1,102.82

Middle Temple

$$‘B3’ = £1,241.62\text{ CR} + \frac{£178,576.00}{76.17}$$

‘B3’ = £1,102.82

Step Four

Finally, Council Tax amounts have to be calculated for each valuation band (A to H) in each of the three areas (i.e. 24 Council Tax categories). The formula to be used is:

$$\text{Council Tax for particular category} = A \times \frac{N}{D}$$

A is the Basic Amount ‘Three’ (‘B3’) calculated for each part of its area;

N is the proportion applicable to dwellings listed in the particular valuation Band for which the calculation is being made;

D is the proportion applicable to dwellings listed in valuation Band D.

Appendix B

Council Tax per Property Band: calculated by applying nationally fixed proportions from Band D.								
	£							
	A	B	C	D	E	F	G	H
Proportion	6	7	8	9	11	13	15	18
CoL	735.21	857.75	980.29	1,102.82	1,347.89	1,592.96	1,838.03	2,205.64
GLA	114.17	133.19	152.22	171.25	209.31	247.36	285.42	342.50
Total	849.38	990.94	1,132.51	1,274.07	1,557.20	1,840.32	2,123.45	2,548.14

Reserves

Forecast Movements in City Fund Usable Reserves 2025/26				
	Notes	Estimated Opening Balance	Forecast Net Movement in Year	Estimated Closing Balance
		01-Apr-25		31-Mar-26
		£m	£m	£m
Revenue Usable Reserves				
General Reserve	a	20.0	0.0	20.0
Earmarked				
Major Projects Financing Reserve	b	137.4	(11.6)	125.9
Business Rate Equalisation	c	5.3	0.0	5.3
Highways Improvements	d	36.7	(0.6)	36.1
Climate Action Reserve	e	13.7	(0.7)	13.0
Police Future Expenditure	f	9.1	0.0	9.0
VAT Reserve	g	4.2	0.0	4.2
CWP Reserve	h	64.6	(15.6)	49.0
Proceeds of Crime Act	i	7.4	0.0	7.4
Judges Pensions	j	1.1	0.0	1.1
Service Projects	k	8.1	4.2	12.3
Total Revenue Earmarked		**287.6**	**(24.3)**	**263.4**
Housing Revenue Account (HRA)	l	0.4	(0.1)	0.3
Total Revenue Usable Reserves		**288.0**	**(24.4)**	**263.7**
Capital Usable Reserves				
Capital Receipts Reserve	m	36.7	49.0	85.7
Capital Grants Unapplied	n	64.4	(4.0)	60.4
HRA Major Repairs Reserve	o	2.2	0.0	2.2
Total Capital Usable Reserves		**103.3**	45.0	**148.3**
Total Usable Reserves		**391.3**	**20.6**	**412.0**

Notes

a. General Reserve – The accumulated balance from annual surpluses or deficits on the City Fund Revenue Account less any transfers to, or plus any transfers from, earmarked reserves. Current policy is to maintain a balance of £20m.

b. Major Projects Financing Reserve – This reserve will contain the balance of the general reserve above £20m to fund investment in major projects, either as a direct revenue contribution or to generate income to fund revenue costs.

c. Business Rate Equalisation Reserve - Will be used to smooth collection fund surpluses and deficits that can occur due to the requirements of collection fund accounting. This is especially relevant during the upcoming reset period.

d. Highway Improvements - Created from on-street car parking surpluses to finance future highways related expenditure and projects as provided by section 55 of the Road Traffic Regulation Act 1984, as amended by the Road Traffic Act 1991.

e. Climate Action Reserve – funds set aside to support the economic recovery following the pandemic and climate action goals, currently approved to be used by 2026/27.

f. Police Reserve - Revenue expenditure for the City Police service is cash limited. Underspends against this limit may be carried forward as a reserve to the following financial year and overspends are required to be met from this reserve.

g. VAT Reserve – Should the City Corporation no longer be able to recover VAT incurred on exempt services as a result of exceeding the 5% partial exemption threshold, this reserve will be the first call for meeting the associated costs.

h. CWP Reserve – Sums set aside for future repairs and maintenance costs.

i. Proceeds of Crime Act – Cash forfeiture sums awarded to the City. Under the guidelines of the scheme, the funds must be ringfenced for crime reduction initiatives.

j. Judges Pensions - Sums set aside to assist with the City of London’s share of liabilities.

k. A number of reserves for service specific projects and activities where the balance on each individual reserve is less than £0.5m have been aggregated under this generic heading.

l. These reserves are ringfenced by statute to the Housing Revenue Account.

m. The capital receipts reserve will be exhausted due to the City’s commitment to Major projects over the life of the MTFP, subject to further receipts being received.

n. Capital grants and contributions received for specific purposes. This includes receipts from the City’s Community Infrastructure Levy.

o. HRA Major Repair Reserve – funds set aside to finance HRA capital expenditure.

PRUDENTIAL INDICATORS

The following Prudential Indicators (and those included in Appendix (F) have been calculated in accordance with the CIPFA Prudential Code for Capital Finance in Local Authorities. In addition, a local indicator has been calculated to reflect the City's particular circumstances. Those indicators relating to estimates for the financial years 2025/26, 2026/27, 2027/28 and 2028/29 (values shown in bold) are required to be set by the Court of Common Council as part of the budget setting process and should be taken into account when considering the affordability, prudence and sustainability of capital investments.

Prudential Indicators for Affordability

Estimate of the ratio of financing costs to net revenue stream

Table 1

	2024/25	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
HRA	- 0.39	- 0.48	- 0.39	- 0.17	- 0.13
Non-HRA	-	- 0.02	- 0.08	- 0.10	- 0.11
Total	- 0.39	- 0.50	- 0.47	- 0.27	- 0.25
At this time last year	**- 0.39**	**- 0.49**	**- 0.34**	**- 0.57**	**- 0.52**

This ratio is intended to represent the extent to which the net revenue consequences of capital financing and borrowing impact on the net revenue stream. Since the City Fund is currently a net lender in its Treasury operations and is in receipt of significant rental income from investment properties, the Non-HRA and Total ratios are usually negative. The increase in HRA ratios from 2024/25 reflect the additional cost of internal borrowing from City Fund to finance the HRA programme of capital works necessary to maintain the housing estates.

Prudential Indicator of Prudence

Gross Debt and the Capital Financing Requirement

Table 2

	Period 2024/25 to 2028/29
	£m
Gross External Debt*	**12.2**
Capital Financing Requirement	**226.9**

*Gross External Debt is based on Finance Lease (Lessee) liability

To ensure that, over the medium term, borrowing will only be for capital purposes, this indicator demonstrates that gross external debt will not exceed the capital financing requirement over the period 2024/25 to 2028/29. The current plans for funding of the capital programme, including the major projects, do not anticipate any external borrowing.

Prudential Indicators for Capital Expenditure and External Debt

Estimate of Capital Expenditure

Table 3

	2023/24 Actual £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
Non-HRA	135.5	364.6	516.4	248.1	120.1	101.3
HRA	32.4	64.5	44.2	16.2	11.4	7.1
Total	**167.9**	**429.2**	**560.6**	**264.2**	**131.4**	**108.4**
At this time last year	*315.0*	*393.6*	*426.4*	*143.7*	*44.8*	

This indicator is based on the capital budget (excluding supplement revenue programme), augmented to reflect the indicative cost of schemes which have been approved in principle but have yet to be formally agreed for progression. It should be noted that the figures represent gross expenditure and that several schemes are wholly or partially funded by external contributions. Comparisons with the figures calculated at this time last year are generally reflective of the re-phasing of capital expenditure, including more robust estimates relating to the major projects.

Estimate of the Capital Financing Requirement

Table 4

	2023/24 Actual £m	**2024/25 Estimate £m**	**2025/26 Estimate £m**	**2026/27 Estimate £m**	**2027/28 Estimate £m**	**2028/29 Estimate £m**
Non-HRA	99.8	224.7	215.8	218.1	223.9	221.7
HRA	0.0	2.1	11.0	8.7	3.0	5.1
Total	**99.8**	**226.8**	**226.8**	**226.8**	**226.9**	**226.8**
At this time last year	*150.3*	*320.2*	*345.5*	*359.0*	*227.2*	

The capital financing requirement (CFR) reflects the underlying need to borrow to finance capital expenditure and is calculated by identifying the shortfall in capital financing sources (e.g. capital receipts, grants, revenue reserves etc) to be applied. Borrowing can either be internal (use of internal cash balances) or external (third party loan finance).

Since 2016/17, the City Fund has been financing some capital expenditure from cash sums received from the sale of long leases, which are treated as deferred income in accordance with accounting standards. For the purposes of this indicator, such funding counts as 'internal borrowing'. The major projects expenditure will also be funded through additional disposals to ensure that the CFR does not exceed the internal borrowing limit.

In accordance with the guidance contained in the Prudential Code, the 'Actual' indicators are calculated directly from the Balance Sheet, whilst the method of calculating the HRA and Non-HRA elements is prescribed under Statute.

The remaining prudential indicators relating to external debt and treasury management are included within the Treasury Management Strategy Statement and Annual Investment Strategy - Appendix E.

Local Indicators

A local indicator which gives a useful measure of both sustainability and of the adequacy of revenue reserves has been developed.

Times Cover on Unencumbered Revenue Reserves

Table 5

	2024/25	2025/26	2026/27	2027/28
Times cover on unencumbered revenue reserves	3.7	1.5	0.0	0.0
At this time last year	3.0	-0.8	-1.2	0.0

This indicator is calculated by dividing the balance of forecast unencumbered general reserves by annual revenue deficits (-)/surpluses (+). For 2024/25 and 2025/26 revenue surpluses are forecast but reducing year on year. Deficits are then forecast from 2026/27 as the impact of the governments business rates reset removes the growth built up over the past ten-year period. Ratios below -1.0 indicate insufficient general reserves to cover the deficit in a particular financial year, which is not sustainable. This will need to be addressed through additional savings and/or income.

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TREASURY MANAGEMENT STRATEGY STATEMENT

AND

ANNUAL INVESTMENT STRATEGY (RELATING TO TREASURY MANAGEMENT)

2025/26

Issue Date: 17/02/2025
Agreed by Court of Common Council: XX/XX/2025

Treasury Management Strategy Statement and Annual Investment Strategy (relating to Treasury Management) 2025/26

1. Introduction

1.1. Background

The City of London Corporation (the City) is required in its local authority capacity to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the City's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of capital expenditure plans. These capital plans provide a guide to the borrowing needs of the City, essentially the longer-term cash flow planning, to ensure that the organisation can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans where permitted for individual Funds of the City, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet risk or cost objectives.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

1.2. The Treasury Management Policy Statement

The City defines its treasury management activities as:

> *The management of the organisation's investments and cash flows, its banking, money market and capital market transaction; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.*

The City regards the security of its financial investments through the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

The City acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

1.3. Reporting Requirements

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2009) was adopted by the Court of Common Council (the Court) on 3 March 2010, and is applied to all Funds held by the City. There have been subsequent revisions to the codes in 2017 and 2021.

The primary requirements of the Code are as follows:

(i) The City of London Corporation will create and maintain, as the cornerstones for effective treasury management:

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
- Suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

(ii) This organisation will receive reports on its treasury management policies, practices and activities, including as a minimum an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.

(iii) The Court of Common Council delegates responsibility for the implementation and regular monitoring of its treasury management policies to the Finance Committee and the Investment Committee with the Investment Committee of the City Bridge Foundation Board having responsibility on behalf of the charity; the execution and administration of treasury management decisions is delegated to the Chamberlain, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

(iv) The Court of Common Council nominates the Audit and Risk Management Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

The CIPFA 2021 Prudential Code for Capital Finance in Local Authorities and Treasury Management Code of Practice require all local authorities to prepare a capital strategy. The capital strategy provides a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services as well as an overview of how the associated risk is managed and the implications for future financial sustainability. The Treasury Management Strategy Statement is reported separately from the Capital Strategy. This ensures the separation of the core treasury function under security, liquidity and yield principles from the policy and commercial investments usually driven by expenditure on an asset. It is considered good practice by the City to include all of its Funds within these strategies.

1.4. CIPFA Treasury Management and Prudential Codes

CIPFA published revised versions of both the Treasury Management Code of Practice and the Prudential Code for Capital Finance in Local Authorities on 20 December 2021.

The revised Treasury Management Code requires all investments and investment income to be attributed to one of the following three purposes:-

- All investments and investment income must be categorised into one of three types:

  Treasury management
  Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

  Service delivery
  Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

  Commercial return
  Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a local authority's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

The revised Treasury Management Code requires an authority to implement the following: -

1. **Adopt a liability benchmark treasury indicator** to support the financing risk management of the capital financing requirement; the authority is required to estimate and measure the Liability Benchmark for the forthcoming financial year, and the following two financial years as a minimum; this is to be shown in chart form, with material differences between the liability benchmark and actual loans to be explained;

2. **Long-term treasury investments**, (including pooled funds), are to be classed as commercial investments unless justified by a cash flow business case;

3. **Pooled funds** are to be included in the indicator for principal sums maturing in years beyond the initial budget year;

4. Amendment to the **knowledge and skills register** for officers and members involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each authority;

5. **Reporting to members is to be done quarterly.** Specifically, the Chief Finance Officer (CFO) is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The CFO is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to Full Council and should be reported as part of the authority's integrated revenue, capital and balance sheet monitoring;

6. **Environmental, social and governance (ESG)** issues to be addressed within an authority's treasury management policies and practices (TMP1).

The main requirements of the Prudential Code relating to service and commercial investments are:

1. The risks associated with service and commercial investments should be proportionate to their financial capacity – i.e. that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services;
2. An authority must not borrow to invest for the primary purpose of commercial return;
3. It is not prudent for local authorities to make any investment or spending decision that will increase the CFR, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority, and where any commercial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose;
4. An annual review should be conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt;
5. A prudential indicator is required for the net income from commercial and service investments as a proportion of the net revenue stream;
6. Create new Investment Management Practices to manage risks associated with non-treasury investments, (similar to the current Treasury Management Practices).

An authority's Capital Strategy or Annual Investment Strategy should include:

1. The authority's approach to investments for service or commercial purposes (together referred to as non-treasury investments), including defining the authority's objectives, risk appetite and risk management in respect of these investments, and processes ensuring effective due diligence;

2. An assessment of affordability, prudence and proportionality in respect of the authority's overall financial capacity (i.e. whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services);

3. Details of financial and other risks of undertaking investments for service or commercial purposes and how these are managed;

4. Limits on total investments for service purposes and for commercial purposes respectively (consistent with any limits required by other statutory guidance on investments);

5. Requirements for independent and expert advice and scrutiny arrangements (while business cases may provide some of this material, the information contained in them will need to be periodically re-evaluated to inform the authority's overall strategy);

6. State compliance with paragraph 51 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement that an authority must not borrow to invest primarily for financial return;

As this Treasury Management Strategy Statement and Annual Investment Strategy deals ***soley*** with treasury management investments, the categories of service delivery and commercial investments will be dealt with as part of the Capital Strategy report.

Furthermore it should be noted that any new requirements are mandatory for the City Fund only.

1.5. Treasury Management Strategy for 2025/26

The Local Government Act 2003 (the Act) and supporting regulations require the City to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the City's capital investment plans are affordable, prudent and sustainable. The City's Prudential Indicators are set in its annual Budget Report and Medium-Term Financial Strategy, while Treasury Indicators are established in this report (Appendix 2).

The Act requires the Court of Common Council to set out its treasury strategy for borrowing (section 4 of this report) and to prepare an Annual Investment Strategy (section 5 of this report). The Investment Strategy sets out the City's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The suggested strategy for 2025/26 in respect of the required aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the City's treasury adviser, MUFG Corporate Markets (previously known as Link Group, Link Treasury Services Ltd).

The strategy covers:

- the capital expenditure plans and the associated prudential indicators
- the minimum revenue provision (MRP) policy
- the current treasury position

- treasury indicators which limit the treasury risk and activities of the City
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the MHCLG (Ministry of Housing, Communities, and Local Government) Minimum Revenue Provision (MRP) Guidance, the CIPFA Treasury Management Code and the MHCLG Investment Guidance.

1.6. Current Portfolio Position

The City's treasury portfolio position at 31 December 2024 compared to the position at 31 March 2024 comprised:

Table 1: Treasury Portfolio				
	Actual 31/03/2024		**Current 31/12/2024**	
Treasury investments	**£m**	**%**	**£m**	**%**
Banks	£390.0	43%	£460.0	41%
Building societies (rated)	£0.0	0%	£0.0	0%
Local authorities	£50.0	6%	£100.0	9%
Liquidity funds	£155.2	17%	£247.7	22%
Ultra-short dated bond funds	£147.0	16%	£152.6	14%
Short dated bond funds	£159.0	18%	£161.0	14%
Total treasury investments	**£901.2**	100%	**£1,121.3**	100%
Treasury external borrowing				
LT market debt (City's Estate)	£450.0	100%	£450.0	100%
Total external borrowing	**£450.0**	100%	**£450.0**	**100%**

2. Capital Expenditure Plans and Prudential Indicators

2.1. City Fund

The City's capital expenditure plans are a key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

The City's capital expenditure plans in respect of its local authority functions (the City Fund) are detailed in the 2025/26 Budget Report and Medium-Term Financial Strategy, which also contains the City's Prudential Indicators. The Prudential Indicators summarise the City Fund's annual capital expenditure and financing plans for the medium term. Table 2 summarises the capital expenditure and financing plans for City Fund for 2024/25 to 2028/29.

Estimate of Capital Expenditure and Financing (City Fund)

Table 2	**2023/24 Actual £m**	**2024/25 Estimate £m**	**2025/26 Estimate £m**	**2026/27 Estimate £m**	**2027/28 Estimate £m**	**2028/29 Estimate £m**
Capital Expenditure:						
Non-HRA	135.5	364.6	516.4	248.1	120.1	101.3
HRA	32.4	64.5	44.2	16.2	11.3	7.1
Total	**167.9**	**429.1**	**560.6**	**264.3**	**131.4**	**108.4**
Financed by:						
Capital grants	107.2	180.7	165.2	115.1	28.5	15.2
Capital reserves	16.8	73.0	200.6	67.7	105.4	43.6
Planned investment property disposals	0.0	38.2	183.0	71.4	-6.9	43.1
Revenue	38.2	10.2	11.8	10.1	4.4	6.5
Total	**162.2**	**302.1**	**560.6**	**264.3**	**131.4**	**108.4**
Net Financing Need	**5.7**	**127.0**	**0.0**	**0.0**	**0.0**	**0.0**

The Prudential Indicators also establish the City Fund's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the City Fund's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource (the net financing need in Table 2), will increase the CFR which is summarised in table 3 below.

City Fund has an ambitious capital programme, which is intended to be supported by planned investment property disposals as an alternative to any external borrowing, enabling a balanced CFR over the next five year period.

Estimate of the Capital Financing Requirement (City Fund)

Table 3	**2023/24 Actual £m**	**2024/25 Estimate £m**	**2025/26 Estimate £m**	**2026/27 Estimate £m**	**2027/28 Estimate £m**	**2028/29 Estimate £m**
Non-HRA	99.8	224.7	215.8	218.1	223.8	221.7
HRA		2.1	11.0	8.7	3.0	5.1
Total	**99.8**	**226.8**	**226.8**	**226.8**	**226.8**	**226.8**

The City is required to estimate and measure the Liability Benchmark for the forthcoming financial year and the following two financial years, as a minimum. The prudential indicator for the liability benchmark is only relevant for City Fund, and therefore does not include City's Estate external borrowing.

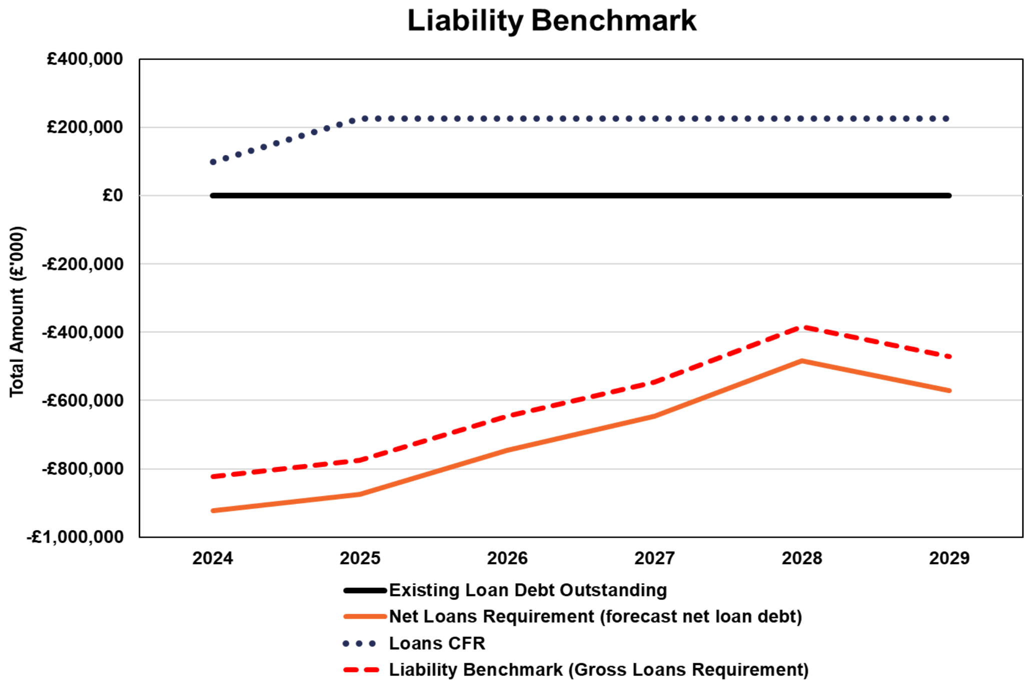
There are four components to the Liability Benchmark which should be represented in a chart. These are:

1. **Existing Loan Debt Outstanding**: The City's existing loans that are outstanding into future years. This City Fund currently has no external loans, so this will not need to be shown.

2. **Capital Financing Requirement**: calculated in accordance with the Prudential Code and projected into the future based on approved prudential borrowing and planned Minimum Revenue Provision.

3. **Net Loans Requirement**: The City Fund gross loan debt less treasury management investments, projected into the future and based on approved prudential borrowing, planned MRP and any other major cash flow forecasts. As the City plans to not undertake external borrowing the net loan requirement is shown as a negative and plots the expected cash balances across the years.

4. **Liability benchmark** (or **Gross Loans Requirement**): equals Net Loans Requirement plus a short-term liquidity allowance to allow for a level of excess cash to provide liquidity if needed.



Minimum Revenue Provision (City Fund)

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used. The City's MRP Policy is detailed in Appendix 2.

2.2. City's Estate

As with the City Fund, any capital expenditure incurred by City's Estate which has not immediately been paid for through a revenue or capital resource, will increase the City's Estate borrowing requirement. The medium-term financial plan for City's Estate includes an increase in capital expenditure in the coming years, primarily relating to the major projects programme. All projected capital expenditure in 2025/26 will be financed from revenue contributions, earmarked reserves, and supported by the liquidation of financial investments and additional property disposals.

Table 4 summarises City's Estate outstanding debt of £450m (£250m was received in 2019/20 and the remaining £200m was received in 2021/22) over the next few years.

Table 4	**2023/24 Actual £m**	**2024/25 Estimate £m**	**2025/26 Estimate £m**	**2026/27 Estimate £m**	**2027/28 Estimate £m**
Borrowing	£450m	£450m	£450m	£450m	£450m

A debt financing strategy will be established to ensure borrowing for City's Estate is reduced gradually over time as set out in the City's Estate Borrowing Policy Statement (Appendix 8).

2.3. City Bridge Foundation

City Bridge Foundations' (CBF) financial plans focus on the charity's primary object, namely the support and maintenance of the five Thames bridges that the charity owns. Surplus income not required for the primary purpose, as reassessed each year, is available for its ancillary purposes, namely charitable funding. The charity's revenue expenditure plans over the short and medium term are currently funded from ongoing income and the returns on investments held within the unrestricted income fund. Capital spend on the charity's investment property portfolio is currently funded within the permanent endowment fund.

A Supplemental Royal Charter was approved in June 2023, with various new powers being adopted as a result. These included the power to borrow in limited circumstances (see section 4.3) and the power to apply the total return approach to the permanent endowment fund. Put simply, this approach allows any increase in the value of an investment within the permanent endowment to be utilised as income. CBF has an approved policy that applies to the use of returns held within the permanent endowment fund, which ensures that the trustee considers the requirements of beneficiaries both now and in the future within its expenditure plans.

Treasury Indicators for 2025/26 – 2027/28

Treasury Indicators (as set out in Appendix 2) are relevant for the purposes of setting an integrated treasury management strategy.

3. Prospects for Interest Rates

The City of London has appointed MUFG Corporate Markets (previously known as Link Group (Link)) as its treasury advisor and part of their service is to assist the City to formulate a view on interest rates. Appendix 1 draws together a number of forecasts for both short term (Bank Rate – also known as "the Bank of England base rate") and longer term interest rates. The following table and accompanying text below gives the Link central view.

	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)			
		5 year	10 years	25 year	50 year
Mar 2025	4.50	4.90	5.10	5.50	5.30
Jun 2025	4.25	4.80	5.00	5.40	5.20
Sep 2025	4.00	4.60	4.80	5.30	5.10
Dec 2025	4.00	4.50	4.80	5.20	5.00
Mar 2026	3.75	4.50	4.70	5.10	4.90
Jun 2026	3.75	4.40	4.50	5.00	4.80
Sep 2026	3.75	4.30	4.50	4.90	4.70
Dec 2026	3.50	4.20	4.40	4.80	4.60
Mar 2027	3.50	4.10	4.30	4.70	4.50
Jun 2027	3.50	4.00	4.20	4.60	4.40
Sep 2027	3.50	4.00	4.20	4.50	4.30
Dec 2027	3.50	3.90	4.10	4.50	4.30

MUFG Corporate Market's central forecast for interest rates was updated on 19 December 2024.

Following the 30 October Budget, the outcome of the US Presidential election on 6 November, and the 25bps Bank Rate cut undertaken by the Monetary Policy Committee (MPC) on 7 November, MUFG significantly revised their central forecasts. In Summary, MUFG's Bank Rate forecast is now 50bps – 75bps higher than was previously forecast in their last significant forecast revision in May 2024, whilst their PWLB forecasts have been materially lifted to not only reflect the increased concerns around the future path of inflation, but also the increased level of Government borrowing over the term of the current Parliament.

Reflecting on the Autumn Budget, MUFG's view is that the policy announcements will be inflationary, at least in the short term. Their central view is that monetary policy is sufficiently tight at present to cater for some further moderate loosening, the extent of which, however, will continue to be data dependent.

For PWLB rates, the short to medium part of the curve is forecast to remain elevated over the course of the next year, and the degree to which rates moderate will be tied to the arguments for further Bank Rate loosening or otherwise. The longer part of the curve will also be impacted by inflation factors, but there is also the additional concern that with other major developed economies such as the US and France looking to run large budget deficits there could be a glut of government debt issuance that investors will only agree to digest if the interest rates paid provide sufficient reward for that scenario.

The result of the US presidential election paves the way for the introduction/extension of tariffs that could prove inflationary whilst the same could be said of further tax cuts and an expansion of the current US budget deficit. Invariably the direction of US Treasury yields in reaction to his core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks abound in Europe, the Middle East and Asia.

3.1. Investment and borrowing rates

- The next reduction in Bank Rate is forecast to be made in February 2025 and for a pattern to evolve whereby rate cuts are made quarterly and in keeping with the release of the Bank's Quarterly Monetary Policy Reports (February, May, August and November). Any movement below a 4% Bank Rate will, nonetheless, be very much dependent on inflation data in the second half of 2025.
- The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, but the risks to our forecasts are to the upsides.
- Link's long-term, i.e. beyond 10 years, forecast for the Bank Rate has been increased to 3.25% (from 3%) and as all PWLB certainty rates are currently significantly above this level, borrowing strategies need to be reviewed in that context. Temporary borrowing rates will, generally, fall in line with bank rate cuts.
- Borrowing rates have also been impacted by changes in Government policy. In November 2020, the Chancellor introduced a prohibition to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three-year capital programme.
- Because borrowing rates are generally expected to be higher than investment rates, any new borrowing undertaken by the City will have a "cost of carry" (the difference between higher borrowing costs and low investment returns) to any new borrowing that causes a temporary increase in cash balances.

3.2. Interest Rate Exposure

The City is required to set out how it intends to manage interest rate exposure.

This organisation will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements and management information arrangements.

It will achieve this by the prudent use of its approved instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates.

4. Borrowing Strategy

The borrowing strategy is developed from the capital plans and prospect for interest rates outlined in sections 2 and 3 above, respectively.

For both the City Fund and City's Estate, the capital expenditure plans create borrowing requirements and the borrowing strategy aims to make sure that sufficient cash is available to ensure the delivery of the City's capital programme as planned. The City Bridge Foundation, as stated in section 2.3, now has the power to borrow in limited circumstances following the approval of the Supplemental Royal Charter in June 2023.

The City can choose to manage the borrowing requirements through obtaining external debt from a variety of sources; through the temporary use of its own cash resources ("internal borrowing"); or via a combination of these methods.

4.1. City Fund

The City Fund has a positive Capital Financing Requirement, and this is expected to stabilise over the next five years (see table 2 in section 2.1) including the proposed Investment Property disposals. As the City Fund currently has no external debt, it is therefore maintaining an under-borrowed position which is forecast to increase if the City Fund does not acquire external debt. This means that the capital borrowing need is being managed within internal resources, i.e. cash supporting the City Fund's reserves, balances and cash flow is being used as a temporary measure. This strategy is prudent because it helps the City Fund to minimise borrowing costs in the near term and because it leads to lower investment balances which reduces counterparty risk. Against these advantages the City is conscious of the increased exposure to interest rate risk that is inherent in internal borrowing (i.e. the risk that the City Fund will need to replace internal borrowing with external borrowing in the future when interest rates are high).

Therefore, against this background and the risks within the economic forecast, caution will be adopted with the 2025/26 treasury operations. The Chamberlain will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances. For example,

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates,* (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowing will be postponed.

- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast,* perhaps arising from an increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the Finance Committee and the Court of Common Council at the next available opportunity.

The City must set two treasury indicators representing the upper limits for the total amount of external debt for City Fund. These limits are required under the Prudential Code in order to ensure borrowing is affordable and is consistent with the City Fund's capital expenditure requirements.

- The **operational boundary for external debt** should represent the most likely scenario for external borrowing. It is acceptable for actual borrowing to deviate from this estimate from time to time. The proposed limit is set to mirror the estimated CFR for the forthcoming year and the following two years.

- The **authorised limit for external debt** is the maximum threshold for external debt for over 2025/26, 2026/27 and 2027/28. This limit is required by the Local Government Act 2003 and is set above the operational boundary to ensure that the City is not restricted in the event of a debt restructuring opportunity.

The proposed limits for 2025/26 are set out in Appendix 2.

International Financial Reporting Standard (IFRS)16: Leases - became effective 1 April 2024 and requires that leases previously expensed through expenditure are now recognised as a right of use asset with an equal value liability, where the lease is longer than 12 months and not insignificant. The estimated balance as at 31 March 2025 includes £11.6 million of leases included as a result of the impact of IFRS16 which has been incorporated into these forecasts, with the *operational boundary* and *authorised limit* debt ceilings set at a level to accommodate these (as set out in Appendix 2).

The City is also required to set a treasury indicator in respect of the maturity structure of external debt to ensure that the external debt portfolio remains appropriately balanced over the long term. Under the revised Treasury Management Code of Practice, the City is required to set limits for all borrowing (i.e. both fixed rate and variable debt), and the proposed limits are detailed in Appendix 2.

4.2. City's Estate

The capital expenditure plans for City's Estate also create a borrowing requirement. City's Estate has issued fixed rate market debt totalling £450m to fund its capital programme. Of this total, £250m was received in 2019/20 and the remaining £200m was received in 2021/22. City's Estate is likely to have a further temporary borrowing requirement arising in 2025/26, which is currently planned to be funded from the liquidation of financial investments and investment property disposals, as opposed to additional external borrowing. However, the Chamberlain will keep this position under review and in doing so will have regard for liquidity requirements, interest rate risk and the implications for the revenue budget.

The regulatory framework established through the CIPFA professional codes and MHCLG guidance pertains to the City's local authority function, the City Fund. To facilitate effective management of the City's Estate borrowing requirement, this organisation has adopted the City's Estate Borrowing Policy Statement (Appendix 8), which sets out the principles for effectively managing the risks arising from borrowing on behalf of City's Estate. Under this framework, the City has resolved to establish two further treasury indicators, which will help the organisation to ensure its borrowing plans remain prudent, affordable and sustainable:

- **Estimates of financing costs to net revenue stream.** This indicator is given as a percentage and establishes the amount of the City's Estate net revenue that is used to service borrowing costs.
- **Overall borrowing limits.** This indicator represents an upper limit for external debt which officers cannot exceed.

The proposed indictors for 2025/26 are set out in Appendix 2 alongside the City Fund treasury indicators.

4.3. City Bridge Foundation

The City Bridge Foundation has the power to borrow in limited circumstances following the approval of the Supplemental Royal Charter in June 2023. That is, City Bridge Foundation may borrow for the purposes of raising funds towards the cost of replacement, reconstruction and re-building of any of its Bridges. This may be undertaken without security or on the security of the permanent endowment fund or any part of it or its income. There are no current plans for borrowing to take place in the short to medium term.

4.4. Policy on borrowing in advance of need

The City will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the City can ensure the security of such funds.

4.5. Debt rescheduling

The City does not anticipate any debt rescheduling in the near term. However, should any opportunities for debt rescheduling arise (through a decrease in borrowing rates, for instance), such cases will need to be considered in the context of the current treasury position and the size of the cost of debt repayment (i.e. any penalties incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

All rescheduling will be reported to the Court of Common Council, at the earliest meeting following its action.

4.6. Sources of borrowing

Historically, the main source of borrowing for UK local authorities has been the PWLB. Any new loans issued by the PWLB are subject to the PWLB's revised lending arrangements with effect from 26 November 2020. Currently the PWLB

Certainty Rate is set at gilts + 80 basis points for new loans. The PWLB guidance was updated on 15 June 2023, in particular publishing a new Housing Revenue Account (HRA) rate, at 40 basis points above prevailing gilts, available from 15 June 2023 for 1 year, with its continuation subject to review. Following the Autumn Budget, the availability of this rate has been extended to the end of March 2026. This rate is solely intended for use by HRA and primarily for new housing delivery.

Local authorities have recourse to other sources of external borrowing including financial institutions, other local authorities and the Municipal Bonds Agency. Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

5. Annual Investment Strategy (relating to Treasury Management)

The Annual Investment Strategy (relating to Treasury Management) sets out how the City will manage its surplus cash balances for the forthcoming year (i.e. investments held for treasury management purposes). It does not apply to other long-term investment assets, which are dealt with variously by other strategy documents (for instance the Capital Strategy for City Fund, or the Investment Strategy Statement for The City Bridge Foundation).

5.1. Investment Policy

The Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This strategy deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

The City of London's investment policy will have regard to the MHCLG's Guidance on Local Government Investments ("the Guidance"), the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectorial Guidance Notes 2021 ("the CIPFA TM Code") and CIPFA Treasury Management Guidance Notes 2021.

The City's investment priorities are:

(a) security; and

(b) liquidity.

The City will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of the City is low in order to give priority to the security of its investments.

The borrowing of monies purely to invest or on-lend and make a return is unlawful and the City will not engage in such activity.

In accordance with the above guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the City applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration, the City will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Investment instruments identified for use in the financial year are listed in Appendix 3 under the ‘specified’ and ‘non-specified’ investments categories.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.

- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18-month deposit would still be non-specified even if it has only 11 months left until maturity.

The City Fund will have exposure to Specified and Non-specified Invstments. All other participants in the Treasury Management Strategy Statement and Annual Investment Strategy 2025/26 will have exposure to Specified Investments only.

The City will also set a limit for the amount of its investments which are invested for longer than 365 days (see Appendix 2).

5.2. Expected investment balances

The City’s medium term financial plans for City Fund and City’s Estate imply that total investment balances within the treasury investment portfolio are expected to decline over the next few years as the capital programme is progressed (City Bridge Foundation’s cash balances are expected to remain consistent) but to remain above a minimum constant level of £510m.

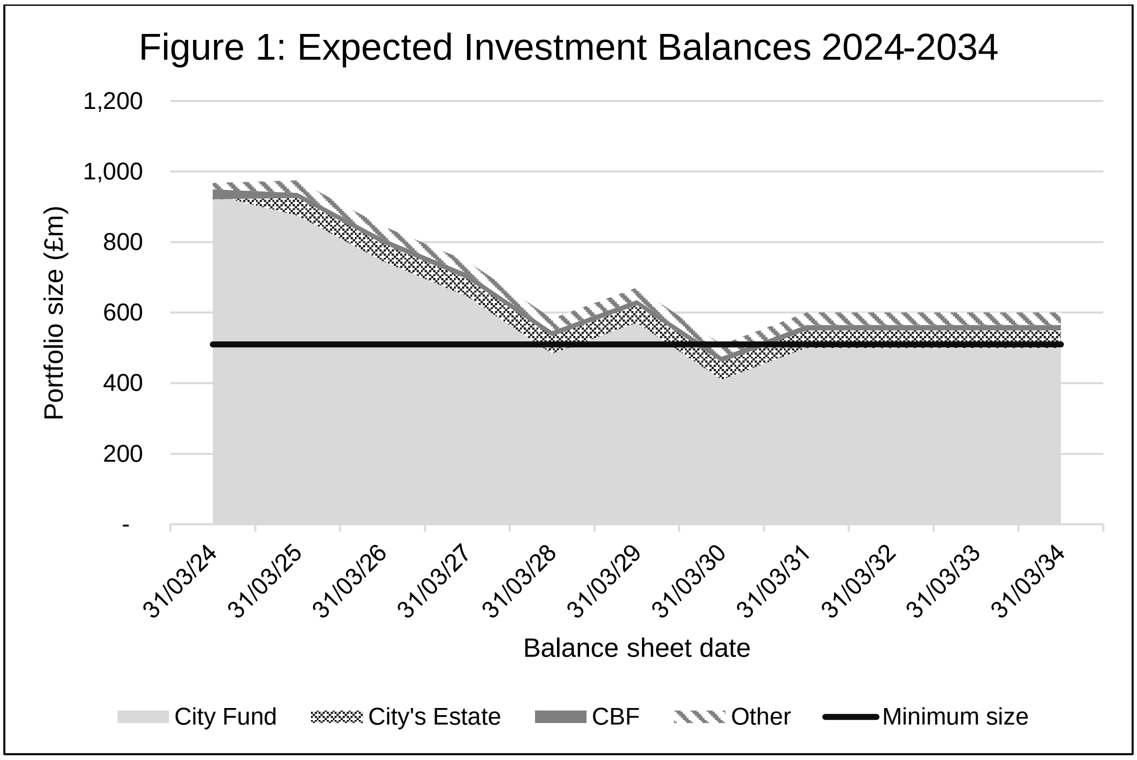


Figure 1 shows projected investment balances across the three funds and others over the coming years as at the end of each financial year.[1] Most of the investment balances relate to City Fund and it should be noted that generally investment balances are expected to be higher between reporting dates.

As the City, and the City Fund in particular, is expected to maintain cash balances over the forecast horizon following financial investment liquidations and investment property disposals, the treasury management strategy will duly consider how best to protect the capital value of resources, particularly during periods of elevated inflation. The City's liquidity requirements and will be subject to ongoing monitoring practices as the capital programme progresses as specified in paragraph 5.3 below.

5.3. Creditworthiness policy

The primary principle governing the City's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the City will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security.

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the City's prudential indicators covering the maximum principal sums invested.

[1] "Other" refers to other entities for whom the City provides treasury management services.

The Chamberlain will maintain a counterparty list in compliance with the following criteria and will revise these criteria and submit them to the Investment Committee for approval as necessary. These criteria are separate to those which determine which types of investment instruments are classified as either specified or non-specified as it provides an overall pool of counterparties considered high quality which the City may use, rather than defining what types of investment instruments are to be used.

Regular meetings are held involving the Chamberlain, the Financial Services Director, Corporate Treasurer and members of the Treasury team, where the suitability of prospective counterparties and the optimum duration for lending is discussed and agreed.

Credit rating information is supplied by MUFG Corporate Markets, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of a possible longer-term bias outside the central rating view) are provided to officers almost immediately after they occur, and this information is considered before dealing. For instance, a negative rating Watch applying to a counterparty would result in a temporary suspension, which will be reviewed in light of market conditions.

All credit ratings will be monitored daily**.** The City is alerted to credit warnings and changes to ratings of all three agencies through its use of the Link creditworthiness service.

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) are:

- Banks 1 – good credit quality – the City will only use banks which:

  (i) are UK banks; and/or
  (ii) are non-UK and domiciled in a country which has a minimum sovereign long-term rating of AA+ (Fitch rating)

  and have, as a minimum the following Fitch, credit rating:

  (i) Short-term – F1
  (ii) Long-term – A-

- Banks 2 – The City's own banker (Lloyds Banking Group) for transactional purposes and if the bank falls below the above criteria, although in this case, balances will be minimised in both monetary size and duration.

- Bank subsidiary and treasury operation - The City will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above. This criteria is particularly relevant to City Re Limited, the City's Captive insurance company, which deposits funds with bank subsidiaries in Guernsey.

- Building Societies – The City may use all societies which:

  (i) have assets in excess of £10bn; or
  (ii) meet the ratings for banks outlined above

- Money Market Funds (MMFs) Constant Net Asset Value (CNAV)* – with minimum credit ratings of AAA/mmf

- Money Market Funds (MMFs) Low-Volatility Net Asset Value (LVNAV)* – with minimum credit ratings of AAA/mmf

- Money Market Funds (MMFs) Variable Net Asset Value (VNAV)* – with minimum credit ratings of AAA/mmf

- Ultra-Short Dated Bond Funds with a credit rating of at least AAA/f (previously referred to as Enhanced Cash Plus Funds)

- Short Dated Bond Fund – These funds typically do not obtain their own standalone credit rating. The funds will invest in a wide array of investment grade instruments, the City will undertake all necessary due diligence to ensure a minimum credit quality across the funds underlying composition is set out within initial Investment Manager Agreements and actively monitor the on-going credit quality of any fund invested.

- Multi-Asset Funds – these funds have the potential to provide above inflation returns with a focus on capital preservation, thus mitigating the erosion in value of long-term cash balances by investing in a range of asset classes that will typically include equities and fixed income. The value of these investments will fluctuate, and they are not suitable for cash balances that are required in the near term. Before any investment is undertaken a rigorous due diligence process will be undertaken to identify funds that align with the City's requirements.

- UK Government – including government gilts and the debt management agency deposit facility.

- Local authorities

A limit of £400m will be applied to the use of non-specified investments.

*****Under EU money market reforms implemented in 2018/19, three classifications of money market funds exist:

- Constant Net Asset Value ("CNAV") MMFs – must invest 99.5% of their assets into government debt instruments and are permitted to maintain a constant net asset value.
- Low Volatility Net Asset Value ("LVNAV") MMFs – permitted to maintain a constant dealing net asset value provided that certain criteria are met, including that the market net asset value of the fund does not deviate from the dealing net asset value by more than 20 basis points.
- Variable Net Asset Value ("VNAV") MMFs – price assets using market pricing and therefore offer a fluctuating dealing net asset value

5.4. Environmental, Social and Governance Risks

The City of London Corporation is committed to being a responsible investor. It expects this approach to protect and enhance the value of the assets over the long term. The City recognises that the failure to identify and manage financially material environmental, social and governance risks can lead to adverse financial and reputational consequences. The City will incorporate ESG risk monitoring into its ongoing counterparty monitoring processes, alongside traditional creditworthiness monitoring. This risk analysis will be consistent with the City's investment horizon, which in many cases will be short term (under one year) in nature.

5.5. Use of additional information other than credit ratings.

Additional requirements under the Code require the City to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating Watches/Outlooks) will be applied to compare the relative security of differing investment counterparties.

5.6. Time and monetary limits applying to investments.

The time and monetary limits for institutions on the City's counterparty list are as follows (these will cover both specified and non-specified investments):

	Minimum Creditworthiness Criteria	Money Limit	Time Limit
Banks 1 higher quality	Fitch Rating Long Term: A+ Short Term: F1	£100m	3 years
Banks 1 medium quality	Fitch Long Term Rating Long Term: A Short Term: F1	£100m	1 year
Banks 1 lower quality	Fitch Long Term Rating Long Term: A- Short Term: F1	£50m	6 months
Banks 2 – City's banker (transactions only, and if bank falls below above criteria)	N/A	£150m	1 working day
Building Societies higher quality	Fitch Long Term Rating A *or* assets of £150bn	£100m	3 years
Building Societies medium quality	Fitch Long Term Rating A- *or* assets of £10bn	£20m	1 year
UK Government (DMADF, Treasury Bills, Gilts)	UK sovereign rating	unlimited	3 years
Local authorities	N/A	£25m	3 years
External Funds*	**Fund rating**	**Money and/or % Limit**	**Time Limit**
Money Market Funds CNAV	AAA	£100m	liquid
Money Market Funds LVNAV	AAA	£100m	liquid
Money Market Funds VNAV	AAA	£100m	liquid
Ultra-Short Dated Bond Funds	AAA	£100m	liquid
Short Dated Bond Funds	N/A	£100m	liquid
Multi Asset Funds	N/A	£50m	liquid

*An overall limit of £100m for each fund manager will also apply.

A list of suitable counterparties conforming to this creditworthiness criteria is provided at Appendix 4. The Chamberlain will review eligible counterparties prior to inclusion on the approved counterparty list and will monitor the continuing suitability of existing approved counterparties.

5.7. Country limits

The City has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA+ (Fitch) or equivalent. The country limits list, as shown in Appendix 5, will be added to or deducted from by officers should individual country ratings change in accordance with this policy. The UK (which is currently rated as AA-) will be excluded from this stipulated minimum sovereign rating requirement.

5.8. Local authority limits

The City will place deposits up to a maximum of £25m with individual local authorities. In addition the City imposes an overall limit of £250m for outstanding lending to local authorities as a whole at any given time. Although the overall credit standing of the local authority sector is considered high, officers perform additional due diligence on individual prospective local authority borrowers prior to entering into any lending.

5.9. Investment Strategy

In-house funds: The City's in-house managed funds are both cash-flow derived and also represented by core balances which can be made available for investment over a longer period. Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

Investment returns expectations: Based on our Treasury Consultant's latest forecasts, the Bank Rate is forecast to decrease incrementally in 2025 to 4.00%, with further cuts to 3.50% in 2026. In these circumstances it is likely that investment earnings from money-market related instruments will decrease compared to the earnings in 2024/25, however they remain above the very low levels experienced in previous years. Bank Rate forecasts for financial year ends (March) are:-

- 2024/25 4.50%
- 2025/26 3.75%
- 2026/27 3.50%

5.10. Investment Treasury Indicator and Limit

Total principal funds invested for greater than 365 days are subject to a limit, set with regard to the City's liquidity requirements and to reduce the need for an early sale of an investment, and are based on the availability of funds after each year end, and this is set out in table 5 below.

Table 5: Maximum principal sums invested for more than 365 days (up to three years)			
	2024/25 £M	**2025/26 £M**	**2026/27 £M**
Principal sums invested >365 days	300	300	300

5.11. Investment performance benchmarking

The City will monitor investment performance against Bank Rate and 3- and 6-month compounded SONIA (Sterling Overnight Index Average).

5.12. End of year investment report

At the end of the financial year, the City will report on its investment activity as part of its Annual Treasury Report.

5.13. External fund managers

A proportion of the City's funds, amounting to £561.3m as at 31 December 2024 are externally managed on a discretionary basis by the following fund managers:

- Aberdeen Standard Investments
- CCLA Investment Management Limited
- Deutsche Asset Management (UK) Limited
- Federated Investors (UK) LLP
- Invesco Global Asset Management Limited
- Legal and General Investment Management
- Payden & Rygel Global Limited
- Royal London Asset Management

The City's external fund managers will comply with the Annual Investment Strategy, and the agreements between the City and the fund managers additionally stipulate guidelines and duration and other limits in order to contain and control risk.

The credit criteria to be used for the selection of the Money Market fund manager(s) is based on Fitch Ratings and is AAA/mmf. The Ultra-Short Dated Bond Fund managers (including the Payden & Rygel Sterling Reserve Fund, Federated Sterling Cash Plus Fund and Aberdeen Standard Liquidity Fund (Lux) Short Duration Sterling Fund) are all rated by Standard and Poor's as AAA.

The City also uses two Short Dated Bond Funds managed by Legal and General Investment Management and Royal London Asset Management. Both funds are unrated (as is typical of these instruments). The funds offer significant diversification by being invested in a wide range of investment grade instruments, rated BBB and above and limiting exposure to any one debt issuer or issuance. Exposure to these funds is ring-fenced to City Fund.

Since 2018/19, a statutory accounting override ("the override") has been in place that allows councils to disapply part of International Financial Reporting Standard 9 – Financial Instruments (IFRS 9), which would otherwise require councils to make provision in their budgets for changes in value (gains or losses) of certain types of financial investments (i.e. pooled investment funds).

Due to the current IFRS 9 statutory override, only the income portion of the total return on pooled investment funds (i.e. Bond Funds for the City of London Corporation) impacts the City Fund (i.e. General Fund) revenue outturn, whilst the more volatile capital component (i.e. Fair Value (FV) movement) is absorbed by an unusable reserve. As at 31 December 2024 the City had £313.6M invested in external funds (excluding MMF's), through its allocation to ultra-short dated and short-dated bond funds representing 28% of the portfolio. Whilst market volatility has seen the capital value (FV) fluctuate, they provide an income return and are held with a long term view.

The IFRS 9 Statutory Override, which mandates that fluctuations in the fair value of pooled fund investments are taken to an unusable reserve on the balance sheet may cease on 31 March 2025 pending response to the current *'Local Government Finance Settlement'* consultation. From 1 April 2025, if the statutory override ceases, fluctuations in the fair value will therefore be reflected in the revenue account as at 31 March 2026. To mitigate against any reduction in value, a ringfenced IFRS9 reserve will be created in 2024/25 with funding from the overachievement of investment income - the initial transfer to this reserve will be determined based on the outcome of the consultation and the 2024/25 outturn position in consultation with the Chamberlain.

If the fair value of the funds is below the purchase price at the balance sheet date, funds will be released from the reserve to ensure that there is no/minimal net impact to the revenue account. Similarly, if the fund fair value is above the purchase price at the balance sheet date, any unrealised gain will be transferred to the IFRS9 reserve. It would only be appropriate to release such gains to the revenue account if/when the funds are divested from and gains are crystalised.

The City fully appreciates the importance of monitoring the activity and resultant performance of its appointed external fund managers. In order to aid this assessment, the City is provided with a suite of regular reporting from its managers. This includes monthly valuations and fund fact sheets as well as quarterly and annual reports. In addition to formal reports, officers also meet with representatives of the fund manager on a regular basis. These meetings allow for additional scrutiny of the manager's activity as well as discussions on the outlook for the fund as well as wider markets.

6. Policy on the use of external service providers

The City uses MUFG Corporate Markets (previously known as Link Group, Link Treasury Services Ltd) as its external treasury management advisers.

The City recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon its external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The City will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

7. Scheme of Delegation

Please see Appendix 6.

8. Role of the Section 151 officer

Please see Appendix 7.

9. Training

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

Furthermore, the Code states that they expect *"all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making*".

The scale and nature of this will depend on the size and complexity of the organisation's treasury management needs. Organisations should consider how to assess whether treasury management staff and committee/council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

a) Record attendance at training and ensure action is taken where poor attendance is identified.
b) Prepare tailored learning plans for treasury management officers and committee/council members.
c) Require treasury management officers and committee/council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).
d) Have regular communication with officers and committee/council members, encouraging them to highlight training needs on an ongoing basis.

In further support of the revised training requirements, CIPFA's Better Governance Forum and Treasury Management Network have produced a 'self-assessment by members responsible for the scrutiny of treasury management', which is available from the CIPFA website to download.

In November 2023 two training sessions were held, aimed at Members of the Investment Committee and Finance Committee, as each year it is the responsibility of these two committees to review and approve the Treasury Management Strategy before review by the Court of Common Council.

The first session was held on 13 November 2023 and provided an appreciation of what Treasury management involves, how it is undertaken, the roles of Members and Officers, and the risks in Treasury Management and how they should be managed, to develop the skills and knowledge for Member scrutiny of Treasury Management decisions.

The second session was held on 27 November 2023 and covered developing the Treasury Management Strategy - notably prudential indicators, cashflow forecasts, investment strategy, credit worthiness, counterparty list, ESG considerations – and a review of the investment portfolio and an economic outlook.

Both sessions were led by the Managing Director of Link Treasury Services (now known as MUFG Corporate Markets)_and were well attended by Members. Further training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

APPENDICES

1. Interest Rate Forecasts 2024 - 2027
2. Treasury Indicators 2024/25 - 2026/27 and Minimum Revenue Provision Statement
3. Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management
4. Current Approved Counterparties
5. Approved Countries for Investments
6. Treasury Management Scheme of Delegation
7. The Treasury Management Role of the Section 151 Officer
8. City's Estate Borrowing Policy Statement

APPENDIX 1

LINK INTEREST RATE FORECASTS 2024 – 2027 (as at 11/11/2024 with no change as at 19/12/2024)

MUFG Corporate Markets Interest Rate View 11.11.24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

Interest Rate Forecasts

Bank Rate	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
MUFG CM	4.50%	4.25%	4.00%	4.00%	3.75%	3.75%	3.75%	3.50%
Cap Econ	4.50%	4.25%	4.00%	3.75%	3.50%	3.50%	3.50%	3.50%
5Y PWLB RATE								
MUFG CM	4.90%	4.80%	4.60%	4.50%	4.50%	4.40%	4.30%	4.20%
Cap Econ	5.10%	4.90%	4.80%	4.60%	4.60%	4.50%	4.50%	4.40%
10Y PWLB RATE								
MUFG CM	5.10%	5.00%	4.80%	4.80%	4.70%	4.50%	4.50%	4.40%
Cap Econ	5.30%	5.10%	5.00%	4.80%	4.80%	4.70%	4.60%	4.60%
25Y PWLB RATE								
MUFG CM	5.50%	5.40%	5.30%	5.20%	5.10%	5.00%	4.90%	4.80%
Cap Econ	5.70%	5.50%	5.30%	5.00%	4.90%	4.90%	4.80%	4.70%
50Y PWLB RATE								
MUFG CM	5.30%	5.20%	5.10%	5.00%	4.90%	4.80%	4.70%	4.60%
Cap Econ	5.30%	5.20%	5.20%	5.10%	5.00%	4.90%	4.80%	4.80%

Note: The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective since 1st November 2012.

APPENDIX 2

TREASURY INDICATORS 2025/26 – 2028/29 AND MINIMUM REVENUE PROVISION STATEMENT

TABLE 1: TREASURY MANAGEMENT INDICATORS	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**
	Actual	**Probable Outturn**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Authorised Limit for external debt (City Fund) -						
Borrowing	199.8	326.8	326.8	326.8	326.8	326.8
other long-term liabilities*	12.7	24.2	21.2	18.4	17.6	17.0
TOTAL	**212.5**	**351.0**	**348.0**	**345.2**	**344.4**	**343.8**
Operational Boundary for external debt (City Fund) -						
Borrowing	99.8	226.8	226.8	226.8	226.8	226.8
other long-term liabilities*	12.7	24.2	21.2	18.4	17.6	17.0
TOTAL	**112.5**	**251.0**	**248.0**	**245.2**	**244.4**	**243.8**
Actual external debt (City Fund)*	0	0				
Upper limit for total principal sums invested for over 365 days	£300m	£300m	£300m	£300m	£300m	£300m
(per maturity date)						

**Other long term liabilities include the impact of IFRS16*
***Actual external debt at the end of the financial year*

TABLE 2: Maturity structure of borrowing during 2025/26	upper limit	lower limit
- under 12 months	50%	0%
- 12 months and within 24 months	50%	0%
- 24 months and within 5 years	50%	0%
- 5 years and within 10 years	75%	0%
- 10 years and above	100%	0%

TABLE 3: CITY'S ESTATE BORROWING INDICATORS	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**
	Actual	**Probable Outturn**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	%	**%**	**%**	**%**	**%**	**%**
Estimates of financing costs to net revenue stream	13.1%	14.2%	14.6%	14.2%	14.3%	14.2%
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Overall borrowing limits	450	450	450	450	450	450

MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT 2025/26

To ensure that capital expenditure funded by borrowing is ultimately financed, the City Fund is required to make a Minimum Revenue Provision (MRP) when the Capital Financing Requirement (CFR) is positive. A positive CFR is indicative of an underlying need to borrow and will arise when capital expenditure is funded by 'borrowing', either external (loans from third parties) or internal (use of cash balances held by the City Fund).

DLUHC regulations have been issued which require the Court of Common Council to approve **an MRP Statement** in advance of each year. The regulatory guidance recommends four options for local authorities. Options 1 and 2 relate to government supported borrowing prior to 2008. As the City Fund does not have any outstanding borrowing from this period, these options are not relevant. For any prudential borrowing undertaken after 2008, options 3 and 4 apply:

- **Option 3: Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction);
- **Option 4: Depreciation method** – MRP will follow standard depreciation accounting procedures;

For any new borrowing under the prudential financing system, the City Fund will apply the asset life method over the useful economic life of the relevant assets. MRP commences in the financial year following the one in which the expenditure was incurred. When borrowing to provide an asset, the asset life is deemed to commence in the year in which the asset first becomes operational. Therefore, MRP will first be made in the financial year following the one in which the asset becomes operational. 'Operational' here means when an asset transfers from Assets under Construction to an Assets in Use category under normal accounting rules.

As in previous years, the City will continue to apply a separate MRP policy for that portion of the CFR which has arisen through the funding of capital expenditure from cash received from long lease premiums which are deferred in accordance with accounting standards. This deferred income is released to revenue over the life of the leases to which it relates, typically between 125 and 250 years.

The City's MRP policy in respect of this form of internal borrowing is based on a mechanism to ensure that the deferred income used to finance capital expenditure is not then 'used again' when it is released to revenue. The amount of the annual MRP is therefore to be equal to the amount of the deferred income released, resulting in an overall neutral impact on the bottom line.

MRP will fall due in the year following the one in which the expenditure is incurred, or the year after the asset becomes operational.

The MRP liability for 2024/25 is £1.4m and is estimated at £1.4m for 2025/26.

APPENDIX 3

TREASURY MANAGEMENT PRACTICES (TMP 1) – Credit and Counterparty Risk Management

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' quality criteria where appropriate.

	Minimum 'High' Credit Criteria	**Use**
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies, including part nationalised banks	Short-term F1, Long-term A-,	In-house via Fund Managers
Money Market Funds CNAV	AAA/mmf (or equivalent)	In-house via Fund Managers
Money Market Funds LVNAV	AAA/mmf (or equivalent)	In-house via Fund Managers
Money Market Funds VNAV	AAA/mmf (or equivalent)	In-house via Fund Managers
Ultra-Short Dated Bond Fund	AAA/f (or equivalent)	In-house via Fund Managers
UK Government Gilts	UK Sovereign Rating	In-house & Fund Managers
Treasury Bills	UK Sovereign Rating	In-house & Fund Managers
Sovereign Bond issues (other than the UK government)	AA+	Fund Managers

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the Specified Investment criteria. A maximum of £400m will be held in aggregate in non-specified investment.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the categories set out below.

	Minimum Credit Criteria	**Use**	**Maximum**	**Maximum Maturity Period**
Term deposits – other LAs (with maturities in excess of one year)	-	In-house	£25m per LA	Three years
Term deposits, including callable deposits – banks and building societies (with maturities in excess of one year)	Long-term A+, Short-term F1,	In-house and Fund Managers	£300m overall	Three years
Certificates of deposits issued by banks and building societies with maturities in excess of one year	Long-term A+, Short-term F1,	In-house on a buy-and-hold basis and fund managers	£50m overall	Three years
UK Government Gilts with maturities in excess of one year	AA-	In-house on a buy-and-hold basis and fund managers	£50m overall	Three years
UK Index Linked Gilts	AA-	In-house on a buy-and-hold basis and fund managers	£50m overall	Three years
Short Dated Bond Funds	--	In-house via Fund Managers	£100m per Fund	n/a*
Multi Asset Funds	--	In-house via Fund Managers	£50m overall	n/a*

*Short Dated Bonds Funds and Multi Asset Funds are buy and hold investments with no pre-determined maturity at time of funding, liquidity access is typically T + 3 or 4.

APPENDIX 4

APPROVED COUNTERPARTIES AS AT 31 DECEMBER 2024

UK BANKS AND THEIR WHOLLY OWNED SUBSIDIARIES

FITCH RATINGS		BANK*	LIMIT PER GROUP	DURATION
A+ A+	F1 F1	Barclays Bank PLC (NRFB) Barclays Bank UK PLC (RFB)	£100M	Up to 3 years
A+	F1	Goldman Sachs International Bank	£100M	Up to 3 years
AA	F1+	Handelsbanken PLC	£100m	Up to 3 years
AA- AA-	F1+ F1+	HSBC UK Bank PLC (RFB) HSBC Bank PLC (NRFB)	£100M	Up to 3 years
A+ A+ A+	F1 F1 F1	Lloyds Bank Corporate Markets PLC (NRFB) Lloyds Bank PLC (RFB) Bank of Scotland PLC (RFB)	£150M	Up to 3 years
A+ A+ A+	F1 F1 F1	NatWest Markets PLC (NRFB) National Westminster Bank PLC (RFB) The Royal Bank of Scotland PLC (RFB)	£100M	Up to 3 years
A+	F1	Santander UK PLC (RFB)	£100M	Up to 3 years
A+	F1	Standard Chartered Bank	£100M	Up to 3 years

*Under the ring-fencing initiative, the largest UK banks are now legally required to separate the core retail business into a ring-fenced bank (RFB) and to house their complex investment activities into a non-ring-fenced bank (NRFB).

BUILDING SOCIETIES

FITCH RATINGS		BUILDING SOCIETY	ASSETS	LIMIT PER GROUP	DURATION
A	F1	Nationwide	£282Bn	£100M	Up to 3 years
A-	F1	Yorkshire	£64Bn	£20M	Up to 1 year
A-	F1	Coventry	£63Bn	£20M	Up to 1 year
A-	F1	Skipton	£39Bn	£20M	Up to 1 year
A-	F1	Leeds	£30Bn	£20M	Up to 1 year

FOREIGN BANKS

(with a presence in London)

FITCH RATINGS		COUNTRY AND BANK	LIMIT PER GROUP	DURATION
		AUSTRALIA (AAA)		
AA-	**F1**	Australia and New Zealand Banking Group Ltd	£100M	Up to 3 years
AA-	**F1**	National Australia Bank Ltd	£100M	Up to 3 years
		CANADA (AA+)		
AA-	**F1+**	Bank of Montreal	£100M	Up to 3 years
AA-	**F1+**	Royal Bank of Canada	£100M	Up to 3 years
AA-	**F1+**	Toronto-Dominion Bank	£100M	Up to 3 years
		GERMANY (AAA)		
A+	**F1+**	Landesbank Hessen-Thueringen Girozentrale (Helaba)	£100M	Up to 3 years
		NETHERLANDS (AAA)		
A+	**F1**	Cooperatieve Rabobank U.A.	£100M	Up to 3 years
		SINGAPORE (AAA)		
AA-	**F1+**	DBS Bank Ltd.	£100M	Up to 3 years
AA-	**F1+**	United Overseas Bank Ltd.	£100M	Up to 3 years
		SWEDEN (AAA)		
AA-	**F1+**	Skandinaviska Enskilda Banken AB	£100M	Up to 3 years
AA-	**F1+**	Swedbank AB	£100M	Up to 3 years
AA	**F1+**	Svenska Handelsbanken AB	£100M	Up to 3 years

MONEY MARKET FUNDS

FITCH RATINGS	MONEY MARKET FUNDS Limit of £100M per fund	DURATION
AAA/mmf	CCLA - Public Sector Deposit Fund	Liquid
AAA/mmf	Federated Hermes Short-Term Sterling Prime Fund*	Liquid
AAA/mmf	Aberdeen Sterling Liquidity Fund*	Liquid
AAA/mmf	Invesco Liquidity Funds Plc - Sterling Liquidity Portfolio	Liquid
AAA/mmf	DWS Deutsche Global Liquidity Series Plc – Sterling Fund	Liquid

ULTRA SHORT DATED BOND FUNDS

FITCH RATINGS (or equivalent)	ULTRA SHORT DATED BOND FUNDS Limit of £100M per fund	DURATION
AAA/f	Payden Sterling Reserve Fund	Liquid
AAA/f	Federated Hermes Sterling Cash Plus Fund*	Liquid
AAA/f	Aberdeen Standard Investments Short Duration Managed Liquidity Fund*	Liquid

*A combined limit of £100m applies to balances across the Money Market Fund and Ultra Short Dated Bond Fund both managed by Federated Hermes and Aberdeen Standard

SHORT DATED BOND FUNDS

FITCH RATINGS (or equivalent)	SHORT DATED BOND FUNDS Limit of £100M per fund	DURATION
-	Legal and General Short Dated Sterling Corporate Bond Index Fund	Liquid
-	Royal London Investment Grade Short Dated Credit Fund	Liquid

LOCAL AUTHORITIES

LIMIT OF £25M PER AUTHORITY AND £250M OVERALL
Any UK local authority

APPENDIX 5

APPROVED COUNTRIES FOR INVESTMENT

This list is based on those countries which have sovereign ratings of AAA and AA+ from Fitch Ratings as at 24 January 2025.

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- United States

AA-

- United Kingdom

APPENDIX 6

TREASURY MANAGEMENT SCHEME OF DELEGATION

The roles of the various bodies of the City of London Corporation with regard to treasury management are set out below.

(i) Court of Common Council

- Receiving and reviewing reports on treasury management policies, practices and activities
- Approval of annual strategy.

(ii) Investment Committee and Finance Committee

- Approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- Budget consideration and approval
- Approval of the division of responsibilities
- Receiving and reviewing regular monitoring reports and acting on recommendations
- Approving the selection of external service providers and agreeing terms of appointment.

(iii) Audit & Risk Management Committee

- Reviewing the treasury management policy and procedures and making recommendations to the responsible body.

(iv) Investment Committee of the City Bridge Foundation

- Review of the Treasury Management Strategy Statement on behalf of the Charity.

APPENDIX 7

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The Chamberlain

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- Submitting regular treasury management policy reports
- Submitting budgets and budget variations
- Receiving and reviewing management information reports
- Reviewing the performance of the treasury management function
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- Ensuring the adequacy of internal audit, and liaising with external audit
- Recommending the appointment of external service providers.

APPENDIX 8

CITY'S ESTATE BORROWING POLICY STATEMENT

1. The City Corporation shall ensure that all of its City's Estate capital expenditure, investments and borrowing decisions are prudent and sustainable. In doing so, it will take into account its arrangements for the repayment of debt and consideration of risk and the impact, and potential impact, on the overall fiscal sustainability of City's Estate.
2. Borrowing shall be undertaken on an affordable basis and total capital investment must remain within sustainable limits. When assessing the affordability of its City's Estate investment plans, the City Corporation will consider both the City's Estate resources currently available and its estimated future resources, together with the totality of its City's Estate capital plans, income and expenditure forecasts.
3. To ensure that the benefits of capital expenditure are matched against the costs, a debt financing strategy will be established.
4. To the greatest extent possible, expected finance costs arising from borrowing are matched against appropriate revenue income streams.
5. The City Corporation will organise its borrowing on behalf of City's Estate in such a way as to ensure that financing is available when required to manage liquidity risk (i.e. to make sure that funds are in place to meet payments for capital expenditure on a timely basis). The City Corporation will only borrow in advance of need on behalf of City's Estate on the basis of a sound financial case (for instance, to mitigate exposure to rising interest rates).
6. The City Corporation will ensure debt is appropriately profiled to mitigate refinancing risk.
7. The City Corporation will monitor the sensitivity of liabilities to inflation and will manage inflation risks in the context of the inflation exposures across City's Estate (e.g. the City Corporation will be mindful of the potential impact of index-linked borrowing on the financial position of City's Estate).
8. The City Corporation will seek to obtain value for money in identifying appropriate borrowing for City's Estate. Where internal borrowing (i.e. from City Fund or City Bridge Foundation) is used as a source of funding, the City Corporation will keep under review the elevated risk of refinancing.
9. All borrowing is expected to be drawn in Sterling. Where debt is raised in foreign currencies, the City Corporation will consider suitable measures for mitigating the risks presented by fluctuation in exchange rates.
10. Interest rate movement exposure will be managed prudently, balancing cost against likely financial impact.
11. The City Corporation will maintain the following indicators which relate to City's Estate borrowing only:
    - Estimates of financing costs to net revenue stream
    - Overall borrowing limits

Capital Strategy

2024/25 – 2029/30

CITY OF LONDON

Contents

1. Introduction and Background

The City of London, also known as the Square Mile, is the financial district of London. The City of London forms part of London as a whole, along with the 32 London boroughs who have responsibility for local government services within their local area.

It is the ancient core from which the rest of London developed. It has been a centre for settlement, trade, commerce, and ceremony since the Roman period, producing a unique historic environment of exceptional richness and significance.

One of the reasons the Square Mile is unique, is the number of people who live, work and visit. In just 1.12 square miles, the City of London counts 8,600 residents, 678,000 workers and millions of domestic and international visitors. The City of London boundaries stretch from Temple to the Tower of London, on the River Thames including, from west to east Chancery Lane and Liverpool Street.

The City of London Corporation

Based in Guildhall, the City Corporation looks after and promotes the City of London. It is headed by the Lord Mayor with the Court of Common Council being its main decision-making body. We are a uniquely diverse organisation, with a role that goes beyond that of an ordinary local authority. We have our own government (the oldest in the country with origins pre-dating Parliament), our own Lord Mayor and independent police force.

By strengthening the connections, capacity and character of the City, London and the UK for the benefit of people who live, work, study and visit here. Our reach extends far beyond the Square Mile's boundaries and across private, public, and voluntary sector responsibilities. This, along with our independent and non-party political voice and convening power, enables us to promote the interests of people and organisations across London and the UK.

What we are responsible for

We provide local government services for residents and City workers based in the Square Mile. Our unique role means that our reach does extend beyond the City to include:

- More than 11,000 acres of green spaces, including Hampstead Heath, Epping Forest and West Ham Park
- Billingsgate, Smithfield and New Spitalfields wholesale food markets
- The Heathrow Animal Reception Centre
- Housing across London
- A range of schools and academies
- And we are London's Port Health Authority

City of London Funds

The City Fund

This Fund meets the cost of the City of London Corporation's local authority, Police Authority and Port Health Authority activities. The Fund generates rental and interest income to help finance these activities. In addition, in common with other local authorities, it receives grants from central government, a share of business rates income and the proceeds of the local council tax.

The City Corporation retains only a small proportion of the business rates collected from its area, in accordance with the national arrangements. The remainder has to be paid over to the national non-domestic rates pool and is redistributed to local authorities throughout the country by central government.

Because of its special circumstances – notably its very low resident population and high daytime population – the City Corporation is allowed uniquely to set its own business rate premium which is added to the national multipliers. The Business Rate Premium is used to support the City of London Police and associated security costs.

City's Estate

This is an endowment fund built up over the last eight centuries. Its incomes are derived mainly from property, supplemented by investment earnings and the fund is now used to finance activities mainly for the benefit of London as a whole, but also of relevance nationwide. The management and conservation of over 11,000 acres of open space, all of the Lord Mayor's activities, Smithfield, Billingsgate, and Leadenhall markets, three of the highest achieving independent schools in the country and the Guildhall School of Music & Drama – supported by grants from City Estate at no cost to the public.

City Bridge Foundation

The City Corporation is the sole trustee of City Bridge Foundation, a charity whose origins date back more than 900 years. City Bridge Foundation owns and maintains five of London's most iconic Thames bridges: Tower Bridge, London Bridge, Southwark Bridge, the Millennium Bridge and Blackfriars Bridge.

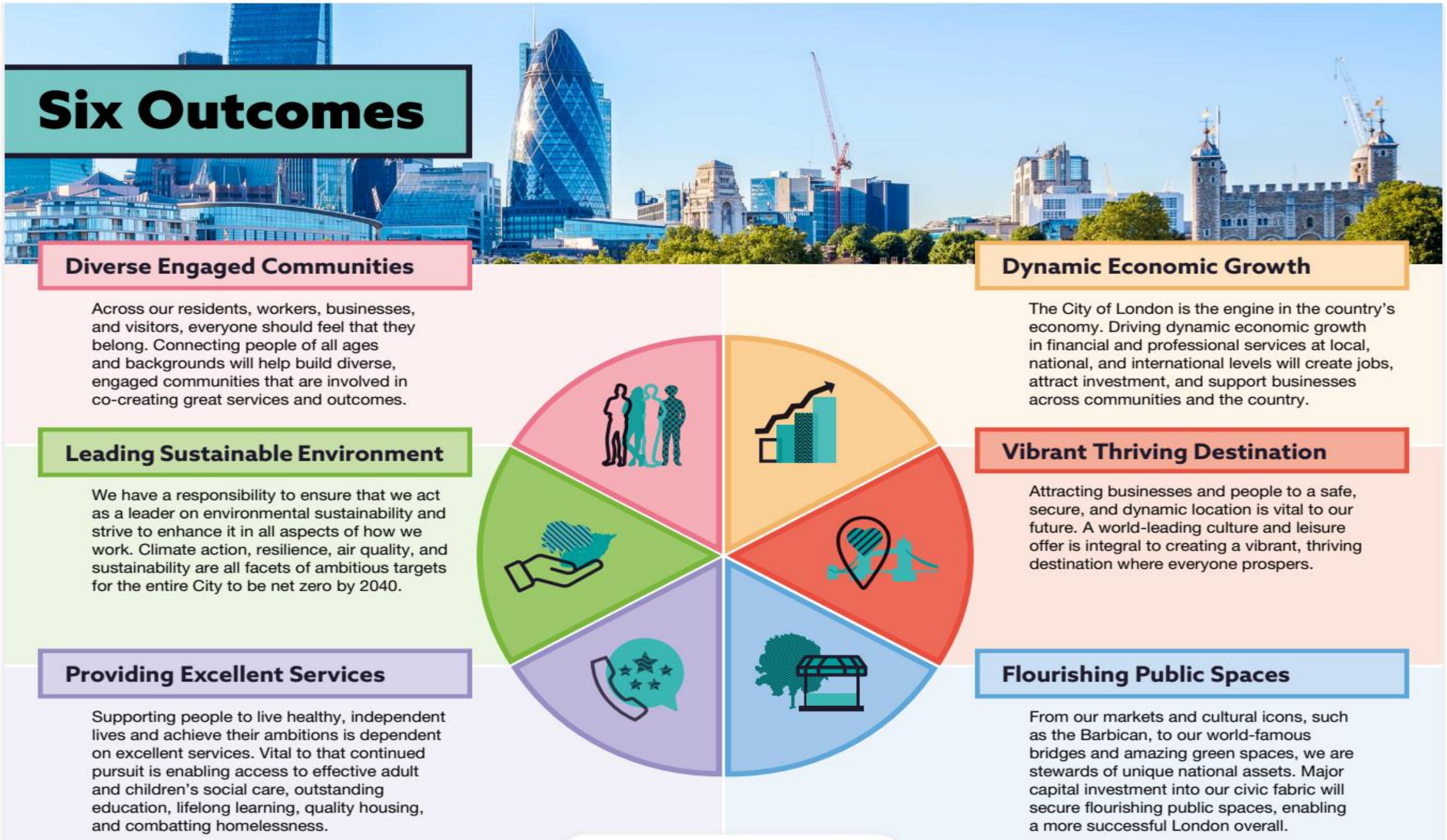
The maintenance and replacement of these bridges is the primary objective of the charity. However, since 1995 the charity's large investment portfolio has also supported an extensive grant-making operation. The charity is now the largest independent funder in London, under the trusteeship of the City Corporation.

This Capital Strategy pertains to the capital investment activity of City Fund and City's Estate only.

Further detail about City Bridge Foundation, including its 25-year strategy, *Bridging London,* can be found at https://www.citybridgefoundation.org.uk

2. Corporate Plan 2024-2029

The Corporate Plan 2024-2029 was agreed in principle by the Court of Common Council on 11th January 2024, and provides the strategic framework to guide the City of London Corporation's thinking and decision-making over the next five years. Key strategic pillars are set out as follows.



3. Purpose of the Capital Strategy

The City of London recognises the significant contribution its Capital Investment Strategy makes to supporting the local economy, and delivery of each of the six strategic pillars outlined in the Corporate Plan 2024-2029.

The importance of having a meaningful and comprehensive capital investment strategy is recognised in The Chartered Institute of Public Finance & Accountancy's (CIPFA) revised Prudential Code (December 2021) as well as its Financial Management Code. These highlight the requirement that all Councils should have a Capital Investment Strategy that aligns capital delivery plans to their organisational objectives and ensures the capital strategy forms part of the revenue, capital, balance sheet and medium- and long-term financial planning. The capital strategy ensures financial sustainability by balancing current needs with future investment requirements, while adhering to principles of prudence, value for money, and affordability.

Fig 1: Alignment of Corporate Plan through to delivery

This Capital Strategy sets out the capital investment plans for the next five years. It gives a high-level, long-term overview of how capital expenditure and capital financing contribute to the delivery of services/objectives; gives an overview of governance and risk management; and the implications for future financial sustainability. Ultimately the aim of this capital strategy is to ensure Members and Senior Leaders understand the long-term policy objectives and capital strategy requirements, governance procedures and risk appetite.

This strategy forms an important part of The City's revenue, capital, balance sheet, and medium and longer-term financial strategies, demonstrating alignment with strategic priorities and affordability/sustainability.

The corporation faces a number of financial challenges that it needs to overcome and is also going further with a number of ambitious plans over the next five years. This document sets out how the council will deliver on these objectives.

The objectives of the Capital Strategy are to;

- Maintain an affordable rolling multi-year capital programme;
- Ensure capital resources are aligned with the council's strategic vision and corporate priorities;
- Prioritise the use of Capital resources to maximise outcomes;
- Ensure capital resources are first matched against priorities;
- Maximise available resources by actively seeking external funding sources from the Community Infrastructure Levy (CIL), Section 106, and Grant income.
- Undertake prudential borrowing only when there is enough money to meet, in full, the implications of capital expenditure, both borrowing and running costs.

The Capital Strategy will be reviewed and revised annually, to ensure it reflects the needs and priorities of The City.

4. Capital Programme

What is capital?
A capital budget covers money spent on investing in buildings, infrastructure, expensive pieces of equipment, as well as software and intangible assets.
Capital spending is mainly for buying, constructing, or improving assets such as:

- buildings – schools, houses, libraries, museums, police and fire stations, etc
- land – for development, roads, playing fields, etc
- vehicles, plant and machinery – refuse collection vehicles, fire engines, police cars, etc.

It can also include grants made to the private sector or the rest of the public sector for capital purposes, such as advances to housing associations.
In order to count as capital expenditure, new assets or additions to assets must have a life of more than one year.
At the discretion of the secretary of state, certain revenue costs can also be treated as if they are capital costs (known as a capitalisation direction), e.g. typically for large one-off items such as redundancy costs.
Source: The Chartered Institute of Public Finance and Accountancy (CIPFA).

Table 1 below summarises the latest draft of our ambitious capital investment plans totalling £2.09bn, summarised by fund that is due to be approved by the Court of Common Council in March 2025. City's Estate amount includes the grant contribution to the Courts element of the build within Salisbury Square Development under City Fund.

CAPITAL PROGRAMME	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	Total £m
City Fund	446.6	587.6	269.5	135.8	126.7	112.1	1,678.2
City Estate	122.5	185.6	57.6	19.2	20.1	2.0	406.9
Total	**569.1**	**773.2**	**327.1**	**154.9**	**146.8**	**114.1**	**2,085.1**

Table 1: Summary of Capital Programme by Fund

City Fund Capital Programme

The City Fund capital programme totals £1.6bn over the next six years is summarised in table 2. It comprises £1,138.4m on flagship Major Projects, £539.8m across 'business as usual' capital programmes across the divisional areas and contingency.

CAPITAL PROGRAMME - CITY FUND	2024/25 Budget	2025/26 Budget	2026/27 Budget	2027/28 Budget	2028/29 Budget	2029/30 Budget	Total (24/25 – 29/30)
CAPITAL & SRP - BAU	£m	£m	£m	£m	£m	£m	
Environment	27.2	44.5	39.3	21.6	9.5	6.3	**148.4**
City Surveyor & Property	38.9	12.8	26.6	4.7	11.0	-	**94.0**
City of London Police	13.4	6.5	5.0	5.0	5.0	-	**34.9**
Chamberlains & Chief Financial Officer	13.9	24.1	7.5	7.5	7.5	7.5	**68.0**
Community & Children's Services (Non HRA)	14.8	15.9	-	-	-	-	**30.7**
Barbican Centre	7.3	12.1	-	-	-	-	**19.4**
Community Services - HRA	65.2	44.5	16.2	11.4	7.1	-	**144.4**
Sub-Total	**180.8**	**160.4**	**94.6**	**50.1**	**40.1**	**13.8**	**539.8**
CAPITAL & SRP - MJR PROJECTS	£m	£m	£m	£m	£m	£m	£m
Barbican Renewal	6.3	44.4	50.4	62.5	48.6	37.2	**249.4**
Future Police Estate Programme	15.7	40.9	35.8	9.5	9.5	32.6	**144.0**
London Wall West	0.1	5.0	-	-	-	-	**5.1**
Museum of London	130.5	73.8	-	-	-	-	**204.3**
Salisbury Square	113.2	263.1	88.7	13.7		-	**478.7**
Barbican Risk	-	-	-	-	28.5	28.5	**57.0**
Sub-Total	**265.8**	**427.2**	**174.9**	**85.7**	**86.6**	**98.3**	**1,138.5**
Total	**446.6**	**587.6**	**269.5**	**135.8**	**126.7**	**112.1**	**1,678.2**

Table 2: City Fund Capital Programme 2024/25 to 2029/30

Within City Fund, two flagship major projects are currently underway: the Museum of London relocation, and Salisbury Square Development including the Future Police Estate Programme, and a third has been given approval by the Court of Common Council to go ahead – the Barbican Renewal Programme.

Museum of London (MoL)

This programme has a total budget of £439m, with contributions from CoL of £225m, the GLA of £95m, and museum fundraising of £120m. In addition, supported by Landlord works from City's Estate - £140m, this project involves the relocation and creation of a new museum for London. It is linked to The City's Market's Relocation Programme above in that it will be moving into the current Smithfield market building.

It represents a once-in-a-generation opportunity to reconceive what a museum for London can be. The new site will enable us to offer much more, and for many more people. It will give us street-level entrances, better transport links courtesy of the Elizabeth line, and the opportunity to create innovative new galleries, exhibitions, and events. The images on the below show an artist's impressions of the planned new museum venue.

Following on from a festival curated by Londoners, the London Museum will open in 2026 in the General Market and West Poultry Avenue, where the many diverse stories of London and its people will be shared in new and innovative ways within immersive and interactive permanent galleries. Further details can be found on our dedicated micro site at https://museum.london.

Salisbury Square Development / Future Police Estate Programme

This combined scheme has an original "core" budget of £656.4m. Following approval of additional sums that are proposed in the MTFP, including a potential contribution from a third party, the scheme will have a total budget of £780m. This is a major redevelopment programme and a unique opportunity to create modern facilities for both the City of London Police and Her Majesty's Courts and Tribunals Service (HMCTS) within Square Mile. The programme will deliver a new, purpose-built 18-courtroom legal facility called the City of London Law Courts and an industry leading City of London police headquarters, equipped to combat, amongst other things, fraud and economic crime across the UK. City Fund will receive a contribution of £223m from City's Estate to cover the costs relating to the combined courts element.

Since its inception, the project has been subjected to significant pressures beyond the Corporation's control as set out below. To date the budget has not been re-baselined to accommodate these changes and is now being done so through the budget setting process.

a) The increase in scope of SSD by 65,000 sq. ft between March 2018 and January 2021 without an increase in budget or optimism bias;
b) The decision to amend the scope of the commercial building, in line with the Corporation's Property Investment Strategy;
c) Hyperinflation in the construction sector and its impact; and
d) The national decision by Government to increase Police Officers, impacting Police requirements that are fit for the future.

The Salisbury Square development is expected to create the following benefits for the wider locale. Further detail can be found on our dedicated website: https://salisburysquaredevelopment.co.uk.

2,100 jobs
Be a civic hub for justice, policing and commercial activity, supporting 2,100 jobs directly;

£51 million
Generate around £51 million per year once complete and operational;

c.£10 million
Generate c.£10 million in productivity benefits (GVA) per year during construction;

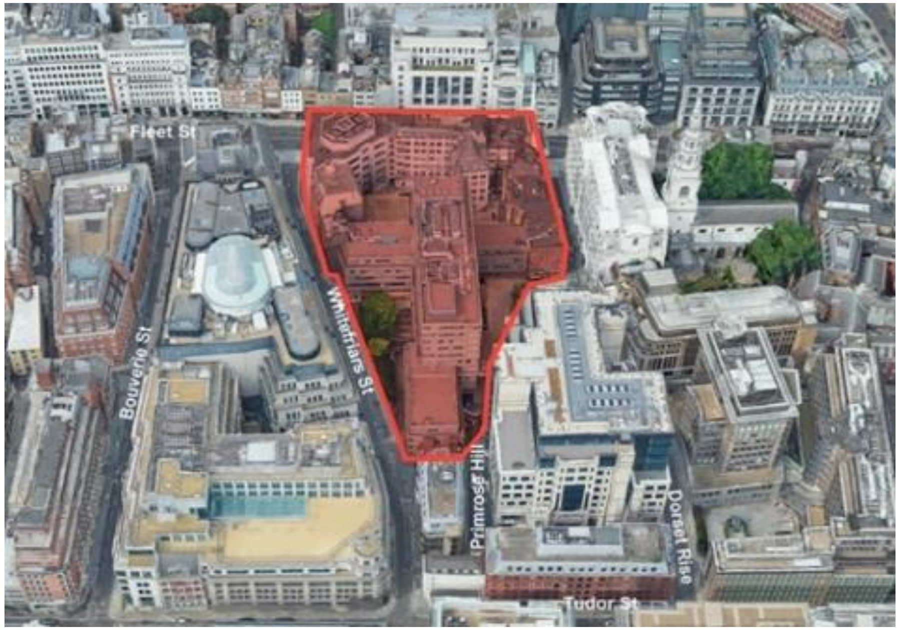
400 new jobs
Create around 400 brand new jobs in the City of London and an estimated 280 more through the supply chain and related economic activity;

£5.4 million
Generate in excess of £5.4 million per annum in business rates receipts for the public purse of which approximately £1.6 million could be retained by the City Corporation for investment in local spaces and services;

150 direct construction jobs
Create 150 direct construction jobs through the life of the build and a further 80 jobs through the supply chain;

Key role in the future of Fleet Street
Play a key role in the future of Fleet Street as a thriving part of the historic Square Mile, especially as part of the to be formed Fleet Street Business Improvement District;

Enhanced and enlarged
An enhanced and enlarged Salisbury Square and creation of new pedestrian routes through the site, providing high quality hard and soft landscaping.

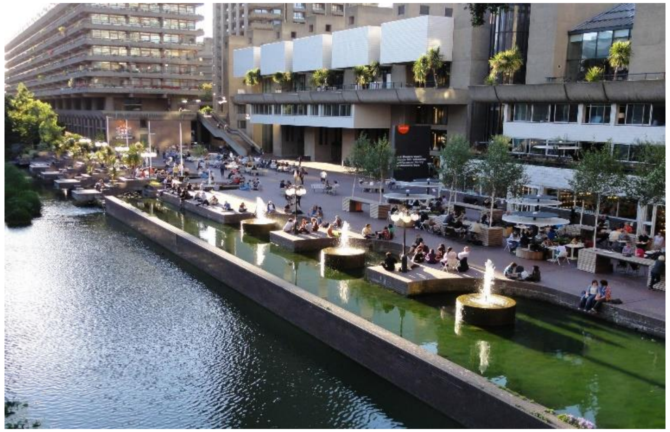


Barbican Renewal

A funding package of £191m has been approved to repair and upgrade the Barbican Centre (the City of London's flagship cultural and performing arts centre). The Barbican centre also has a fundraising target of £40m, plus the Corporation is additionally holding £57m central contingency budget for this, leading to a combined budget of £288m. The Corporation approved the package at its Court of Common Council meeting on 5th December 2024; and the project will start in 2025/26.

Barbican Renewal is a transformative programme of capital projects that will enable the Barbican to realise its potential as the greatest cultural centre in the City of London and the UK more broadly. These plans will deliver a site that is truly inclusive, sustainable and operationally resilient. For over 40 years the Barbican has been offering a world-class programme of unique breadth, spanning every possible creative discipline, staged in an iconic site of globally recognised significance. Visits to the Centre reach 1.8 million annually, increasing footfall to and spend within the City, particularly across the quieter weekend days. The Barbican is the City's third most visited attraction, generating around £80m in annual economic value and supporting 1,100 full-time equivalent jobs.

Since it opened, however, the buildings have deteriorated, compromising their use as public spaces and placing increasing restrictions on the offer for visitors; therefore, there is a need for strategic restoration. The first phase on works will include the replacement and upgrading of key infrastructure; improvements to the lakeside, foyers and catering block; restoration of the conservatory; improvements to the Concert Hall, Art Gallery, and Theatre; and design work and planning approval for the exhibition halls.



“Business As Usual” (BAU) Programme

City Fund’s Capital Programme totals £523.8m; key highlights are set out below.

Within the **Housing Revenue Account (HRA) block of Community & Children’s services**, the City is planning to invest almost £96.0m across two large social housing schemes at Sydenham Hill estate and York Way Estate respectively.

Sydenham Hill Estate

Located within the borough of Lewisham, a further £45.9m is allocated to Sydenham Hill Estate to provide 110 truly affordable homes for people, comprising a mix of 1, 2, 3 and 4-bed homes to reflect the local need and make a positive contribution towards answering the borough’s housing shortage. Alongside much-needed new homes, the scheme will provide a community room, estate office, amenity and play space as well as a wide range of landscaping and ecological enhancements for the benefit of all residents.

Work started on-site in 2023, and further details can be found on the following website: https://www.sydenhamhillproject.com.

York Way Estate

The City of London Corporation will be investing £50.0m to delivering a scheme which provides

- 91 new homes all available for social rent
- High-quality landscaping and greenery
- Enhancement to public realm
- New improved community centre
- Improved entrances of Lambfold House, Penfields House and Shepherd House, and Kinefold House
- Introduction of high-quality public art
- New children’s play spaces*
- A resident growing garden behind Shepherd House.

Further details can be found on the following website: https://www.yorkwayestate.com.

Within the **City Surveyors** portfolio;

- £22.2m has been earmarked for redevelopment and refurbishment works at the Central Criminal Court, including replacement of key plant and machinery.

Within the **Environment** directorate:

- £18.8m has been set aside for the St Paul's Gyratory project, which aims to transform the streets and public realm between the old Museum of London site and St. Paul's Underground station through the partial removal of the 1970's gyratory. It is a priority project for delivery by 2030 as identified in the City's Transport Strategy.
- £10.6m has been earmarked for a once-in-a-generation opportunity to transform over four hectares of public realm located at West Smithfield, into a world class 24-hour cultural destination.

City’s Estate Capital Programme

City’s Estate capital programme totals £406m over the next five years is summarised in table 3. It comprises £225.3m on flagship Major Projects, £181.6m across ‘business as usual’ capital programmes across the divisional areas, and an additional £20m headroom to meet contingency requirements and any urgent new bids for future years. Since last year’s capital strategy, the Markets Co-Location Programme (MCP) is no longer contained in the capital programme. The Court of Common Council decided on 26th November to end the interest in co-locating the wholesale food markets of Smithfield and Billingsgate to a new site at Dagenham Dock. Instead, the City Corporation will pursue a new opportunity, agreed in principle with market traders, to provide them with financial support to relocate to new premises; which is contained within the revenue budgets.

CAPITAL PROGRAMME - CITY ESTATE	2024/25 Budget	2025/26 Budget	2026/27 Budget	2027/28 Budget	2028/29 Budget	2029/30 Budget	Total 24/25 – 29/30
CAPITAL & SRP - BAU	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	
City Surveyor & Property	13.3	27.5	10.6	9.1	15.5	-	76.0
Environment	3.1	2.5	0.9	-	-	-	6.5
Barbican Centre	0.0	-	-	-	-	-	0.0
Chamberlains & Chief Financial Officer	30.1	34.8	5.8	2.0	2.0	2.0	76.7
City of London School For Girls	3.7	0.9	1.3	-	-	-	5.9
Community & Children's Services	0.3	-	-	-	-	-	0.3
City of London School	0.3	2.6	2.6	2.6	2.6	-	10.7
City of London Freeman's School	0.8	-	-	-	-	-	0.8
Principal GSMD	1.8	2.1	0.8	-	-	-	4.7
City of London Police	-	-	-	-	-	-	-
Sub-Total	**53.4**	**70.5**	**22.0**	**13.7**	**20.1**	**2.0**	**181.6**
CAPITAL & SRP - MAJOR PROJECTS	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Museum of London	23.8	9.9	0.1	-	-	-	33.8
Grant from City's Estate for SSD	45.3	105.2	35.5	5.5	-	-	191.5
Sub-Total	**69.1**	**115.3**	**35.6**	**5.5**	**-**	**-**	**225.3**
Total	**122.5**	**185.8**	**57.6**	**19.2**	**20.1**	**2.0**	**406.9**

Table 3: City’s Estate Capital Programme 2024/25 to 2029/30

Also included within City's Estate Major projects, are:

- £140m Museum of London "landlord works" (project lifetime cost), relating to the refurbishment and redevelopment of the premises vacated by the Museum of London, located at Bastion House, for future alternate use.
- £210m relating to City's Estates' contribution to the Salisbury Square development, in relation to the Combined Courts element of the wider programme. Further details of the Salisbury Square Development are disclosed above.

The 'business as usual' (BAU) portfolio of City's Estates Capital Programme totals £210.2m. Key highlights are set out in this section.

Within the **City Surveyor's** portfolio;

- £34.5m has been allocated for the purchase of commercial property, in line with the principles of the Investment Strategy, summarised in section 8 of this document.

<u>Cross-Fund Programmes</u>

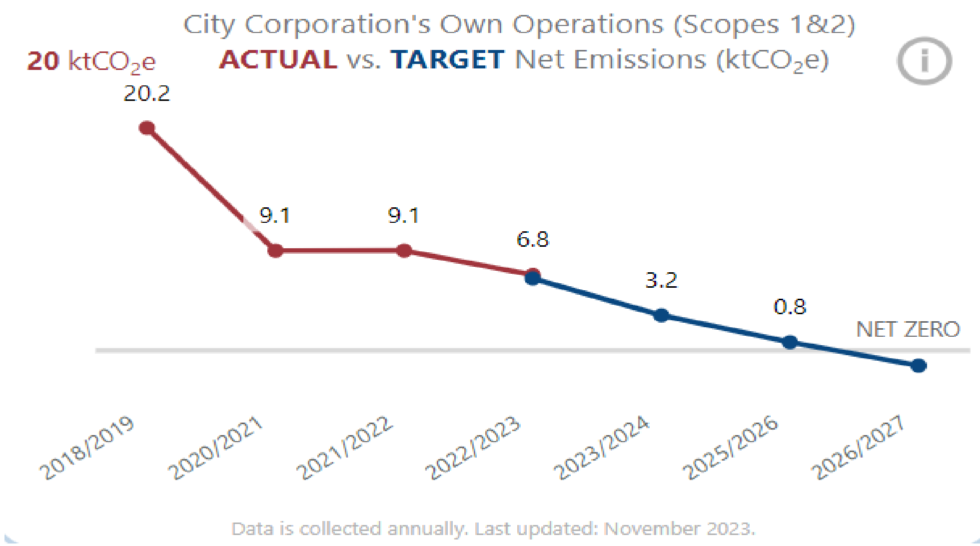
There are also a number of schemes within the capital programme which encompass all funds. Some key highlights are summarised below.

Climate Action Strategy

The City of London Corporation has adopted a radical Climate Action Strategy which breaks new ground and sets out how the organisation will achieve net zero, build climate resilience and champion sustainable growth, both in the UK and globally, over the next two decades.
By adopting the strategy, the City Corporation has committed to:

- Achieve net zero carbon emissions from our own operations by 2027.
- Achieve net zero carbon emissions across our investments and supply chain by 2040.
- Support the achievement of net zero for the Square Mile by 2040.
- Invest £68m over six years to support these goals, of which £15m is dedicated to preparing the Square Mile for extreme weather events.

This follows an extensive study of our activities and assets and puts a plan in place to address emissions from our financial and property investments and full supply chain. As shown in the chart below, we are currently on track to achieve net zero by 2027.



HR, Payroll, Finance Solution - ERP (Enterprise Resource Planning)

This programme will establish a new, single integrated cloud-based platform that can be used across The City, and replace the legacy standalone IT systems currently used for Finance & Procurement, HR and Payroll.

Whilst this is a significant IT implementation programme, it will transform the enterprise-wide management of key business processes and elevate the provision and use of data to ensure officers and members are making informed decisions. It is planned that the full solution will be deployed by April 2026.

The aims of the project are:

- to provide The City with a fully integrated HR, Payroll, Finance and Procurement solution
- to enable modern, fit for purpose systems and the right tools for services teams to deliver their key objectives for The City, and
- to enable transformation, increase efficiencies and reduce IT costs.

Cyclical Works Programme

The City's significant number of properties Operational Property portfolio across City Fund and City Estate, has fallen into a state of disrepair because of funding constraints over several years. Included within the MTFP, is a funding allocation totalling £159m for the next five years to address the accumulated backlog of maintenance and forward plan, and prevent further dilapidation and degradation of property, and failure to meet statutory compliance requirements. c£40m of the allocated funding is included within the Capital Strategy, pending final approval by the Court of Common Council in March 2025, although classification between Capital and Revenue is subject to review as schemes progress.

5. Capital Financing

Tables 4 & 5 below show how the capital programme is financed across City Fund and City's Estate. NB, the asset disposal line includes application of existing capital receipt balances including lease premiums; it does not represent new disposals in year.

CAPITAL PROGRAMME - CITY FUND	2024/25 Funding	2025/26 Funding	2026/27 Funding	2027/28 Funding	2028/29 Funding	2029/30 Funding	Total Funding
CAPITAL & SRP - BAU	£m	£m	£m	£m	£m	£m	£m
Revenue/General Reserves	16.8	22.2	26.6	4.7	11.0	-	81.3
External Contributions	34.5	53.3	39.3	21.6	9.5	6.3	164.5
HRA/Police	78.8	50.9	21.2	16.3	12.1	-	179.3
Asset Disposal	50.7	34.0	7.5	7.5	7.5	7.5	114.7
Sub-Total	**180.8**	**160.4**	**94.6**	**50.1**	**40.1**	**13.8**	**539.8**
CAPITAL & SRP - MAJOR PROJECTS	£m	£m	£m	£m	£m	£m	£m
Revenue/General Reserves	31.3	66.5	28.0	8.0	4.6	40.6	179.0
External Contributions	102.6	122.4	90.5	15.5	10.0	-	341.0
HRA/Police		-	-	-	-	-	-
Asset Disposal	131.9	238.3	56.4	62.2	72.0	57.7	618.4
Sub-Total	**265.8**	**427.2**	**174.9**	**85.7**	**86.6**	**98.3**	**1,138.4**
Total	**446.6**	**587.7**	**269.5**	**135.8**	**126.7**	**112.1**	**1,678.2**

Table 4: Summary financing schedule for City Fund Capital Programme 2024/5 to 2029/30

CAPITAL PROGRAMME - CITY ESTATE	2024/25 Funding	2025/26 Funding	2026/27 Funding	2027/28 Funding	2028/29 Funding	2029/30 Funding	Total Funding
CAPITAL & SRP - BAU	£m	£m	£m	£m	£m	£m	
Revenue/General Reserves	12.9	28.6	15.4	11.7	18.1	2.0	88.6
External Contributions	0.4	-	-	-	-	-	0.4
Asset Disposal	40.1	41.9	6.6	2.0	2.0	-	92.6
Sub-Total	**53.4**	**70.5**	**22.0**	**13.7**	**20.1**	**2.0**	**181.6**
CAPITAL & SRP - MAJOR PROJECTS	£m	£m	£m	£m	£m	£m	£m
Revenue/General Reserves	-	9.9	-	-	-	-	9.9
External Contributions	-	6.4	-	-	-	-	6.4
Asset Disposal	69.1	79.0	35.6	5.5	-	-	209.0
Sub-Total	**69.1**	**95.3**	**35.6**	**5.5**	**-**	**-**	**225.3**
Total	**122.5**	**165.8**	**57.6**	**19.2**	**20.1**	**2.0**	**406.9**

Table 5: Summary financing schedule for City Estate Capital Programme 2024/5 to 2029/30

Revenue/Earmarked Reserves

Earmarked funding for the capital programme, this is specific revenue funding which has been set aside to fund asset spend.

Grants and Contributions

This includes:

- Community Infrastructure Levy (CIL) - a set charge, based on the gross internal area floorspace of buildings, on most new development to help fund the infrastructure needed to address the cumulative impact of development across the City of London. A development is liable for a CIL charge if it is creating one or more dwellings, or new floorspace of 100sqm or more. When a CIL liable development is granted planning permission, the amount of CIL required is calculated and sent to the planning applicant and/or landowner of the development on a CIL Liability Notice.

- Section 106 - Planning obligations (often called S106 agreements) are legal agreements with developers for the provision of, for example, affordable housing, local training and jobs, and sites specific mitigation measures to alleviate the impacts of a development proposal. A S106 agreement is intended to make a development acceptable that would otherwise be deemed as unacceptable, by offsetting the impact by making specific location improvements.

- Section 278 Agreements are a legal agreement between a developer and the Local Highway Authority (LHA) which allows the developer to make permanent alterations to the adopted highway as part of a valid planning permission. The Section 278 Agreements are outlined within the Highways Act . The Section 278 Agreement process ensures that all works are designed and constructed to the satisfaction of the Highway Authority.

- Others can include ring fenced grants from governmental departments or other public sectors bodies such as the GLA or TFL.

HRA

The Housing Revenue Account (HRA) is the expenditure and income on running a council's own housing stock and closely related services or facilities, which are provided primarily for the benefit of the council's own tenants.

It is a ring-fenced account of certain defined transactions, relating to local authority housing, within the General Fund, the main items of expenditure included in the account are management and maintenance costs, major repairs and large capital projects, loan charges, and depreciation costs with the main sources of income are from tenants in the form of rents and service charges.

Asset Disposal Proceeds

This is the proceeds from the city's asset disposal programme used to fund the capital programme, including the Dedicated Sales Pool which funds City Estate Asset Investment. Capital receipts within City Fund can only be used to fund capital expenditure, and not revenue. There is significant forthcoming expenditure across City Fund and City Estate on major programmes and on BAU that will necessitate the realisation of additional capital through disposal of property and financial investments, as presented to Investment and Finance Committees in February 2025. The assets needed to meet this requirement have now been earmarked.

External Borrowing

The capital expenditure plans for City's Estate also create a borrowing requirement. City's Estate has issued fixed rate market debt totalling £450m to fund its capital programme.

Capital Financing Requirement

City Fund expenditure financed by borrowing (internal or external) is represented by the Capital Financing Requirement (CFR), which measures the City's underlying borrowing need; it will increase with unfunded capital expenditure and decrease as the Council makes minimum revenue provision (MRP) contributions. **Table 6** below shows the capital expenditure excluding SRP and the financing for the previous year and the next five years, split between HRA and Non HRA, with the financing requirement for each year. **Table 7** (next page) shows the cumulative CFR per year with the opening balance at the start of 23/24 being £94.1m. Compared to Table 4 previously, the tables below exclude SRP (Supplementary Revenue Projects); the Capital Financing Requirement relates to pure capital expenditure only.

Estimate of Capital expenditure and Financing (City Fund)	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
CAPITAL Expenditure	£m	£m	£m	£m	£m	£m
Non -HRA	135.5	364.6	516.4	248.1	120.1	131.3
HRA	32.4	64.5	44.2	16.2	11.4	7.1
Total	**167.9**	**429.2**	**560.6**	**264.2**	**131.4**	**138.4**
Financed by:						
Capital grants	107.2	180.7	165.2	115.1	28.5	15.2
Capital reserves	16.8	73.0	200.6	67.7	105.4	43.6
Proposed property disposals	0.0	38.2	183.0	71.4	-6.9	73.1
Revenue & MRP	38.2	10.2	11.8	10.1	4.4	6.5
Total	**162.2**	**302.1**	**560.6**	**264.2**	**131.4**	**138.4**
Net Financing Need	5.7	127.0	0	0	0	0
Total	5.7	127.0	0	0	0	0

Table 6: Projected Capital Financing Requirement by Financial Year

City Fund – Cumulative CFR	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
CAPITAL Expenditure	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Non -HRA	99.8	224.7	215.8	218.1	223.9	221.7
HRA	0	2.1	11.0	8.7	3.0	5.1
Total	**99.8**	**226.8**	**226.8**	**226.8**	**226.8**	**226.8**

Table 7: Projected Capital Financing Requirement analysed by Fund type

Treasury Management Indicators

The following two treasury indicators represent the upper limits for the total amount of external debt for City Fund. These limits are required under the Prudential Code to ensure borrowing is affordable and is consistent with the City Fund's capital expenditure requirements.

• The **operational boundary for external debt** should represent the most likely scenario for external borrowing. It is acceptable for actual borrowing to deviate from this estimate from time to time. The proposed limit is set to mirror the estimated CFR for the forthcoming year and the following two years.

• The **authorised limit for external debt** is the maximum threshold for external debt from 2024/25 onwards, this limit is required by the Local Government Act 2003 and is set above the operational boundary to ensure that the City is not restricted in the event of a debt restructuring opportunity.

TREASURY MANAGEMENT INDICATORS	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	Actual	Probable Outturn	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m	£m
Authorised Limit for external debt (City Fund) -						
Borrowing	199.8	326.8	326.8	326.8	326.8	326.8
Other long-term liabilities	12.7	24.2	21.2	18.4	17.6	17.0
TOTAL	**212.5**	**351.0**	**348.0**	**345.2**	**344.4**	**343.8**
Operational Boundary for external debt (City Fund) -						
Borrowing	99.8	226.8	226.8	226.8	226.8	226.8
Other long-term liabilities	12.7	24.2	21.2	18.4	17.6	17.0
TOTAL	**112.5**	**251.0**	**248.0**	**245.2**	**244.4**	**243.8**
Actual external debt (City Fund)	0	0	0	0	0	0
Upper limit for total principal sums invested for over 365 days	£300m	£300m	£300m	£300m	£300m	£300m

CITY'S ESTATE BORROWING INDICATORS	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	Actual	Probable Outturn	Estimate	Estimate	Estimate	Estimate
	%	%	%	%	%	%
Estimates of financing costs to net revenue stream	13.1%	14.2%	14.6%	14.2%	14.3%	14.2%
	£m	£m	£m	£m	£m	£m
Overall borrowing limits	450	450	450	450	450	450

6. Governance

Resource Allocation Process (Principles)

To assist in the resource allocation process, project proposals are prioritised and categorised, with only essential schemes within the following criteria being considered for central funding:

- health and safety or statutory requirements
- substantially reimbursable
- spend to save/income generating
- major renewals of income generating assets
- must address a risk on the Corporate Risk Register or that would otherwise be escalated to the register e.g., replacement of critical end of life assets, schemes required to deliver high priority policies and schemes with high reputational impact.
- must have a sound business case clearly demonstrating the negative impact of the scheme not going ahead such as material penalty costs or loss of income.

New Capital Schemes

The annual capital bid process was introduced as a means of prioritising the allocation of central funding for capital schemes. Due to the impact of high inflationary pressures on existing schemes, this was paused during 2023/24 and also 2024/25 with a contingency sum held to meet urgent works within City Fund and City's Estate. Requirements applicable to CBF continue to be considered through the lens as to what is in the best interests of the charity.

Policy and Resources Committee and Finance Committee have recommended a central funding envelope of £7m for City Fund and £2m for City Estate in relation to contingency for 2025/26 and beyond. This level of spend is affordable alongside the approved major project spend/ investment, which currently sits at £2.1bn across City Fund and City Estate, and are detailed in earlier sections of this document.

Depending on the nature of the funding, the approved bids currently progress from Resource Allocation Sub Committee (RASC), Finance Committee, Policy & Resources (P&R) Committee and, where relevant, the CBF Board to provide in principle funding approval to the schemes.

The indicative costs of agreed schemes are incorporated into the medium-term financial plans/ financial forecasts to assess the financial impact in context of each corporation fund and were confirmed at the joint informal meeting of RASC and the service committee chairs in January 2024. The final approval of the overall capital programme is in February and March by Finance Committee, and the Court of Common Council respectively.

Committees

Approvals for projects with a total budget of less than £100m are set out in the City Corporation's Projects Procedure. Approval of projects is currently the responsibility of the respective service committees and are recommended to the Court of Common Council where total project expenditure is due to exceed £5m. The service committee is responsible for scrutinising individual projects to ensure the proposals are meeting the business need. Following this step, the Resource Allocation Sub-Committee (RASC) will in turn recommend the release (or 'draw down') of funding for each respective project to P&R, both consider the overall programme of project activity and funding to maintain an overview. Projects and Procurement Sub Committee (PPSC) considers the overall portfolio of projects and programmes and reports into the Finance Committee, with the exception of Major Programmes.

Major Programmes (i.e. capital programmes exceeding £100m) are managed directly through the Capital Buildings Board (CBB), a sub of P&R, and is authorised to approve budget drawdowns within the approved funding envelope.

Projects involving expenditure from the City Bridge Foundation must be approved by the City Bridge Foundation (CBF) Board, or via any appropriate agreed delegations to their Managing Director.

Where a scheme concerns matters of policy and strategic importance to the City of London Corporation, project reports will also be submitted to the Policy & Resources Committee.

The Finance Committee is responsible for obtaining value for money, improving efficiency and overseeing projects and procurement generally across the organisation. The Finance Committee therefore receives periodic reports on the City Corporation's capital expenditure.

Portfolio Delivery Assurance

The Commercial, Change and Portfolio Team within the Corporation has been strengthened to provide additional capability and capacity for portfolio and programme assurance. This new team is working to the principles established from the 2022 review:

- The City Corporation is confident project and programmes represent best value and deliver the intended benefits.
- Project governance is risk-based and enables Members to focus on strategic issues and areas of high risk and/or value.
- Members are assured that lower risk/value projects are well managed and that an effective assurance framework exists to identify any potential issues or risks.
- Officers are empowered to effectively manage the projects they are responsible for, to take prompt decisions to manage operational risks and, are enabled by corporate systems and financial processes.
- The Corporation is clear on the role of the PMO ecosystem and its capacity to fulfil this role effectively.
- The project delivery operating model represents value for money with a clearly articulated value proposition.

A new enterprise portfolio management office (EPMO) is now established and will provide portfolio governance and assurance, develop our internal capability for project delivery, establish a community of practice and bring focus upon impact and reporting of projects and programmes. This team will take a strategic view of delivery, provide oversight of project and programme delivery and will reduce risk. In addition, departments and institutions will have a departmental portfolio board which will have oversight of the pipeline of programmes and projects within its own portfolio.

Fundamental to the development of the Corporation's new portfolio management approach is a revised approach to training of project managers and the development of a community of practice. The new training will update the existing PM Academy as well as provide specific role based training for different leaner types including those that need to support project delivery such as project leaders and finance teams.

EPMO System

In order to provide project managers with a best practice toolkit to manage projects as well as to provide enhanced transparency of project status a new EPMO system is currently being developed and will be launched in April 2025. This system will act as the 'single source of truth' for project delivery within the Corporation.

During the first phase of the implementation, the system will provide project managers with scheduling, resourcing, benefits, risk management and reporting capabilities. The system will provide regular portfolio status updates for senior management and members on each of the Corporation's critical programmes. This reporting will enable strategic oversight.

A second phase of the implementation will cover the implementation of new gateways and will manage the process and workflows associated with these. At this stage, new business case templates will also be provided that are proportionate to the size of the project concerned.

New Gateway Process

A new procedure gateway process is currently being finalised and approval will be sought from members in the summer of 2025. The principles of this new procedure are:

- To create governance proportionate to the size and complexity of the project.
- To generate focus on strategic value from the outset.
- To standardise and clarify project governance across the Corporation.
- To define gateways at the right points to enable impactful strategic interventions.
- To learn from the experience of past projects and align to industry standards.
- To generate better quality reporting which provides the right data & analysis to inform decisions.

At the same time as the review of procedure gateways, a further review into financial governance is also being undertaken, with the following ambitions;

- Reduce unnecessary steps that can delay projects and do not improve the control environment.
- Improve visibility and transparency of the approved capital programme and the funding envelope.
- Increase engagement in capital monitoring and forecasting across the Corporation.
- Increased visibility and monitoring of the revenue benefits associated with capital programmes.
- Increase the capacity within the Chamberlain's team to provide strategic challenge.

Inclusion of schemes in the capital programme will continue to be subject to agreement by the relevant City Corporation committees which, depending on value, will include the Court of Common Council. Project Boards are usually established for individual projects, particularly those that require officers from several departments to deliver them.

All projects progressing to the capital programme must comply with Standing Orders, financial regulations, and generally the project procedure (with the main exception of the major programmes under the direct control of the Capital Buildings Board) and procurement code - and are subject to confirmation of funding.

7. New Corporate Property Asset Management Strategy '2024-29

The Corporate Property Asset Management Strategy outlines the overriding objectives for managing the operational estate (excluding housing). Decisions on all operational property assets are guided by this strategy and the objectives within it. This Strategy supports the Corporate Plan and in turn is supported by specific individual property asset management plans. The key objectives contained within are as follows:

Efficiency
• Ensure all operational properties allocated to the relevant departments or Institutions are fit for purpose to deliver the related service objectives and maintained in a safe, statutory and contractually compliant condition. • Ensure all operational properties are managed to best practice in consultation with the City Surveyor and Executive Director of Property as Head of Profession, continuing to develop asset management on the operational property portfolio through improvements to property processes, sharing of data and consistency of approach. Further operation and optimisation of operational properties to be undertaken with appropriate oversight and input from all relevant Heads of Profession, integrating best practice wherever practical. • Ensure all acquisitions of new operational property (leasehold or freehold) only proceed where subject to a compelling and robust business case, having previously exhausted all alternative means of service delivery and/or existing underutilised operational property. • Ensure wherever possible there is appropriate connectivity (financial, operational and business planning) between major renewal/development/placemaking sites across the City. • Support the Destination City and SME strategies, attracting visitors, workers and businesses alike to a safe, supportive and dynamic location; wherever possible seeking to utilise appropriate vacant or underutilised operational property for the use of occupiers that support Destination City and SMEs including meanwhile use. • Adherence to the objectives within the Corporate Property Asset Management Strategy to be monitored by the relevant service committee (to whom operational property is allocated) with portfolio oversight of performance by RA subcommittee. • Support delivery of Major Capital Projects across the operational property portfolio, through effective and coordinated multi-disciplinary support, aligning development, handover, and future maintenance/operation of new operational assets. • Ensure where Heritage assets are not in the sole ownership of the City to drive the collective responsibility to maintain and prevent their inclusion on the Heritage at Risk Register (HARR) within the resources available. • Maintain Heritage property through further investment and prevent their inclusion on the HARR wherever possible (subject to available budget).

- Ensure all statutory protected property (including landscapes) have up-to-date Conservation Management Plans in place.
- Ensure operational assets benefit from leading digital connectivity including Wi-Fi coverage for the benefit of officers and/or our third-party occupiers.

Financially Sustainable

- Seek to improve the performance and use of the operational estate, through use of (a) annual utilisation assessments and (b) periodic asset challenge on all property allocated to departments and Institutions in accordance with Standing Order 56 and to support the ongoing Operational Property Review to address any underutilisation and assets surplus to business plan and service requirements.
- Seek to ensure all planned capital and revenue investment into the operational property portfolio is fully incorporated into (a) the business planning process and (b) the individual Asset Management Plan process and (c) supports the Capital Strategy 2023/24 to 28/29.
- Ensure all capital and revenue projects directly support the Corporate Plan and are affordable, sustainable, prudent and directed to corporate priorities.
- Develop core property data to drive action, improve reporting to relevant committees on the costs of the operational estate and support decision making that contributes to objective of a financially sustainable operational property portfolio.
- Maximise third party income from leased out operational property and seek to secure maximum receipts or income from underutilised or surplus property, ensuring organisational consistency and implementing best practice and in accordance with the charity objectives where applicable.

Environmentally Sustainable

- Deliver the Climate Action Strategy targets of net zero in operational emissions by March 2027 and building climate resilience into our buildings and spaces. This includes (a) ensuring any projects (including new developments) meet the requirements of the Net Zero Design Standard and (b) engaging and supporting the City's Climate Action Strategy Resilience Plan.
- Meet departmental energy and carbon targets, through (a) supporting delivery of relevant energy-saving works through collaborative engagement with the City Surveyor's Energy and Sustainability Team and the Minor Works Team, (b) providing access to any relevant metering information, to accurately track performance, and (c) engaging in energy and carbon saving behaviours.
- To obtain at least EPC C ratings for leased out properties across the operational property portfolio by 2027 and to prepare for at least EPC B by 2030.

8. Investment Property

The Chartered Institute of Public Finance and Accountancy (CIPFA) defines investment property as property held solely to earn rentals or for capital appreciation or both.

Returns from property ownership can be both income-driven (through the receipt of rent) and by way of appreciation of the underlying asset value (capital growth).

The combination of these is a consideration in assessing the attractiveness of a property for acquisition. In the context of the Capital Strategy, the City Corporation uses capital to invest in property to provide a positive surplus/financial return which is a key source of funding for the ongoing provision of services.

Investment properties may also be sold to provide capital to fund the capital programme. Some significant disposals are currently planned to provide funding for the major programmes over the next five-year period. The separate Cashflow and Capital Realisation Strategy paper presented to Investment and Finance Committees in February sets out this requirement and the earmarked properties in more detail. The resulting loss of rental returns needs to be carefully managed to ensure sufficient income to deliver services.

Property investment is not without risk as property values can fall as well as rise and changing economic conditions could cause tenants to leave with properties remaining vacant. These risks are mitigated in part by the mixed lease structure of holdings with some properties directly managed with multiple lettings, some single lettings to tenants on fully repairing and insuring leases and some to tenants on geared ground rent leases where the City Corporation is guaranteed a minimum rent but also shares in the actual rent received over a certain threshold.

The property portfolio is overseen by Members through the Investment Committee, which overviews performance, sets strategy, and agrees major lettings, acquisitions and disposals.

Performance of each estate is benchmarked through MSCI against the overall MSCI Universe and against the MSCI "Greater London Properties including owner occupied" benchmark. The target set is to outperform the MSCI Return Benchmarks for Total Return on an annualised five-year basis. There is a subsidiary target to maintain rental income levels and to endeavour to secure rental income growth at least in line with inflation.

The properties forming the Strategic Property Estate have been acquired for large scale redevelopment. They are part of the strategy of supporting growth in the business cluster in the City Fringes by providing high quality floor space and returns from these properties are focussed on capital appreciation through their redevelopment.

The Investment Committee receives quarterly five-year rental forecast reports and regular reports on the level of voids and debtor arrears. From time to time the Committee also receives presentations, usually from major firms of surveyors, on the state of the UK and London property market and potential future trends.

9. Risk Identification and Management

This section considers the City Corporation's risk appetite with regard to its capital investments and commercial activities, i.e., the amount of risk that the Corporation is prepared to accept, tolerate, or be exposed to at any point in time. The City Corporation's Property Investment Strategies give due regard to risk, and this informs various aspects of our portfolio approach. It is important to note that risk will always exist in some measure and cannot be removed in its entirety.

A risk review is an important aspect of the consideration of any proposed capital or investment proposal. The risks will be considered in line with the City Corporation's corporate risk management strategies. Subject to careful due diligence, the City Corporation will consider the appropriate level of risk for strategic initiatives, where there is a direct gain to the City Corporation's revenues or where there is Member appetite to deliver high profile projects.

The City Corporation maintains a Corporate Risk Register and priority will be given to schemes that significantly and demonstrably mitigate a previously identified corporate risk.

Maintenance of a costed risk register to identify and keep under review the risks associated with projects is Corporation best practice and most projects comply. Costed risks are informed by previous experience of similar projects and other factors, where relevant, such as the age of the asset, its size and its type.

The risk register includes mitigations that will be taken to minimise the risk and a financial assessment of the likely cost should the mitigated risks crystallise. In addition, the costs of major programmes include an element of optimism bias in line with HM Treasury guidance to mitigate the financial implication of delays and/or increased costs.

Recent levels of inflation have presented a significant risk to the cost and affordability of construction projects over the short to medium term; this continues to be monitored and budgeted for according.

10. Knowledge and Skills

The City Corporation has professionally qualified staff across a range of disciplines including finance, legal and property that follow continuous professional development (CPD) and attend courses on an ongoing basis to keep abreast of new developments and skills.

The City Corporation establishes project teams from all the professional disciplines from across the City Corporation as and when required. External professional advice is taken where required and will generally be sought in consideration of any major commercial property investment decision.

Within the Court of Common Council there are also several Members who have substantial professional expertise which assist when making crucial capital investment decisions. Some specialist committees, such as Investment Committee, co-opt external members with specific expertise to further inform the decision-making process.

Medium Term Financial Strategy/Budget Policy

City Fund

The main constituents of the City Fund medium-term financial strategy/budget policy are as follows:-

(i) to aim to achieve as a minimum over the medium-term planning period the ‘golden rule’ of matching on-going revenue expenditures and incomes;

(ii) to implement budget adjustments and measures that are sustainable, on-going and focused on improving efficiencies;

(iii) in line with (ii), as far as possible to protect existing repairs and maintenance budgets from any efficiency squeezes or budget adjustments and to ring-fence all other non-staffing budgets (to prevent any amounts from these budgets being transferred into staffing budgets);

(iv) within the overall context of securing savings and budget reductions, to provide Chief Officers with stable financial frameworks that enable them to plan and budget with some certainty;

(v) for the Police service, ordinarily to set an annual cash limit determined from the national settlement allocation to the City Police together with the allocation from the Business Rates Premium;

(vi) to identify and achieve targeted/selective budget reductions and savings programmes;

(vii) to continue to review critically all financing arrangements, criteria and provisions relating to existing and proposed capital and supplementary revenue project expenditures;

(viii) to reduce the City Fund’s budget exposure to future interest rate changes by adopting a very prudent, constant annual earnings assumption in financial forecasts. If higher earnings are actually achieved, consideration to be given to only making the additional income available for non-recurring items of expenditure;

(ix) to accept that in some years of the financial planning period it may be necessary to make contributions from revenue balances to balance the revenue budget;

(x) to finance capital projects first from disposal proceeds rather than revenue resources and supplementary revenue projects from provisions set aside within the financial forecast followed by external borrowing (if required) in an affordable, prudent and sustainable way; and

(xi) to minimise the impact of rate/tax increases on City businesses and residents.

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Review of Contingency Funds

The following tables support the review of contingency funds within the City Corporation. They demonstrate that in each of the last four years the provision of funds has been sufficient to result in an uncommitted balance remaining.

The City Bridge Foundation (CBF) Contingency is now overseen by the CBF Board and is no longer reported to Finance Committee.

General Contingencies		**City's Estate**	**City Fund**	**Disaster Fund**	**Total**
		£'000	**£'000**	**£'000**	**£'000**
2024/25	Provision	950	800	100	1,850
	Provision brough forward	855	1,651	0	3,456
	Total Provision	1,805	2,451	100	4,356
	Less Allocations	(1,721)	(2,022)	(100)	(3,843)
	Uncommitted Balance as at 28/01/2025	**84**	**429**	**0**	**513**
2023/24	Provision	950	800	125	1,875
	Provision brought forward	931	1,050	0	1,981
	Total Provision	1,881	1,850	125	3,856
	Less Allocations	(1,521)	(1,830)	(50)	3,401
	Uncommitted Balance	**360**	**20**	**75**	**455**
2022/23	Provision	950	800	125	1,875
	Provision brought forward	234	608	0	842
	Total Provision	1,184	1,408	125	2,717
	Less Allocations	(680)	(748)	(100)	1,528
	Uncommitted Balance	**504**	**660**	**25**	**1,189**
2021/22	Provision	950	800	125	1,875
	Top Up	0	0	250	250
	Provision brought forward	0	206	0	206
	Total Provision	950	1,006	375	2,331
	Less Allocations	(869)	(756)	(375)	(2,000)
	Uncommitted Balance	**81**	**250**	**0**	**331**

Policy Initiative Fund – City’s Estate		£’000
2024/25	Provision	1,200
	Provision brought forward for unspent provisions	549
	Provision brought forward for agreed allocations not yet completed	604
	Transferred From P&R Contingency	187
	Total Provision	2,540
	Less Allocation	1,567
	Uncommitted Balance as at 28/01/2025	**973**
2023/24	Provision	1,200
	Provision brought forward for unspent provisions	701
	Provision brought forward for agreed allocation not yet completed	368
	Total Provision	2,269
	Less Allocation	(1,720)
	Uncommitted Balance	**549**
2022/23	Provision	1,200
	Provision brought forward for unspent provisions	137
	Provision brought forward for agreed allocations not yet completed	1,073
	Total Provision	2,410
	Less Allocation	(1,709)
	Uncommitted Balance	**701**
2021/22	Provision	1,200
	Provision brought forward for unspent provisions	527
	Provision brought forward for agreed allocations not yet completed	477
	Transferred to Covid Contingency	(200)
	Transferred to Disaster Fund Contingency	(125)
	Total Provision	1,879
	Less Allocation	(1,742)
	Uncommitted Balance	**137**

Policy and Resources Contingency – City’s Estate		£’000
2024/25	Provision	300
	Provision brought forward for unspent provisions	32
	Provision brought forward for agreed allocations not yet completed	577
	Transferred to Policy Initiative Fund (PIF)	(187)
	Total Provision	722
	Less Allocations	592
	Uncommitted Balance as at 28/01/2025	**130**
2023/24	Provision	300
	Provision brought forward for unspent provisions	357
	Provision brought forward for agreed allocations not yet completed	121
	Total Provision	778
	Less Allocations	(746)
	Uncommitted Balance	**32**
2022/23	Provision	300
	Provision brought forward for unspent provisions	211
	Provision brought forward for agreed allocations not yet completed	93
	Total Provision	604
	Less Allocations	(247)
	Uncommitted Balance	**357**
2021/22	Provision	300
	Provision brought forward for unspent provisions	1
	Provision brought forward for agreed allocations not yet completed	383
	Total Provision	684
	Less Allocations	(473)
	Uncommitted Balance	**211**

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Appendix I

City Fund 2025/26 Budget Report and Medium-Term Financial Strategy including Non Domestic Rates and Council Taxes for the Year 2025/26

Resolution by the Court of Common Council

1. It is recommended that for the 2025/26 financial year the Court of Common Council approves:

   - the Premium multiplier on the Non-Domestic Rate multipliers be set at 0.022 (an increase of 0.004 on the present multiplier) and Small Business Rate multipliers be set at 0.020 (an increase of 0.004 on the present multiplier) to enable the City to continue to support the City of London Police, security and contingency planning activity within the Square Mile at an enhanced level;
   - an increase of 4.99% in the 'relevant basic amount' of Council Tax to £1,102.82 based on a 2.99% general increase and a 2% increase for Adult Social Care for a Band D property (excluding the GLA precept);
   - the overall financial framework and the revised Medium-Term Financial Strategy for the City Fund; and
   - the City Fund Net Budget Requirement of £241,812,681.

Council Tax

2. It should be noted that in 2012 the Finance Committee delegated the calculation of the Council Tax Base to the Chamberlain and the Chamberlain has calculated the following amounts for the year 2025/26 in accordance with Section 31B of the Local Government Finance Act 1992:

   (a) 9,595.07 being the amount calculated by the Chamberlain (as delegated by the Finance Committee), in accordance with the Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012, as the City's Council Tax Base for the year; this amount includes a calculation of the amount of council tax reduction; and

   (b) Parts of Common Council's Area

Inner Temple	Middle Temple	City excl. Temples (special expense area)
101.28	76.17	9,417.62

   being the amounts calculated by the Chamberlain, in accordance with the Regulations, as the amounts of the City's Council Tax Base for the year for dwellings in those parts of its area to which the special items relate.

3. For the year 2025/26 the Common Council determines, in accordance with Section 35(2)(d) of the Local Government Finance Act 1992, that any expenses incurred by the Common Council in performing in a part of its area a function

performed elsewhere in its area by the Sub-Treasurer of the Inner Temple and the Under Treasurer of the Middle Temple shall not be treated as special expenses, apart from the amount of £22,079,000 being the expenses incurred by the Common Council in performing in the area of the Common Council of the City of London the City highways, street cleansing, waste collection and disposal, road safety, drains and sewer functions.

4. That the following amounts be now calculated by the Common Council for the year 2025/26 in accordance with Sections 31 to 36 of the Local Government Finance Act 1992:

(a) £597,816,000	Being the aggregate of the amounts which the Common Council estimates for the items set out in Section 31A(2) (a) to (f) of the Act, including the local precepts issued by the Inner and Middle Temples
(b) £587,234,365	Being the aggregate of the amounts which the Common Council estimates for the items set out in Section 31A(3) (a) to (d) of the Act;
(c) £10,581,635	Being the amount by which the aggregate at 4(a) above exceeds the aggregate at 4(b) above, calculated by the Common Council, in accordance with Section 31A(4) of the Act, as its council tax requirement for the year;
(d) £1,102.82	Being the amount of 4(c) above, divided by the amount at 2(a) above, calculated by the Common Council, in accordance with Section 31B of the Act, as the basic amount of its Council Tax for the year;
(e) £22,495,020	Being the aggregate amount of all special items referred to in Section 34(1) of the Act, including the local precepts issued by the Inner and Middle Temples;
(f) £1,241.62	Being the amount at 4(d) above less the result given by dividing the amount at 4(e) above by the amount at 2(a) above, calculated by the Common Council, in accordance with Section 34(2) of the Act, as the basic amount of its Council Tax for the year for dwellings in those

parts of its area to which no special item relates.

(g) Parts of Common Council's Area

Inner Temple	Middle Temple	City excl. Temples (special expense area)
£	£	£
1,102.82	1,102.82	1,102.82

being the amounts given by adding to the amount at 4(f) above the amounts of the special item or items relating to dwellings in those parts of the Common Council's area mentioned above divided in each case by the amount at 2(b) above, calculated by the Common Council, in accordance with Section 34(3) of the Act, as the basic amounts of its Council Tax for the year for dwellings in those parts of its area to which one of the special items relate; and

(h) Council Tax Valuation Bands

Valuation Bands	Inner Temple	Middle Temple	City excluding Temples (special expense area)
	£	£	£
A	735.21	735.21	735.21
B	857.75	857.75	857.75
C	980.29	980.29	980.29
D	1,102.82	1,102.82	1,102.82
E	1,347.89	1,347.89	1,347.89
F	1,592.96	1,592.96	1,592.96
G	1,838.03	1,838.03	1,838.03
H	2,205.64	2,205.64	2,205.64

being the amounts given by multiplying the amounts at 4(g) above by the number which, in the proportion set out in Section 5(1) of the Act, is applicable to dwellings listed in a particular valuation band divided by the number which, in that proportion, is applicable to dwellings listed in valuation band D, calculated by the Common Council, in accordance with Section 36(1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands.

5. It be noted that for the year 2025/26 the Greater London Authority has proposed the following amounts in precepts issued to the Common Council, in accordance

with Section 40 of the Local Government Finance Act 1992, for each of the categories of dwellings shown below:

Valuation Bands	Precepting Authority
	Greater London Authority
	£
A	114.17
B	133.19
C	152.22
D	171.25
E	209.31
F	247.36
G	285.42
H	342.50

6. Having calculated the aggregate in each case of the amounts at 4(h) and 5 above, the Common Council, in accordance with Section 30(2) of the Local Government Finance Act 1992, hereby proposes the following amounts as the amounts of Council Tax for the year 2025/26 for each of the categories of dwelling as shown below:

Council Tax Valuation Bands Inclusive of GLA Precept

Valuation Bands	Inner Temple	Middle Temple	City excluding Temples (special expense`
	£	£	£
A	849.38	849.38	849.38
B	990.94	990.94	990.94
C	1,132.51	1,132.51	1,132.51
D	1,274.07	1,274.07	1,274.07
E	1,557.20	1,557.20	1,557.20
F	1,840.32	1,840.32	1,840.32
G	2,123.45	2,123.45	2,123.45
H	2,548.14	2,548.14	2,548.14

7. The Common Council of the City of London hereby determines that the following amounts of discount be awarded:

i. dwellings in Class B as defined in the Council Tax (Prescribed Classes of Dwellings) (England) Regulations 2003 prescribed by the Secretary of State under the provisions of Section 11A of the Local Government Finance Act 1992 should be nil;

ii. dwellings in Class C as defined in the Council Tax (Prescribed Classes of Dwellings) (England) Regulations 2003 prescribed by the Secretary of State under the provisions of Section 11A of the Local Government Finance Act 1992:

   (a) in the case of a vacant dwelling that has been such for a continuous period of less than 6 months ending immediately before the day in question: should be nil;

   (b) in the case of a vacant dwelling that has been such for a continuous period of 6 months or more: should be nil;

iii. dwellings in Class D as defined in the Council Tax (Prescribed Classes of Dwellings) (England) Regulations 2003 prescribed by the Secretary of State under the provisions of Section 11A of the Local Government Finance Act 1992 should be nil;

iv. care leavers within the City up to the age of 25, under Section 13A(1)(c) of the Local Government Finance Act 1992 subject to liability considerations should be 100%; and

v. discretionary discounts up to 100% under Section 13A(1)(c) of the Local Government Finance Act 1992 to provide council tax support in exceptional circumstances as agreed by the Finance Committee at its meeting in November 2017.

8. The Common Council of the City of London determines that for 2025/26 a long-term empty property premium is levied under the provisions of Section 11B of the Local Government Finance Act 1992 at the maximum rate in accordance with legislation. (For 2025/26 this will result in an additional levy of 100% i.e. a council tax charge of 200% for applicable vacant dwellings empty over 2 years but empty less than 5 years. An additional levy of 200% i.e. a council tax charge of 300% will be applicable for dwellings empty over 5 years. An additional levy of 300% i.e. a council tax charge of 400% will be applicable for dwellings empty over 10 years) .

9. Under the provisions set out in the Levelling-up and Regeneration Act 2023 determine that a new long-term empty property premium of 100% be charged for properties that have been empty for longer than 12 months in 2025/26.

10. Introduce the Second Home Premium from 2025/26. This will result in an additional levy of 100% i.e. a council tax charge of 200%, on a second home.

11. The Common Council of the City of London hereby determines that its relevant basic amount of council tax for 2025/26, calculated in accordance with Section 52ZX of the Local Government Finance Act 1992 is not excessive in accordance with the Referendums Relating to Council Tax Increases (Principles) (England) Report 2023/24.

Council Tax Reduction (formerly Council Tax Benefit)

12. It be noted that at the Court of Common Council meeting in January 2017 Members approved the Council Tax Reduction Scheme for 2017/18 and future years to be the same as the scheme for 2016/17. There were no proposals to make any specific amendments to the Council Tax Reduction Scheme for that or future years, beyond keeping the scheme broadly in line with Housing Benefit.

    Effectively, therefore, the City's Local Council Tax Reduction Scheme for 2025/26 will remain the same subject to the annual uprating of non-dependent income and deductions, income levels relating to Alternative Council Tax Reduction, or any other uprating as it applies to working age claimants, adjusted in line with inflation levels by reference to relevant annual uprating in the Housing Benefit Scheme or The Prescribed Council Tax Reduction Scheme for Pensioners.

    In addition, to determine that pensions received by veterans under the War Pension Scheme and other British military compensation schemes identified in Schedule 5 (1) of The Council Tax Reduction Schemes (Prescribed Requirements) (England) Regulations 2012, Housing Benefit Regulations 2006 Schedule 5 (15) or Housing Benefits (State Pension Credit) Regulations 2006 Schedule 5 (1) are fully disregarded in the calculation of Housing and Council Tax Reduction.

Non Domestic Rates

13. The Common Council of the City of London being a special authority in accordance with Section 144(6) of the Local Government Finance Act 1988 hereby sets for the chargeable financial year beginning with 1st April 2025, a Non-Domestic Rating Multiplier of 0.577 and a Small Business Non-Domestic Rating Multiplier of 0.519 in accordance with Part II of the Schedule 7 of the said Act. (Both multipliers are inclusive of the City business rate premium of 0.022 & 0.020 respectively).

14. In addition, the levying by the Greater London Authority of a Business Rate Supplement in 2025/26 of 0.020 (i.e. 2.0p in the £) on hereditaments with a rateable value greater than £75,000, to finance its contribution to Crossrail, be noted.

15. Determine that an award of 100% Discretionary Discount is made under S47 Local Government Finance Act for qualifying Nursery Schools.

16. A copy of the said Council Taxes and the Non-Domestic Rating Multipliers, signed by the Town Clerk, be deposited in the offices of the Town Clerk in the said City, and advertised within 21 days from the date of the Court's decision, in at least one newspaper circulating in the area of the Common Council.

Capital Expenditure and Financing for the Year 2025/26

Having considered the circulated report, we further recommend that the Court passes a resolution in the following terms: -

17. The City Fund capital budget is approved, and its final financing be determined by the Chamberlain, apart from in regard to any possible borrowing options.

18. For the purpose of Section 3(1) of the Local Government Act 2003, for the financial years 2025/26 to 2027/28, the Court of Common Council hereby determines that at this stage the amount of money (referred to as the "Authorised Limit"), which is the maximum amount which the City may have outstanding by way of external borrowing, shall be £458,000,000.

19. For the purpose of Section 21(A) of the Local Government Act 2003, for the financial year 2025/26, the Court of Common Council hereby determines that the prudent amount of Minimum Revenue Provision is £1,400,000 using the asset life method over the useful economic life of the relevant assets and which equals the amount of deferred income released from the premiums received for the sale of long leases in accordance with the Minimum Revenue Provision Policy at Appendix E.

20. Any potential external borrowing requirement and associated implications will be subject to a further report to Finance Committee and the Court of Common Council.

21. The Chamberlain be authorised to lend surplus monies on the basis set out in the Annual Investment Strategy, with an absolute limit of £300m for maturities in excess of 365 days.

22. The following Prudential Indicators be set:

	2025/26	2026/27	2027/28
Estimates of the ratio of financing costs to net revenue stream:			
HRA	(0.48)	(0.39)	(0.17)
Non-HRA	(0.02)	(0.08)	(0.10)
Total	(0.50)	(0.47)	(0.27)
Estimates of Capital Expenditure & External Debt	£m	£m	£m
HRA	44.2	16.2	11.4
Non-HRA	516.6	248.1	120.1
Total	560.6	264.2	131.4
Estimates of Capital Financing Requirement – underlying need to borrow	£m	£m	£m
HRA	11.0	8.7	3.0
Non-HRA	215.8	218.1	223.9
Total	226.8	226.9	226.9

	Period 2024/25 to 2028/29 £m
Gross Debt	12.2
Capital Financing Requirement – underlying need to borrow	226.9

Prudential indicators for affordability, prudence, capital expenditure and external debt:

TREASURY MANAGEMENT INDICATORS	2024/25	2025/26	2026/27	2027/28	2028/29
	Probable Outturn	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Authorised Limit for external debt (City Fund) -					
Borrowing	326.8	326.8	326.8	326.8	326.8
other long-term liabilities	24.2	21.2	18.4	17.6	17.0
TOTAL	**351.0**	**348.0**	**345.2**	**344.4**	**343.8**
Operational Boundary for external debt (City Fund) -					
Borrowing	226.8	226.8	226.8	226.8	226.8
other long-term liabilities	24.2	21.2	18.4	17.6	17.0
TOTAL	**251.0**	**248.0**	**245.2**	**244.4**	**243.8**
Actual external debt (City Fund)*	-	-	-	-	-
Upper limit for total principal sums invested for over 365 days	£300m	£300m	£300m	£300m	£300m
(per maturity date)					

Maturity structure of borrowing during 2024/25	upper limit	lower limit
- under 12 months	50%	0%
- 12 months and within 24 months	50%	0%
- 24 months and within 5 years	50%	0%
- 5 years and within 10 years	75%	0%
- 10 years and above	100%	0%

	2024/25	2025/26	2026/27	2027/28
Times cover on unencumbered revenue reserves	3.7	1.5	0.0	0.0
At this time last year	3.0	-0.8	-1.2	0.0

Other Recommendations

23. The Treasury Management Strategy Statement and Annual Investment Strategy 2025/26 are endorsed.

24. The Chamberlain’s assessment of the robustness of budgets and the adequacy of reserves and contingencies is endorsed.

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Committee(s): Finance Committee – For decision Court of Common Council – For decision	**Dated:** 18th February 2025 6th March 2025
Subject: City Estate 2025/26 Budget and Medium-Term Financial Plan	**Public report:** For Decision
This proposal: • **delivers Corporate Plan 2024-29 outcomes** • **provides statutory duties** • **provides business enabling functions**	All
Does this proposal require extra revenue and/or capital spending?	Yes
If so, how much?	Proposals for additional funding both permanent, one-off and capital are set out within the report
What is the source of Funding?	City Estate
Has this Funding Source been agreed with the Chamberlain's Department?	Yes.
Report of:	The Chamberlain
Report author:	Daniel Peattie – Assistant Director, Strategic Finance

Summary

This report covers the 2025/26 budget and 5-year financial outlook for City's Estate and Guildhall Administration. The report should therefore be read in conjunction with the City Fund report on your Committee's agenda.

After a period of significant economic volatility and the effects of high-inflation, the past twelve months have seen a gradual return to stability. However, the high inflation's impact continues to exert pressure as increased costs are now embedded in contracts and wages. Despite stagnation last year, the broader economy is projected to grow by only 1-2% through to 2028. Whilst the City Corporation has benefited from higher interest rates, they have not been sufficient to offset embedded cost increases of price inflation.

The overall position of City's Estate has improved this year due to the decision to halt the Markets Co-location Programme. Although significant sums will still be incurred under the revised approach, these are expected to be offset by capital receipts. This decision alleviates some of the previous need for substantial asset disposals to cashflow the capital programme. However, City's Estate continues to rely on the growth of its investment assets to support the annual deficit position. In recent years, due to significant external events, asset values have not kept pace with the annual deficit, necessitating close attention to future projects and the level of capacity available within City's Estate. A new Investment Strategy has been adopted which will be crucial for future sustainability. In the interim, increased focus is needed on the income generation proposals and potentially a new savings programme.

The potential for a recession in 2025 is being examined by experts. There are varying perspectives, with some uncertainty and risk surrounding the economic forecast for that year.

This could impact the City's Estate key revenue streams, particularly: rental income from investment properties, event bookings, student intakes at the Guildhall School Music and Drama (GSMD), potentially making City's Estate income streams volatile in 2025/26. Furthermore, the Government's imposition of VAT at 20% on independent school fees may lead to a reduction in income for the four City Corporation fee paying schools. This change comes at a delicate time for City Schools, particularly for those like City of London Girls School (CLGS), which are just recovering their pupil numbers.

Table 1: Summary position of City's Estate

CITY'S ESTATE	2024/25 Budget £m	2025/26 Budget £m	2026/27 Forecast £m	2027/28 Forecast £m	2028/29 Forecast £m
Net cost of services*	6.5	4.5	2.5	0.8	(2.6)
Financing and Capital costs**	(122.7)	(7.9)	(178.5)	2.2	(88.3)
Surplus/(Deficit)	**(116.2)**	**(3.4)**	**(176.0)**	**3.1**	**(90.9)**

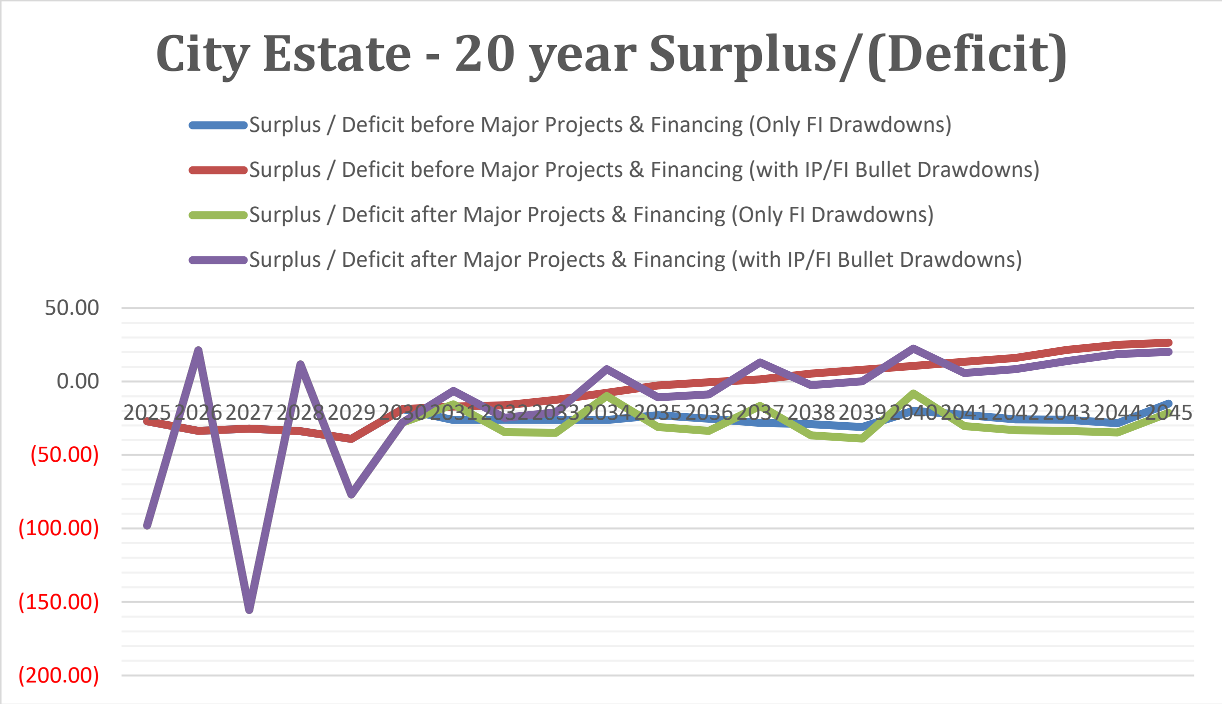
*Net cost of services includes, business as usual income and expenditure, plus a draw down from financial gain.
** Financing and capital costs – includes financing costs, loss of rental income from asset disposals, compensation and profit from sale of receipts in relation to the major projects programme. Plus, approved cyclical works programme and business as usual capital programmes. Note, capital expenses for major projects are excluded from the revenue budgets which affects the balance sheet.

Over the five-year financial plan, the net cost of services is anticipated to move into a small deficit from 2028/29 due to additional pressures and assumptions updated to include a 2% increase in net local risk budgets in 2028/29. Financing and capital costs over this period will involve significant expenditures and profits from capital receipts, associated with the completion of the market's co-location programme. This will require additional annual drawdowns beyond the assumed growth in financial assets needed to cover exceptional items, including the capital programme. Over the planning period, the cumulative deficit is forecast to be £383.4m. Balance Sheet forecasting indicates this sum is sustainable over the medium term.

City's Estate heavily relies on the growth in asset values to support the balance sheet, while also requiring the disposal or release of assets to maintain cashflow. This applies to both property and non-property. Stopping the markets co-location programme has strengthened net assets, supporting the sustainability of the City's Estate fund and investment portfolio. This will in turn allow the Corporation to progress with implementing the investment strategy in diversifying its investment assets, which, according to longer term modelling, suggests recovery and a transition into surplus in 15 years, which is crucial for future sustainability. . In the interim, increased focus is needed on the income generation proposals and not adding any additional pressure on City's Estate investment assets, to allow time for the strategy to be embedded.

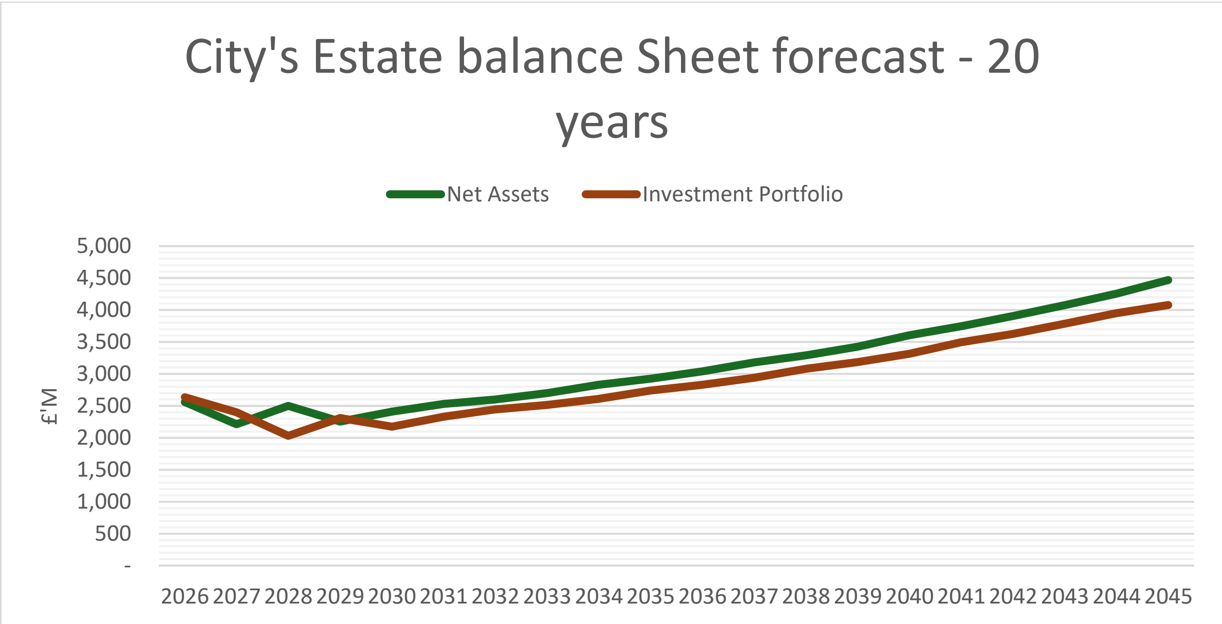
Chart 1 below shows the impact of the revenue position over the next 20 years, both with and without the implementation of the investment strategy (IP – Investment Property; FI – Financial Investments).

Chart 1: City's Estate revenue position over the next 20 years



In relation to the Balance Sheet, while net assets are projected to decline by £386m over the medium term, it is anticipated that the City's Estate will restore its sustainability to current levels by year nine. Based on current assumptions, net assets are expected to exceed £4bn in 20 years, with the first tranche of the private placement loan repayment due in 2044.

Chart 2: City's Estate balance sheet forecast over 20 years



The Resource Allocation Sub Committee has provisionally approved allocations for new capital programmes of £2m in City's Estate. Given the broader financial constraints within City's Estate, no new proposals were solicited as part of the 2026/27 MTFP process, instead, it is recommended that these amounts be maintained as contingencies to address unforeseen pressures. A re-prioritisation of existing allocations is also recommended to identify future capacity to avoid overstretching available resources.

In response, to the financial challenges the City Corporation has made significant cuts to budgets over the last decade, however, despite this there remains significant pressures as well as the scale of financing the major projects programme. A commercial approach is under review on our operational assets base, ensuring that we maximise operational effectiveness and only retain the buildings really needed to deliver services. While significant decisions have been made this year to cease its involvement in co-locating the markets, thereby improving the long-term sustainability of City's Estates balance sheet, these measures alone are insufficient to address the ongoing deficits. Therefore, it is recommended that no further funding be sanctioned for new major capital projects at least for the next 5 years, allowing time to establish the newly approved Investment Strategy. Continued emphasis on efficiencies and reducing deficit funding for charities will require support and progress to ensure the sustainability and future viability of both Charities and City's Estate.

Options to stabilise the position has been outlined in City Fund and should be considered for City's Estate these include:

- **One-off spends** addressed within resource envelope/added to MTFP, with exceptional items funded from underspends of approximately £15m projected to be carried forward from 2024/25 (including inflation contingency - paragraph 12);

- **Medium-term savings plans** – While significant decisions have been made this year to cease its involvement in co-locating the markets, thereby improving the long-term sustainability of City's Estates balance sheet, these measures alone are insufficient to address the ongoing deficits. Therefore, it is recommended that no further funding be sanctioned for new major capital projects at least for the next 5 years, allowing time to establish the newly approved Investment Strategy. Continued emphasis on efficiencies and reducing deficit funding for charities will require support and progress to ensure the sustainability and future viability of both Charities and City's Estate.

Guildhall Administration: the report also summarises the budgets for central support services within Guildhall Administration (which currently 'holds' such costs before these are wholly recovered). Consequently, after recovery of costs through allocation to services within each fund, the net expenditure on Guildhall Administration is nil.

Recommendations

Members are asked to endorse the following recommendations for onward approval to the Court of Common Council:

1.0 To note and approve the overall budget envelope for City's Estate 2025/26 revenue budgets.

1.1 Additional funding is required for new on-going cost pressures and have been included as budget uplifts (paragraphs 9 – 10):

1.1.1 Net 2% inflation uplift to local risk budgets.

1.1.2 £165k for increased internal control (split between funds)

1.1.3 £1.93m for increase in employees National Insurance

1.2 Other one-off pressures and opportunities for transformation in 2025/26 are outlined in paragraph 12 to be funded from forecast carry forward underspends from 2024/25.

1.3 Additional revenue bids (paragraph 11) have been accommodated by savings identified during the 2025/26 budget setting process.

1.4 Consideration given to uplift the Mayoralty and Shrievalty allowances by £22k subject to agreement at the Joint Deputation meeting in April 2025.

2.0 Medium Term Corporate Plan Alignment and Financial Sustainability

2.1 To address inflationary pressures going forward assumptions include 2% uplift from 2026/27 onwards.

2.2 The impact of decisions from the Court of Common Council regarding the conclusion of the markets co-location programme has been updated over the 5 year financial plan.

2.3 For Cyclical Works Programme (CWP) (paragraph 19):

2.3.1 £7.5m p.a. built in from 2028/29 onwards to support ongoing works and avoid a further backlog.

2.3.2 Note additional funding requires an additional draw on assets (modelled).

3.0 Approve the overall financial framework and the revised 5-year Financial Strategy (paragraphs 4-32).

4.0 Approve the Capital and Supplementary Revenue Project Budgets, over the five-year period for City's Estate amounting to £385.1m (paragraphs 20-22).

5.0 Approve the allocation of central funding of up to £175.7m for City's Estate to meet the cost of 2025/26 approved capital schemes. Release of such funding being subject to approval at the relevant gateway and specific agreement of the Resource Allocation Sub-Committee at Gateway 4(a). Note the agreed capital envelope for new bids of £2m in 2025/26 (paragraph 29-30).

6.0 Authorise the Chamberlain to determine the final financing of capital and supplementary revenue project expenditure.

Main Report

Background

1. The primary purpose of this report is to summarise the proposed budgets for 2025/26 for City's Estate, which have all been prepared within agreed policy guidelines and allocations, for submission to the Court of Common Council in March.

2. During the autumn/winter cycle of meetings, each Committee has received and approved a budget report, which has been prepared based on the planning framework for Chief Officers:

   - 2% increase in net local risk budgets.

   - All other inflationary pressures to be contained within the budget envelopes.

   - 2024/25 underspends to be carried forward (subject to consultation with the Chairman and Deputy Chairman of Resource Allocation Sub Committee) to address one-off budget pressure and fund transformation opportunities.

   - Continued work on workstreams to review operational property utilisation and income generation.

   - While the Court of Common Council approved funding to address the back log of Cyclical Works Programme (CWP), proposal also included to add a further £15m p.a. split across City Fund and City's Estate from 2028/29 onwards. Members should consider whether this is still included to avoid a future backlog of works. There is a significant risk of not addressing the CWP, increasing deterioration in operational properties subsequently posing health hazards and leading to an increase in major projects programmes – funding has been allocated for 2025/26, and the wider 5-year financial plan, for urgent health and safety works, and to catch up on the backlog of works and forward plan.

3. The overall financial strategies and budget policies for City's Estate are set out in Appendix 1. City Fund's medium-term financial strategy is included in the separate City Fund report.

Current Position

4. After a period of significant economic volatility and the effects of high inflation, the past twelve months have seen a gradual return to stability. However, the high inflation's impact continues to exert pressure as increased costs are now embedded in contracts and wages. Despite stagnation last year, the broader economy is projected to grow by only 1-2% through 2028. Inflation has been highly volatile and significantly above the Bank of England's 2% target in recent years, reaching levels over 11% in 2022/23 but currently down to c2%. In 2025/26 this is expected to drop below 2% before rising back to around 2% during 2027.

5. The potential for a recession in 2025 is a subject of considerable discussion among experts. Opinions differ widely, with a notable degree of uncertainty and risk surrounding the economic forecast for that year. Several factors continue to influence this outlook. While the labour market has shown signs of softening, significant global events such as

geopolitical tensions and economic policies in other countries may contribute to economic instability. There remains a risk on income streams, particularly: rental income from investment properties, event bookings, student intakes at the Guildhall School Music and Drama (GSMD) Furthermore, the Government's imposition of VAT at 20% on independent school fees may w lead to a reduction in income for the four City Corporation fee paying schools. This change comes at a delicate time for City Schools, particularly for those like City of London Girls School (CLGS), which are just recovering their pupil numbers.

6. The overall position of City's Estate has improved this year due to the decision to halt the Markets Co-location Programme. Although significant sums will still be incurred under the revised approach, these are expected to be offset by capital receipts. This decision alleviates some of the previous need for substantial asset disposals to cashflow the capital programme. However, City's Estate continues to rely on the growth of its investment assets to support the annual deficit position. In recent years, due to significant external events, asset values have not kept pace with the annual deficit, necessitating close attention to future projects and the level of capacity available within City's Estate. A new Investment Strategy has been adopted which will be crucial for future sustainability. In the interim, increased focus is needed on the income generation proposals and potentially a new savings programme.

7. Whilst individual budgets have changed, the overarching messages from the 2024/25 MTFP remain the same. Those being:

   a. City's Estate runs with an annual operating deficit with planned draw down of assets (property or financial) .
   b. The scale of the Capital programme and major projects for City's Estate continues to place significant pressure on the resources available over the medium term and is reliant on future receipts to cover expenditure.

8. When considering the competing pressures and priorities, the newly developed Corporate Plan provides a framework to ensure decisions are aligned to the approved key outcomes (refer to paragraphs 11 to 15 of City Fund Budget report).

Budget Response

9. The budget approach for 2025/26 has been to stabilise the position, acknowledging the headwinds in play, with a net 2% uplift in local risk budget, whilst also looking to review operational property utilisation and income generation

10. However, following the star chambers and ongoing discussions a number of pressures were identified to either align funding to more appropriate source or support the Corporation's ambitions. These have been added to the budget and are set out in Appendix 2 and further supported by Resource Allocation Sub away day:

    - Following the Government's announcement to increase employers **National Insurance** from April 25, an additional £1.93m has been factored into the budget.
    - Funding allocated to strengthen the Corporations **Internal Audit Team** to deliver the extensive audit programme - £80k. This is allocated to reinforce the internal audit team and ensure the successful execution of the comprehensive audit programme.

11. Cost pressures or bids for new activities have been identified in individual services by their service committee, these costs need to be funded within the overall envelope, or through the increase in income generation. £1.5m savings have been identified during the 2025/26 budget process and it is recommended that these new pressures be reprioritised from these savings to support the cost pressures:

- As outlined in City Fund budget report, paragraph 17, the following pressures will be shared 50:50 across both funds:

  i. Following the project governance review, the Policy and Resources Committee endorsed the proposals for the new Commercial, Change, and Portfolio Delivery (CCPD) at its meeting on December 23. Therefore, it is recommended that the £701k of identified savings be allocated to the CCPD budget starting from the fiscal year 2025/26 to support the progress of income generation.

  ii. Last year, we indicated that an assessment of EEDI pressures was in progress. A total of £401k (across funds) has been allocated from the identified savings for EEDI and added to their budget for the fiscal year 2025/26.

  iii. £300k has been added to DiTS budget to realign where savings from the Agilysys contract relating to Police services were formerly received. This cost pressure has been offset against the original Agilysys savings achieved.

- The following pressures fall under City's Estate:

  iv. The Mayoralty and Shrievalty Budget has experienced additional inflationary costs exceeding the planned 2% due to London Living Wage and related catering costs. It is recommended that an increase of **£22k** p.a., in the budget is approved, from City's Estate, subject to approval at the Joint Deputation Meeting in April 2025.

  v. The Corporate Charities review has been vital in addressing over 100 years of unresolved governance and understanding charity assets. Temporary funding has been provided over several years to manage this initiative. Given charities are regulated by the Charity Commission, it is recommended that a dedicated charity support hub be established on a permanent basis to support any changes to regulations to ensure compliance and to compete the remaining tasks of the review. The estimated total cost for this endeavour would be £170k, with £130k being recoverable from the charities and the remaining **£40k** is recommended to be funded from City's Estate. This recommendation is subject to Finance and Policy and Resources approving at its February meeting.

  vi. There is an increase in Gresham grant of **£97k** (City's Estate) bringing the total annual grant to £840k. Whilst the figure of £840k represents an uplift from the current level of financial support (£743k), the flat-fee basis over the five-year period represents a diminishing sum in real-terms year on year. Both the City Side (approved by Policy and Resources Committee) and the Mercers' Side are fully aligned entirely in this matter and the

Mercers' Company is progressing an identical proposal through its own governance structures.

vii. Additional pressures from London Living Wage inflation have impacted a number of areas, this is still being felt in GSMD mainly, £**423k** It is recommended additional funding is provided offset by savings delivered.

12. When setting the budget for 2025/26, the intention has been to capture and consider pressures as part of that process. Therefore, the use of 2024/25 underspends to fund additional pressures has been considered for exceptional and one-off events. The wider intention is that any underspend on 2024/25 go into reserves reducing the amount required on deficit funding. We are currently forecasting underspends of c£15m on City's Estate. The below one-off or time limited funding has been requested by Committees or recommended:

- As outlined in City Fund budget report, paragraph 18 the following pressures will be shared 50:50 across both funds:

i. It is recommended that the current transformation funding agreed for 2024/25 be reviewed and, if necessary, supplemented to continue supporting the shift service delivery and cultural change required. The estimated amount needed is likely to be an additional £2m to £3m in 2025/26, to be funded from 2024/25 underspends.

ii. The current budget allocated to the Human Resources department is insufficient to cover essential business operations, let alone advance the new people strategy. The Corporate Services Committee, Finance Committee, and Policy and Resources Committee have acknowledged that budget cuts in previous years have severely impacted services. Consequently, they have supported temporary funding of £1.8m p.a. for up to three years to assist in revitalising the department. The implementation of the new Enterprise Resource Planning (ERP) system will significantly enhance efficiency and improve service delivery. It is therefore recommended that the temporary funding be supported through the underspend carried forward from the 2024/25 budget.

iii. With the Learning & Development Strategy now embedded as a core component of our People Strategy, each element presents essential training demands. Work is underway to review the total training costs being incurred across the Corporation, however, appreciate that this could take some time to get underway as it involves collating and negotiating with Chief Officers. Recommendation is that Transformation funding be explored for the current year and next - c£810k.

iv. £3m funding is required over three years to bring in a strategic partner to support the Town Clerk's Transformation Programme. This programme aligns with the Five Years vision and aims to promote organisational excellence, financial sustainability, and prepare the City Corporation for a digitally focused, AI-driven future. It is recommended that this be funded through the transformation fund.

v. £447k p.a. for the next three years, has been temporarily added to the DITS budget for the ERP Support team and out of hours services, funded by Agilysys savings. Ongoing allocations for the new ERP system will be reviewed and updated post implementation.

vi. £300k As highlighted last year, the current budget for Corporate Communications and External Affairs is insufficient to cover core basic BAU obligations and roles (with even some statutory obligations that are currently unfunded) - the transformation required of the team and across the City Corporation, or key priority areas, such as the Town Clerk's engagement and People Strategy, due to the lack of any operational budget across many areas of the division. In addition to interim Chief Officer arrangements being in place (commencing Oct 2024), there is a focus on greater efficiency and effectiveness seeing a reduction in overspends, wholesale reform is still required. Therefore, the recommendation for one-off funding is supported for 2025/26 from 2024/25 underspends with permanent funding solution addressed under the 2026/27 budget setting process.

- The following pressures fall under City's Estate:

i. The Lord Mayor's Show has historically been profitable, but post-Covid financial challenges have made traditional revenue streams less reliable, and there is a need to establish a more sustainable funding model. This in addition to the 12% budget reduction imposed by the previous savings programme which has meant Corporation departments providing services in support of the Show are no longer able to absorb costs within their own local budgets. This has resulted in significant activity over the last year to provide an evidenced baseline and gap analysis to underpin future commercial opportunities. Funding for the next five years is recommended through transformation funds or carry forwards starting from 2025/26.

ii. The Guildhall Club has been operating under a flat cash budget and continues to face financial pressure. There is an upcoming review that will include measures agreed to address wastage, which is anticipated to result in some improvement. Additionally, the contract for the club and catering services is due to go out for tender imminently. In the interim, it is recommended that one-off funding be applied to the 2025/26 period through carry forwards. The pending review aims to align pay and prices and address wastage due to no-shows. The review results are expected to be presented in 2025.

iii. The nature of Mansion House involves both political and fiscal decisions. Previous savings programs have required Mansion House to assume costs previously supported by other departments. The ongoing work to commercialise Mansion House will always be restricted by the venue's multiple uses for other national political, City civic, and international efforts to project UK soft power, which result in significant financial and commercial opportunity costs for it. It is therefore recommended that these pressures be addressed. Budget pressure discussions have occurred with both the Chamberlain and Efficiency and Performance Working Party. As work is ongoing, it is recommended that temporary funding between £0.8m to £1m, from 2024/25 carry forwards, be provided to address pressures during 2025/26, with a detailed proposal for a permanent measure to be presented during the 2026/27 budget setting process.

iv. Last year, the Court of Common Council approved funding for the Natural Environment Charities Review. Progress has been made in exploring potential improvements, and recommendations will be presented to the Finance Committee, Resource Allocation Sub Committee and Policy and Resources Committee during its January/February meetings. An additional funding request of £1.57m over two years is proposed to support the implementation of changes in the management, governance, and funding of the Natural Environment Charities, aiming to make them more sustainable in the future. It is recommended this funding is requested from the existing transformation fund.

v. One off additional funding of £187k required for the Gresham Almshouses for repair works as approved by Finance Committee in October 2024.

vi. The Guildhall School of Music and Drama (GSMD) has experienced fixed student fees over the past 13 years, while costs have increased with inflation. However, this increase has not been reflected in student fees. Projections indicate an increasing financial pressure amounting to £2.5m for the 2025/26 financial year. Although mitigating strategies are being considered, it is recommended that temporary funding by provided to GSMD from underspends carried forward from 2024/25, The exact amount will be determined during the carry forward process in May 2025.

vii. The City of London Girls School (CLGS) has made significant changes to its operating model, educational programme and facilities, and increased its pupil roll to close the gap with the experience of boys at City of London School (CLS). However, the recent introduction of VAT may affect progress if this growth cannot continue through recruiting enough sufficiently able pupils to perpetuate results, the principal marketing element of academic schools of this standing. Raising school fees beyond current proposal would have serious consequences and require significant cost savings, which are not feasible. Since the Service Based Review in 2014, the reduction in the Corporation’s grant for bursary support has led to a reprioritisation of school fees to maintain bursaries, with approximately 6% - now funded through school fees. While it is common for private schools to allocate fees to supplement bursaries, the extent to which CLGS is doing so is unprecedented. Reducing bursary places could offset financial impacts but contradicts the school’s ethos of diversity and accessibility. Though external funding is ongoing, it will take years to sufficiently support this reallocation. Members should note that CLGS was the only school to deliver annual savings of £598k against the Service Based Review. The Schools Board of Governors agreed to these savings with the understanding that they would be reinstated after seven years, following which the Tomlinson review occurred without considering the already delivered savings. Therefore, it is recommended that transitional relief be provided from an equality’s perspective. This requires further work and discussions, during January, on the amount and duration of the relief to address financial challenges, noting that the Court of Common Council has already established the level of education funding following the Tomlinson Review

viii. Two budget pressures have been identified by the Markets Board for Smithfield Market totalling £698k. These relate to the freeze in service charge cap at Smithfield, which has been in place since 2018/19 and ongoing residual costs following the Poultry market closure. Up to the financial year 2023/24 these pressures have been managed within the Chief Officer's overall local risk budget but 2024/25 shows an overspend which will significantly worsen in 2025/26. It is, therefore, no longer possible to contain this pressure within the local risk budget without making significant savings in the service, which would be on top of the £334k savings already planned for 2025/26 for Smithfield Market. Given the decisions made in December 2024 around the future of the markets, Members may wish to consider providing temporary funding for the period of three to four years to alleviate the financial strain until the market is formally dissolved.

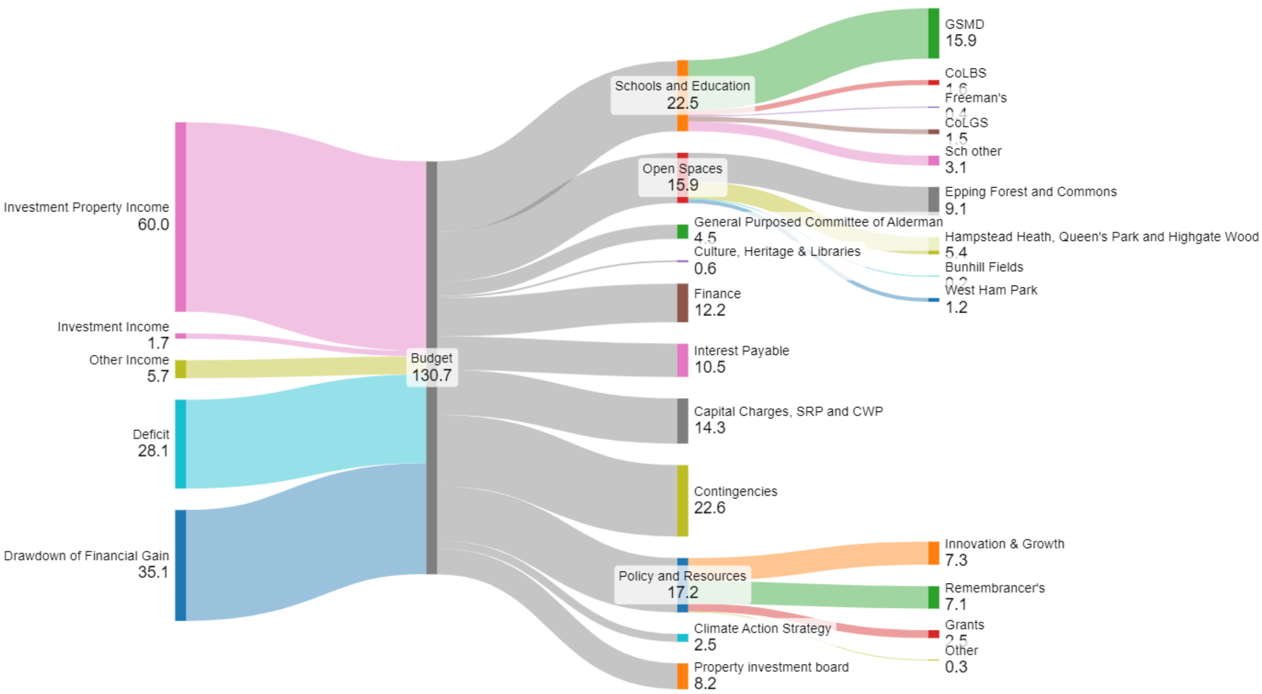
ix. It is advisable to carry forward an amount from 2024/25 underspends to mitigate inflationary pressures, such as energy costs and unforeseen contract increases due to the rise in London Living Wage. Members should note that a review of energy budgets will be conducted during 2025/26, with proposals to address any budgetary gaps to be presented during the 2026/27 budget setting process.

Latest forecast position

13. City's Estate does not fall under the same financial regulation as City Fund. However, we still need to maintain a sustainable financial outlook, of which a balanced annual position should be the aim. **All City's Estate reserves are invested to maximise return. Therefore, any deficits being incurred require assets to be disposed.** Chart 3 below, sets out the 2024/25 net budget position for City's Estate, to show in broad terms where the funding comes from on the left-hand side and where it is spent on the right-hand side.

14. The Sankey Chart 1 shows that at present, City's Estate operates with an annual deficit. It should be noted this already assumes a notional drawdown of financial asset gain of c£30m per annum.

Chart 3: 2024/25 net budget



15. Following the November Court decision to end the Markets Co-location programme, the budgets have been updated to reflect plans agreed upon in principle to provide market traders with financial support for relocation to new premises. Although there are costs associated with this new approach, they are anticipated to be offset by capital receipts. These costs will impact the revenue budgets, resulting in a notable variance from one year to the next over the five-year financial plan. Chart 4 and table 2 below illustrates that City's Estate income and expenditure (excluding major project financing, CWP and business as usual (BAU) capital programmes), will start to show a small deficit beginning in 2028/29. However, when including major project financing, compensation, CWP and BAU capital costs, significant fluctuations occur over the five-year financial plan, influenced by the timing of expenditure and profits received from existing sites related to the markets programme.

Chart 4: City Estate surplus/deficit

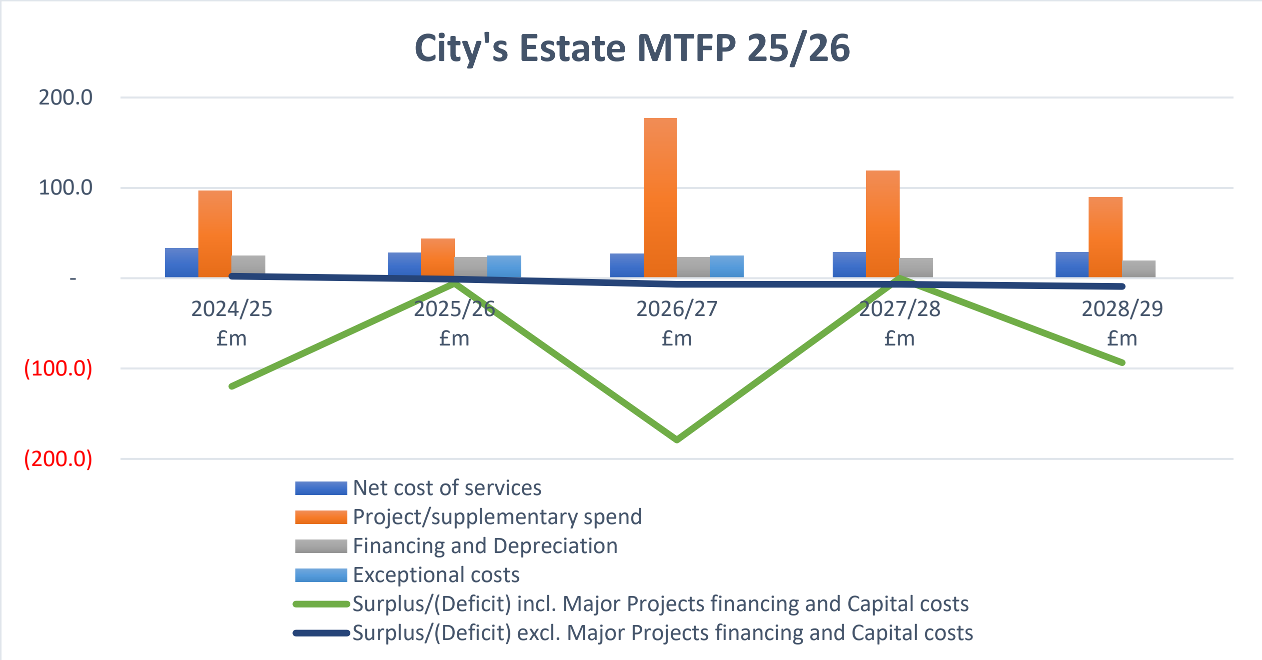


Table 2: City's Estate 5-year financial plan

CITY'S ESTATE	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**	**2027/28 £m**	**2028/29 £m**
Net cost of services*	6.5	4.5	2.5	0.8	(2.6)
Projects					
Supplementary Revenue Projects	(5.8)	(5.9)	(0.1)	-	-
Cyclical Works Programme	(10.4)	(17.5)	(22.2)	(23.2)	(26.4)
Climate Action	(2.5)	(1.0)	(0.7)	-	-
Major Projects Revenue Implication	(60.4)	65.4	(112.9)	56.1	(27.2)
Capital Programme Funding	(18.8)	(25.5)	(19.0)	(8.7)	(15.1)
Surplus/(Deficit) before capital financing	**(91.3)**	**20.1**	**(152.5)**	**25.0**	**(71.4)**
Depreciation	(14.3)	(12.9)	(12.9)	(11.4)	(9.0)
Loan interest cost	(10.5)	(10.5)	(10.5)	(10.5)	(10.5)
Surplus/(Deficit)**	**(116.2)**	**(3.4)**	**(176.0)**	**3.1**	**(90.9)**

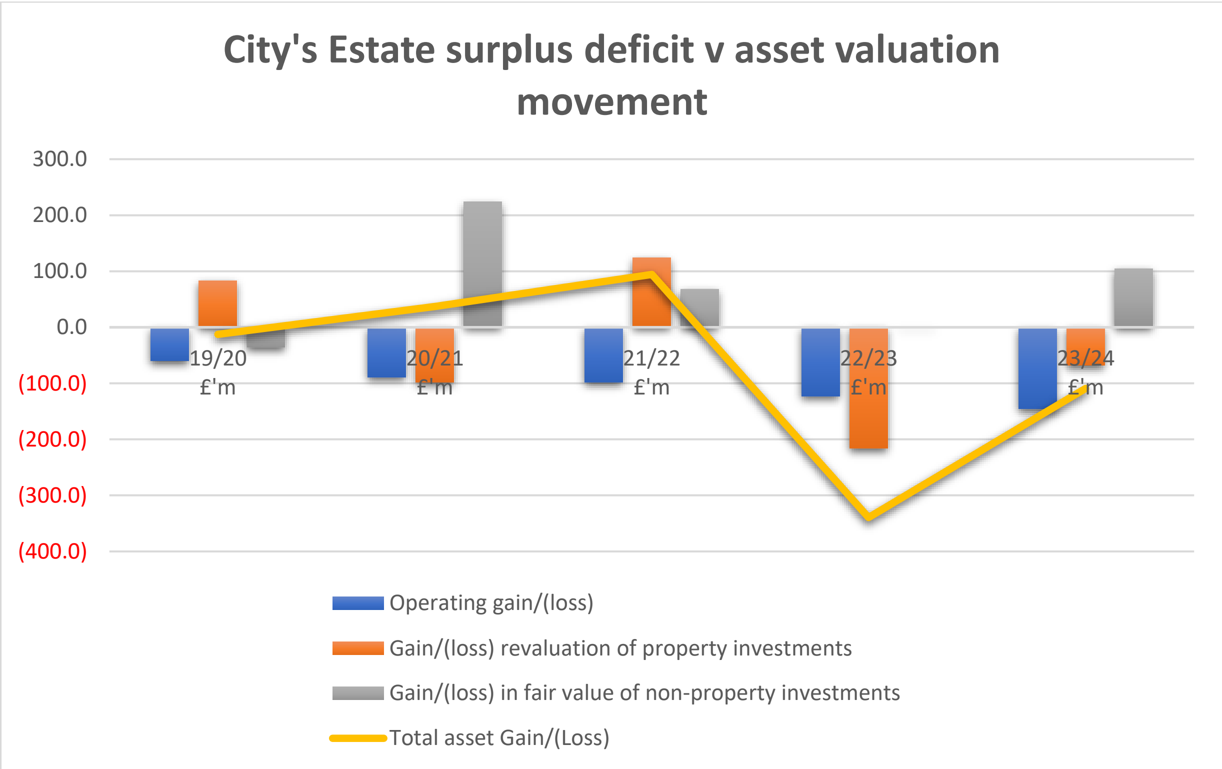
*Net cost of services includes, business as usual income and expenditure, plus a draw down from financial gain.
** Note, capital expenses for major projects are excluded from the revenue budgets which affects the balance sheet.

16. The following areas are significant changes from the prior year's 2025/26 MTFP position:
    - Change in funding requirements for BAU Capital programme through slippage and reprofiling (£19.8m)
    - Decrease in revenue costs for major projects through reprofiling (£4.7m)
    - Increase in income (£4m)

17. Over the 5-year financial plan the cumulative deficit is £383.4m, This is in addition to an estimated drawdown on financial asset gain of £177m included within net cost of services. The ongoing annual deficits on City's Estate has a significant cashflow implications over the 5-year financial plan, for which the Corporation will need asset disposals to offset. This is expected to be a combination of both property and non-property investments and is being considered as part of the investment strategy presented to Investment Committee in February 2025.

18. Chart 5 below shows a comparison of the growth in asset values over the past five years. It shows that for the past two years the deficits incurred have not been offset by valuation increases in property and non-property investments. The investment strategy is therefore key to reversing this trend and ensuring the investment growth is sufficient to cover operating deficits. Short term volatility is to be expected in investment asset valuation and the investment strategy requires a return of CPI+4% over a 10-year period. The long-term target is being met by the investment portfolio, but with more challenging market conditions ahead, implementation of the strategy will involve greater diversification in the investment portfolio.

Chart 5: City Estate surplus/deficit v asset valuation movement over the past five years



19. Cyclical Works Programme: Over a number of years, a significant backlog of works as part of the cyclical works programme (CWP) has built up, also referred to as the "bow wave". In response to this, Court of Common Council approved funding of £133m and to add a further £15m p.a. split across City Fund and City's Estate from 2028/29 onwards.as progress on delivering these projects has been slowed as the delivery team has just been appointed but this is now in place. The funding has been reprofiled over this updated MTFP.

20. Capital Business As Usual: The Resource Allocation Sub Committee has provisionally approved allocation of £2m for new capital programmes in City's Estate. Given the broader financial constraints within City Fund and City's Estate no new proposals were solicited as part of the 2026/27 MTFP process, instead, it is recommended that these amounts be maintained as contingencies to address unforeseen pressures. A re-prioritisation of existing allocations is also recommended to identify future capacity to avoid overstretching available resources.

21. Table 3 below includes the above contingency and reprofile of the capital programme over 5 years. For further information please refer to Appendix F (City Fund report, page 15 - 16).

Table 3: City's Estate BAU Capital Programme

CITY's ESTATE	**Budget 2024/25 £'m**	**Budget 2025/26 £'m**	**Budget 2026/27 £'m**	**Budget 2027/28 £'m**	**Budget 2028/29 £'m**	**Total Budget £'m**
BAU Capital and SRP	53.5	70.5	22.0	13.7	20.1	**179.8**

22. Major Projects Programmes: The budgets for major projects programmes have been updated to reflect recent decision and presented in Table 4 below. Funding is currently assumed through planned capital receipts from the disposal of investment property; plus, a drawdown on financial investments. The implications of disposal of these investments, which currently support the City's Estate revenue position, has been included in forecasts. For further information please refer to Appendix F (City Fund report).

Table 4: City's Estate Major Projects

CITY ESTATE – Gross Exp	**F'cast spend 24/25 £'m**	**Budget 25/26 £'m**	**Budget 27/28 £'m**	**Budget 27/28 £'m**	**Budget 28/29 £'m**	**Total Budget £'m**
Museum of London Landlord works	23.8	(9.9)	(0.1)	-	-	13.8
Grant to CF for SSD	45.3	105.2	35.5	5.5	-	191.5
Total	**69.1**	**105.2**	**35.5**	**5.5**	**-**	**205.3**

A Strategic Response to Match the Scale of the Challenges for City's Estate

23. While significant decisions have been made this year thereby improving the long-term sustainability of City's Estates balance sheet, these measures alone are insufficient to address ongoing deficits. This report read in conjunction with the City Fund 2025/26 budget report recommends a number of measures to stabilise the position over the medium and longer term. This includes: No further funding be sanctioned for new major capital projects at least for the next 5 years, allowing time to establish the newly approved Investment Strategy; Developing a savings plan under the Town Clerk's Transformation Programme; Reducing deficit funding for charities to ensure the sustainability and future viability of both Charities and City's Estate.

24. The considerable costs required to bring the Markets consolidation programme to a close are anticipated to be offset by capital receipts that have already been factored into the MTFP for City's Estate. Delivering these receipts in line with projected values and timing is key.

Additional Revenue Requests

25. Policy and Resources Committee and Finance Committee have messaged clearly that cost pressures should be managed within existing resources. When setting the budget for 2025/26, the intention has been to capture and consider pressures as part of that process. Therefore, the use of 2024/25 underspends to fund additional pressures has been considered for exceptional and one-off events. The wider intention is that any underspend on 2024/25 go into reserves in order to reduce the draw down required to fund the deficit.

GUILDHALL ADMINISTRATION

Overall Budget Position

26. Guildhall Administration encompasses most of the central support services for the City, with the costs being fully recovered from the three main City Funds, Housing Revenue Account, Museum of London and other external bodies in accordance with the level of support provided. Consequently, after recovery of costs, the net expenditure on Guildhall Administration is nil. The table below summarises the position.

Table 5 – Guildhall Administration Revenue Budget

Guildhall Administration	**2024/25**	**2025/26**
by Committee ***Net (Expenditure)/Income***	**Budget** **£m**	**Budget** **£m**
Corporate Services	(8.1)	(8.6)
Digital Services	(13.1)	(13.1)
Finance	(55.6)	(60.3)
Total Net Expenditure	**(76.8)**	**(82.0)**
Recovery of Costs	76.8	82.0
Total Guildhall Administration	0	0

27. The 2024/25 budget benefits from carry forwards from 2023/24 underspends and transfers from centrally held contingencies. The 2025/26 Budget includes higher CWP budgets due to reprofiling.

28. Appendix 3 shows the Guildhall Administration budgets by committee.

City's Estate Capital

29. Members are asked to **note** that the Resource Allocation Sub Committee has provisionally approved allocations of £2m in City's Estate. Given the broader financial constraints within City Fund and City's Estate no new proposals were solicited as part of the 2026/27 MTFP process, instead, it is recommended that these amounts be maintained as contingencies to address unforeseen pressures. A re-prioritisation of existing allocations is also recommended to identify future capacity to avoid overstretching available

resources.

30. The financing of the City's Estate capital and supplementary revenue projects programmes needs to reflect the optimum reserves position of each fund. Therefore, approval is sought for authority to be delegated to the Chamberlain to determine the *final* financing of capital and supplementary revenue project expenditure.

Key risks and uncertainties – there are risks to achievement of the latest forecasts.

31. Within the City Corporation's Control:

- Ensuring permanent year on year permanent savings from existing savings programme and income schemes are delivered;
- Radical thoughts now needed for future as to how best to bring down the annual operating deficit;
- ERP Implementation - The Corporation must adopt best practice processes. Key benefits are to support a more mobile workforce; automate processes and introduce AI capabilities through a modern platform; provide direct access to staff and free up strategic capacity; provide a single source of the truth with enhanced analytics. If the Corporation fails to adopt to new ways of working the consequence will be that the current manually intensive processes with inbuilt failure demand will continue and the directly planned benefits of £600k pa (which are planned to commence in 2026/27 full finance go live) will not be realised in additional to impact the wider organisation transformation planned benefits of £500k pa.
- Ability to retain / recruit staff under the current salaries structure; Our Ambition 25 programme of change will create solutions to address this risk.
  - Create a new total reward strategy designed to meet the ambitions of a world class organisation, attracting, and retaining the best talent.
  - Create a job family framework that supports the Corporation's Head of Profession approach, tackles existing silos, and promotes transferable skills.
  - Implement a proven, robust job evaluation method to enable risk management, equity, and fairness.
  - Create and implement new pay and grading structures that address current challenges regarding market competitiveness and prevalence of allowances, with the appropriate controls to manage risk.
- Climate Action - with the current budget envelope expiring at the end of 2026/27, additional funding will be required to support delivery of the 2040 net zero and climate resilience targets between 2027/28 and 2039/40. A paper will be presented to Policy & Resources Committee in January 2025 for approval to develop the next evolution of the Climate Action Strategy. Costed options for the future strategy will be brought to Committee in summer 2025, with initial estimates between £10-22m annually.
- Major capital projects not being delivered within estimated costs; and
- Scale of ambition cannot be met through existing resources, radical decisions now required as cannot do everything.
- Ongoing operational building upkeep and renewal – whilst the CWP programme address the historic backlog of cyclical works required for those assets within this

programme (excludes ringfenced schools, service charged assets and CoLP), a forward look is also needed to consider the financial cost of future building upgrade and fabric refurbishment in line with property lifecycles. Due to the post war age of much of the portfolio and funds available focussed on cyclical works this means a significant proportion of the estate require upgrading works over the next twenty-year period. Consideration of the ongoing costs and benefits of properties and the services delivered from them need to therefore be carefully considered to ensure any such investment is aligned to corporate plans and strategies.

32. Outside the City Corporation's control:

- Inflation and interest rates – over recent years the impact of inflation has been the single biggest external driver of financial pressures. Having peaked at over 10%, inflation has now fallen significantly to reach 2% by Q2 of 2024. However, the price increases incurred are now embedded in a number of areas. The Office for Budget Responsibility (OBR) are forecasting that inflation will fall further to a level below 2% before stabilising at around 2% from 2027 onwards. Conversely over this period the increase in interest rates has provided additional income which has supported both City Fund and City Estate. Forecasts are again that interest rates will stabilise continue to reduce in 2025 so this additional income cannot be seen as ongoing. The resource requirements for the Capital programme also mean that investment and cash balances which are benefiting from these increased rates are likely to deplete over the MTFP period.
- Economists warning of a UK (global) recession during 2025, impact on income streams is unknown, particularly: rental income, event bookings, and student intakes – needs close monitoring
- VAT for schools - the imposition of VAT at 20% on school fees will likely lead to a reduction in income for schools, as VAT will account for 20% of all school fees collected. This change comes at a delicate time for City Schools, particularly for those like City of London Girls School (CLGS), which are just recovering their pupil numbers.

Conclusion

33. Despite an overall trend towards a more stable economy given recent global events and high-inflation, there are still significant pressures impacting on the City Corporation.

34. Additional funding will be required across the medium term to accommodate changes in pay (national insurance) and price uplift assumptions. Decisions are also required as to the approach to addressing the projected future cyclical works and forward plan on our operational properties following the resolution of the backlog.

35. The overall position of City's Estate has improved this year due to the decision on the future of the markets and although significant sums will be incurred under the revised approach, these are expected to be offset by capital receipts. This does alleviate some of the need for substantial asset disposals to cashflow the capital programme however City's Estate continues to rely on investment growth to maintain balance sheet stability and support the annual deficit position. A new Investment Strategy has been adopted which will be crucial for future sustainability and in the interim focus is needed on income generation and potentially a new savings programme.

Appendices

- Appendix 1 - Medium Term Financial Strategy/Budget Policy
- Appendix 2 - City's Estate Budget
- Appendix 3 - Guildhall Administration Budget

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City's Estate Medium Term Financial Strategy/Budget Policy

The main constituents of the current budget policy for City's Estate services reflect the general elements within the City Fund strategy together with the following specific objectives:

- ensure that ongoing revenue expenditure is contained within revenue income over the medium term and sufficient surpluses are generated over the long term to finance capital investment on City's Estate services;

- manage the affordability to support major projects programmes now and in the future, including bring in third party investment.

- continue to seek property investment opportunities to enhance income/seek capital appreciation during the year, subject to any financing being met from the City's Estate Designated Sales Pool; and

- sell either property or financial assets, which would need to be in addition to property disposals required to meet the financing requirements of the Designated Sales Pool, to meet City's Estate cash-flow requirements.

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CITY'S ESTATE Budget

City's Estate 2024/25 and 2025/26 budgets shown by Committee in the table below:

City's Estate Summary by Committee ***Net (Expenditure)/ Income***	**2024/25 Budget £m**	**2025/26 Original £m**
Culture, Heritage & Libraries	(0.7)	(0.6)
Education Board	(3.1)	(3.1)
Finance	(54.3)	(47.2)
G. P. Committee of Aldermen	(4.5)	(4.4)
Guildhall School of Music and Drama	(15.9)	(16.6)
Markets	(0.2)	(1.8)
Open Spaces :-		
Open Spaces Directorate		
Epping Forest and Commons	(10.6)	(13.1)
Hampstead, Queen's Pk, Highgate Wd	(6.5)	(8.3)
Bunhill Fields	(0.3)	(0.2)
West Ham Park	(1.2)	(2.3)
Policy and Resources	(20.4)	(18.6)
Property Investment Board	51.6	51.2
Schools :-		
City of London School (1)	(1.6)	(1.4)
City of London Freemen's School (1)	(0.4)	(0.6)
City of London School for Girls (1)	(1.5)	(1.5)
City of London Junior School (1)	0.3	0.2
(Deficit) Surplus (from) to reserves	**(69.4)**	**(68.4)**

Approved budget for 2024/25 includes additional allocations as set out below:

Changes	**£'m**
2024/25 Original Budget	**(71.3)**
Carry forwards from 2023/24 underspends	(10.6)
Reprofiling of CWP / SRP	5.8
Change in income (rental, investment, interest)	6.8
2024/25 Revised Approved Budget	**(69.4)**

1. The following table further analyses the budget to indicate the income produced from the City's assets (investment property rent income, non-property investment income and interest on balances, at lines 3 to 5 respectively). It also indicates the underlying deficits or surpluses on City's Estate before the anticipated profits on the sale of assets are taken into account (lines 6 to 8).

		2024/25 Budget £m	2025/26 Original £m
1	Net expenditure on services	(127.7)	(116.3)
2	Cyclical Works Programme and SRP's	(13.4)	(21.3)
3	Estate rent income	61.8	60.0
4	Non-property investment income	4.8	4.2
5	Interest on balances	1.4	2.1
6	**Operating (Deficit) Surplus**	**(72.6)**	**(71.8)**
7	Profit on asset sales/deferred income	3.2	3.4
8	**(Deficit) Surplus funded by drawdown**	**(69.4)**	**(68.4)**

2. The City's Estate position in the current year is expected to be a deficit of £69.4m compared to £71.3m in the original budget. The deficit (less non-cash items such as depreciation) will be funded with a drawdown from the gain in financial investments.

Additional funded pressures

City's Estate	**2024/25 £'m**	**2025/26 £'m**	**2026/27 £'m**	**2027/28 £'m**	**2028/29 £'m**
Re-profile of existing pressures	0.00	(25.00)	(25.00)	0.00	0.00
Internal Audit	0.00	(0.08)	(0.08)	(0.08)	(0.08)
National Insurance increase	0.00	(1.93)	(1.93)	(1.93)	(1.93)
City's Estate additional pressures	**0.00**	**(27.01)**	**(27.01)**	**(27.01)**	**(27.01)**

Appendix 3

GUILDHALL ADMINISTRATION

1. Shown by Committee is the table below:

Guildhall Administration by Committee *Net (Expenditure)/Income*	**2024/25 Budget £m**	**2025/26 Budget £m**
Corporate Services	(8.8)	(8.6)
Digital Services	(13.9)	(13.1)
Finance	(55.8)	(60.3)
Total Net Expenditure	**(78.5)**	**(82.0)**
Recovery of Costs	78.5	82.0
Total Guildhall Administration	0	0

Note - Figures in brackets denote expenditure, increases in expenditure, or shortfalls in income.

The net expenditure for 2025/26 is £82.0, an increase of £3.5m from the 2024/25 budget.

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City of London Corporation Committee Report

Committee(s): Finance Committee – For decision	**Dated:** 18/02/2025
Subject: Review of Recharges – updated position	**Non-Public report:** For Decision
This proposal: • **provides business enabling functions**	Providing Excellent Services
Does this proposal require extra revenue and/or capital spending?	Yes
If so, how much?	£240k
What is the source of Funding?	General Fund Reserves
Has this Funding Source been agreed with the Chamberlain's Department?	Yes
Report of: Caroline Al-Beyerty, Chamberlain and Chief Finance Officer	
Report author: Radwan Ahmed, Interim Assistant Director – Strategic Finance, Financial Services Directorate	

Summary

An exercise was undertaken in FY2023-24 to review the way recharges were calculated and accurately reflect current operating arrangements. This resulted in changes to how recharges were apportioned across the City Corporation group. At the Finance Committee meeting of September 24th, 2024, several Members expressed concern that the process for recharges in the financial year 2024/25, as set out in the report, would require in-year budgetary changes. It was felt that this was unreasonable and could set a dangerous precedent. This paper proposes options to remediate those concerns, which have been identified as having only a detrimental 'bottom-line' impact on Housing Revenue Account (HRA) services. The recommendations within this report were reviewed and supported by the Efficiency Performance Working Party in their meeting of January 2025.

Recommendation(s)

Members are asked to:

- Note the report
- Approve the limiting of recharges to the HRA to £1.003m for FY2024/25 only, with the additional £240k to be met from current year General Fund budgets within City Fund.

Main Report

1.0 Background

1.1 'Guildhall Admin' refers to the block of central support services such as (but not restricted to) HR, Procurement, Finance, Legal, IT, Professional Surveyors and Engineers, and Democratic Services that support the core business activity across the multiple entities that comprise the Corporation of London's group structure, including City Fund – the Local Authority, City's Estate and City Bridge Foundation (CBF). The approved budget for this group of services is £49.7m in FY2024/25 (£57.7m in FY2023/24). A large, centralised team allows the Corporation to retain in house expertise across a range of professional disciplines that would be economically unviable individually.

1.2 The Chamberlain, as the Chief Financial Officer for all these entities, has a fiduciary duty to ensure that these central costs are shared on an equitable basis. This is achieved by the process of 'Recharges'.

1.3 A review was undertaken in FY2023/24 to ensure that the methodology accurately reflected the organisations current operating model. Further details on the review are detailed in the report presented to Finance Committee at its September 2024 meeting. At this meeting Members suggested a deep dive on the recharges review be undertaken by the Efficiency and Performance Working Party; this meeting took place on 15th January.

2.0 Current Position

2.1 The recharges review updated estimation bases, techniques and the underlying data supporting the calculations for recharges. As a result, there has been a redistribution of the costs reflecting current support service use by area, with some areas seeing a reduction in costs, whilst others see an increase.

2.2 As part of the review, we also considered the process of administering recharges as part of the year end process and following officer consultation will be posting in year charges quarterly, based on the approved budget, agreed in advance especially where these relate to ring-fenced resources – see paragraph 2.3 below. No further adjustment would be made for differences arising over or underspends, which would be retained within the Finance Committee budget line. This approach will provide greater financial planning certainty to services, departments and institutions since the recharges are based on the approved budget at the start of the year. Quarterly posting also improves the cashflow distribution across the City Corporation group.

2.3 With the exception of ring-fenced resources (i.e. City Bridge Foundation, City Police and Housing Revenue Account (HRA)), the changes do not affect front line services, since the Recharges Risk budget is managed and apportioned centrally, and local arrangements to neutralise the impact e.g. in the case of the Corporation's schools, a subvention grant is made to each of the schools to negate the bottom line impact on the schools from recharges. It should be noted, where the Natural Environment Charities will move to a grant funding model from 2025/26; a review of recharges to these charities will be incorporated under the Natural Environment Charity Review (NECR).

2.4 Tables 1 to 3 in section 7 of this report, summarises the changes in recharges to City Police, the Housing Revenue Account (HRA) and City Bridge Foundation (CBF) respectively. Using the 2024/25 budget figures, the table shows that:

I. There is a decrease in recharges to the Police of £158k arising from the removal of Digital and Information Technology Services (DITS) and some HR services, for which the Police have agreed a separate SLA, and have internal service provision respectively.

II. There is an increase in recharges of £240k to the HRA service due to an increase in the use of support services than previous data had recorded. Additionally, the HRA does not benefit from the reduction in recharges relating to the Guildhall Complex as they are not based in the Guildhall.

III. CBF see a decrease of £758k in recharges as they have significantly reduced the use of Support Services, such as Finance, HR and committee clerking which are delivered internally.

2.5 The increase in charges to the HRA already compound a challenging financial position for the statutory ring-fenced fund. Due to the complexities of reviewing the recharges, the outcomes of the review and the increase in charges were not fed through budget setting process. Consequently, if implemented without mitigating or compensatory actions, this would likely contribute to an overspend on the HRA service in 2024/25.

2.6 At the Finance Committee meeting of September 24th, 2024 several Members expressed concern that the process for recharges in the financial year 2024/25, as set out in the report, would require in-year budgetary changes. It was felt that this was unreasonable and could set a dangerous precedent. The options and recommended proposal seek to remediate those concerns, which have been identified as having only a detrimental 'bottom-line' impact on HRA services.

2.7 Additionally, Members sought further information to aid their understanding of the scope and bases for recharging Guildhall Admin support services, which has now been reviewed by the Efficiency and Performance Working Party. Appendix I to this report contains a table that summarises (by each area of Guildhall Admin), the previous and revised basis for recharge apportionment.

3.0 Options to mitigate impact on HRA

3.1 In order to minimise the negative impact on the HRA, the following options are considered:

Option 1 – To disregard the outcomes of the recharges review and continue to place reliance on the historic method of apportionment. This option is not recommended since the historic bases does not reflect the current operating model, and potentially means the Corporation is not meeting its stewardship duties as a trustee of its charities and trusts, and the wider City Group structure.

Option 2 – To disregard the outcomes of the recharges review for 2024/25 only, with the revised numbers fed into the budget setting process to take effect for all areas from FY2025/26. This option is not recommended as in FY 2024/25, this would mean that Police and CBF incur additional charges of £158k and £758k greater than the data suggests is an equitable portion of the wider Guildhall Admin block of services. In the case of CBF, this challenges the legal duty in relation to proposed financial transactions between the City

Corporation as trustee and the City Corporation in its corporate capacity to operate in the duty of ‘single-minded loyalty’.

Option 3 – To limit the recharge for FY2024/25 only to the HRA to £1.003m i.e. the approved budget amount. The balance of £240k would be met by the general fund within City Fund. Whilst statutory provisions require that the HRA is operated as a ringfenced account, current legislation also requires that any overspends in the HRA are borne by the Authority’s General Fund. This arrangement would only apply to FY2024/25; from FY2025/26 onwards, the recharges as calculated using the updated will be incorporated within the planned HRA budget.

4.0 Recommendation

4.1 Members are recommended to support Option 3, as this ensures that there is a fair and equitable distribution of support service recharges across the City Corporation group, whilst mitigating the unbudgeted increase that would negatively impact the HRA. The amount of £240k can be accommodated within existing General Fund budgets without creating pressures within the General Fund or elsewhere and is in line with the original planning assumptions when the budget was approved. Therefore, no additional resource requirements are needed.

4.2 Option 3 was endorsed by EPWP in their meeting of January 2025.

5.0 Key Data

5.1 Tables 1 to 3 below, summarise the changes in recharges to City Police, the Housing Revenue Account (HRA) and City Bridge Foundation (CBF) respectively. The 24/25 numbers reflect the approved budget, and the 25/26 numbers show the latest indicative budgets. The “Original” columns show what the value of recharges was calculated using the previous methodology, with columns entitled “New” showing what the values have been calculated under the revised methodology and updated data sources.

Police

Recharge Activity	24-25 Original £'000's	24-25 New £'000's	24-25 Change £'000's	24-25 Change %	25-26 Original £'000's	25-26 New £'000's	25-26 Change £'000's	25-26 Change %
Guildhall Complex	1,121	1,345	224	20%	1,168	1,349	181	15%
Walbrook Wharf	11	0	(11)	-100%	-			
Commercial Services	273	341	68	25%	461	499	38	8%
DiTS (Information Technology)								
City Surveyors Projects	91	106	15	16%	134	88	(46)	-34%
Police Pensions	80	80	0	0%	80	80	0	0%
Support Services	1,185	731	(454)	-38%	1,318	857	(461)	-35%
	2,761	**2,603**	**(158)**	**-6%**	**3,161**	**2,873**	**(288)**	**-9%**
Year-on-Year Increase (£'000s)					**400**	**270**		
% change in Year-on-year increase/(decrease)						**-33%**		

Table 1: Comparison of recharges using the old methodology and revised for City Police, using approved and indicative budget figures for FY2024/25 and 2025/26.

Housing Revenue Account

Recharge Activity	24-25 Original £'000's	24-25 New £'000's	24-25 Change £'000's	24-25 Change %	25-26 Original £'000's	25-26 New £'000's	25-26 Change £'000's	25-26 Change %
Guildhall Complex	-	-	-	-	-	-	-	-
Walbrook Wharf	-	-	-	-	-	-	-	-
Commercial Services	124	88	(36)	-29%	208	129	(79)	-38%
DiTS (Information Technology)	328	369	41	13%	522	410	(112)	-21%
City Surveyors Projects	98	115	17	17%	95	92	(3)	-3%
Police Pensions	-	-	-	-	-	-	-	-
Support Services	453	671	218	48%	500	735	235	47%
	1,003	**1,243**	**240**	**24%**	**1,325**	**1,366**	**41**	**3%**
Year-on-Year Increase (£'000s)					**322**	**123**		
% change in Year-on-year increase/(decrease)						**-62%**		

Table 2: Comparison of recharges using the old methodology and revised for the Housing Revenue Account, using approved and indicative budget figures for FY2024/25 and 2025/26.

City Bridge Foundation								
	24-25				25-26			
	Original	New	Change		Original	New	Change	
Recharge Activity	£'000's	£'000's	£'000's	%	£'000's	£'000's	£'000's	%
Guildhall Complex	286	90	(196)	-69%	300	90	(210)	-70%
Walbrook Wharf	-	-	-	-	-	-	-	-
Commercial Services	126	76	(50)	-40%	174	112	(62)	-36%
DiTS (Information Technology)	407	566	159	39%	588	629	41	7%
City Surveyors Projects	176	183	7	4%	165	175	10	6%
Police Pensions	-	-	-	-	-	-	-	-
Support Services	2,159	1,481	(678)	-31%	2,338	1,677	(661)	-28%
	3,154	**2,396**	**(758)**	**-24%**	**3,565**	**2,683**	**(882)**	**-25%**
Year-on-Year Increase (£'000s)					**411**	**287**		
% change in Year-on-year increase/(decrease)						**-30%**		

Table 3: Comparison of recharges using the old methodology and revised for City Bridge Foundation, using approved and indicative budget figures for FY2024/25 and 2025/26.

6.0 Corporate & Strategic Implications

6.1 Strategic implications

6.1.1 Accurate recharging of support services to Corporation's services, departments and Institutions ensures that the proper stewardship across the Corporation group is adhered to, and more importantly ensures that the full cost of providing those services is recorded and reported to key stakeholders to support decision making.

6.2 Financial implications

The financial implications are discussed within the body of the report.

6.3 Resource implications

There are no additional resourcing implications arising from this review.

6.4 Legal implications

6.4.1 The City Corporation is the corporate trustee of Charities and Sundry Trusts. It is required to manage conflicts of interest arising between the City Corporation and to the Charity/ Sundry Trust. The overriding principle is that decisions made on behalf of the City Corporation as trustee of the Charity or Trust must be taken in the best interests of Charity or Trust. This legal duty applies in relation to proposed financial transactions between the City Corporation as trustee and the City Corporation in its corporate capacity and is known as the duty of 'single-minded loyalty'.

6.4.2 Additionally, with regards to CBF, The Supplemental Royal Charter adopted in June 2023 makers further reference that the Trustee *"…maybe reimbursed from CBF's funds… reasonable expenses properly incurred by it … when acting on behalf of CBF."*

6.5 Risk implications

6.5.1 There is a risk that a lack of regular review of the way Guildhall Admin charges are calculated, could result in a non-equitable distribution of costs across the City of London Corporation group. The proposed changes help mitigate that risk.

6.6 Equalities implications

6.6.1 This proposal does not advantage or disadvantage any characteristic or protected groups.

6.7 Climate implications

6.7.1 None

6.8 Security implications

6.8.1 None

7.0 Conclusion

7.1 This paper sets out a recommendation in relation to concern raised at the September Finance Committee meeting of adverse unbudgeted variances as a consequence of the change to recharge apportionment. If approved by members, this will ensure that the updated recharges apportionment can be implemented immediately to better reflect current operating arrangements, whilst negating a budgetary overspend in FY2024/25 for the Housing Revenue Account.

Appendices

Appendix I – Table summarising apportionment methodologies

Background Papers

Review of Recharges – Finance Committee – 24 September 2024

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Appendix I – Summary of Recharge methodology Old vs New by Recharge Block

Subjective	Recharge Block	Old Methodology	New	Data Source	Charges Applied to Funds:		
					Police	CBF	HRA
52000	**Guildhall Complex**	Space Occupied	Space Occupied - Data updated.	City Surveyor Plans	Yes	Yes	No
52002	**Walbrook Wharf**	Space Occupied	Space Occupied - Data updated.	City Surveyor Plans	Yes	No	No
52110	**Commercial Services (Procurement)**	Time spent on contract work etc by departments, reallocated to Divisions of Service (DOS's) by number of AP transactions	Complexity of Tendering and Contracts Management and number of operational transactions	Analysis supplied by Commercial Services	Yes	Yes	Yes
52111	**Department of Information and Technology (DiTS)**	IT Services split across type of service. Departments charged for use of each service based on Full Time Equivalent (FTE's)	Number of User Licences	Report from DiTS	No	Yes	Yes

Subjective	Recharge Block		Old Methodology	New	Data Source	Charges Applied to Funds:		
						Police	CBF	HRA
52115	**Film Liaison**		Time spent in relation to filming on Corporation property	No change	Actual recharge supplied by the Film unit.	No	No	No
52107	**City Surveyor Projects**		Time spent on R&M works	No change	Actual charge supplied by City Surveyors via Finance Unit	Yes	Yes	Yes
52120	**Police Pensions**		Notional charge to Police for Police pensions work	No change	Based on existing agreement	Yes	No	No
52100	**Support Services**							
	Deputy Town Clerk							
		Office	Committee Clerking. Cost split across number of Main and Sub, committees	Committee Clerking. Cost split across number of Main and Sub, committees - updated to reflect local Clerking arrangements for CBF	Number of committees supplied by Town Clerk Admin team	No	Yes	No
		Corporate Services	Cost of all other corporate work carried out by the Town Clerks' department allocated by Head count	No change	Staff Numbers supplied by all accountants	Yes	Yes	Yes

Subjective	Recharge Block		Old Methodology	New	Data Source	Charges Applied to Funds:		
						Police	CBF	HRA
52100	Support Services							
	Comptroller & City Solicitor							
		Legal Fees	Time spent on corporate or not directly chargeable to departments via trading account	No change	Percentage allocations supplied by Comptroller Admin office	Yes	Yes	No
		Elections	Management of the Elections	Charge to City Fund only	Statutory Duties	No	No	No
	City Surveyor							
		Corporate Services	Time spent on corporate or not directly chargeable to departments via project charge	No change	Percentage allocations supplied by City Surveyor via Finance Unit	Yes	Yes	Yes
	Chief Operating Officer							
		Project Governance	Number of capital schemes	Value of capital schemes	Capital team MTFP figures	No	Yes	Yes
		COO Office	Overhead of services managed	Charge 50/50 City fraud and to City Estate Finance	Management judgement	No	No	No

Subjective	Recharge Block	Old Methodology	New	Data Source	Charges Applied to Funds:		
					Police	CBF	HRA
52100	**Support Services**						
	City People Officer						
	Human Resources						
	Health and Safety	All services provided by HR allocated by head count	All services provided by HR allocated by head count - adjusted for local service provision arrangements for Police and CBF	Staff Numbers supplied by all accountants	Yes	Yes	Yes
	Corporate HR Unit'						
	HR Business Unit						
	HR - Talent & Organisational Development						
	HR - Operations						
	HR - Business Partnering						
	HR - Corporate Directorate						
	Business Partner Team						
	Transaction & Recruitment Team						
	Rewards Refresh Team						
	Diversity, Equality & Inclusion						
	Occupational Health						
	Staff Training						
	Grants And Other Payments						
	Miscellaneous Administrative Expenses						
	Unions						
	Graduate Scheme						
	Payroll						
	Executive Dir. Comms & Ext. Affairs						
	Communications	Time spent on corporate Communications	Time spent on corporate Communications. Updated to reflect local arrangements for CBF	Old PRO Plan percentage allocations	No	Yes	No

Subjective	Recharge Block	Old Methodology	New	Data Source	Charges Applied to Funds: Police	Charges Applied to Funds: CBF	Charges Applied to Funds: HRA
52100	**Support Services**						
	Chamberlain						
	Financial Services	Time spent on accountancy services. Time sheets from accountants with management/administration services as an overhead	No change	Time sheets completed by Finance Business Partners and Senior Financer Officers	No	Yes	Yes
	Internal Audit	Number of Audit days	Direct charge for Fraud, Police and CBF. Balance split 50/50 City Fund and City's Estate	Allocations supplied by Audit Manager	Yes	Yes	Yes
	Capital Team	Number of capital schemes	Value of capital schemes	Capital team MTFP figures	No	Yes	Yes
	Business Systems (Oracle)	Number of GL Transactions in year	Number of User Licences	Report from Oracle Team	yes	Yes	Yes
	Banking & Investments	Total year end cash held split across City Fund and City's Estate, plus Investments under City's Estate	No change	Long & Short Term cash analysis	No	No	No

Subjective	Recharge Block	Old Methodology	New	Data Source	Charges Applied to Funds:		
					Police	CBF	HRA
52100	Support Services						
	Chamberlain						
	Insurance	Value of insurance premiums	No change	Insurance recharges	Yes	Yes	Yes
	VAT & Appraisals	Value of VAT across 3 main funds	No change	VAT Balance sheet	No	Yes	No
	Revenues (Cashiers)	Number of transactions processed in PARIS	No change	PARIS Reports	Yes	Yes	Yes
	Police Pensions	Additional Police Pension support	No change	New agreement between Police and Pensions	Yes	No	No
	Revenue Collection (RCG)	Number of Accounts Receivable Invoices/Credit notes	No change	Oracle Report	Yes	Yes	Yes
	Accounts Payable	Number of Accounts payable Invoice raised	No change	Oracle Report	Yes	Yes	Yes

City of London Corporation Committee Report

Committee(s):	Dated:
Investment Committee of the City Bridge Foundation Board (For Decision) Investment Committee (For Decision) Finance Committee* (For Information) Audit & Risk Management (For Information)	13 February 2025 17 February 2025 18 February 2025 12 May 2025
Subject: Treasury Management Strategy Statement and Annual Investment Strategy (relating to Treasury Management) 2025/26	**Public report:** For Information
This proposal: • **delivers Corporate Plan 2024-29 outcomes** • **provides statutory duties** • **provides business enabling functions**	Diverse Engaged Communities; Dynamic Economic Growth; Leading Sustainable Environment; Vibrant Thriving Destination; Providing Excellent Services; and Flourishing Public Spaces
Does this proposal require extra revenue and/or capital spending?	No
If so, how much?	£N/A
What is the source of Funding?	N/A
Has this Funding Source been agreed with the Chamberlain's Department?	N/A
Report of:	The Chamberlain
Report author:	Kate Limna

** This report is for information for the Finance Committee. The Treasury Management Strategy Statement and Annual Investment Strategy 2025/26 in included as an appendix to the City Fund 2025/26 Budget report, which will be for approval.*

Summary

The attached document sets out the Corporation's Treasury Management Strategy Statement and Annual Investment Strategy (relating to Treasury Management) (TMSS) for 2025/26. The Treasury Management Strategy and Annual Investment Statement (relating to Treasury Management) for 2025/26 has been updated taking account of the latest information concerning the organisation's capital plans and external factors, such as the prospects for interest rates.

The document includes various Treasury and Prudential Indicators required to be set for the City Fund to ensure that the Corporation's capital investment plans are affordable, prudent and sustainable and to help the organisation identify and control the risks around its treasury management activity.

As has historically been the case, this report covers the treasury management activity carried out across the organisation, including City's Estate (previously City's Cash) and City Bridge Foundation (previously Bridge House Estates). As City's Estate borrowing is not covered by the regulatory framework established for local authorities, the City has adopted its own formal policy in 2018/19 via the City's Estate Borrowing Policy Statement which is included in the TMSS at Appendix 8.

The main proposals within the document are incorporated within the separate report entitled *'City Fund 2025/26 Budget'* being considered by the Finance Committee on 18 February 2025 and by the Court of Common Council on 6 March 2025.

Responsibility for approving the Corporation's borrowing plans remains with the Court of Common Council, not the Investment Committee.

The Investment Committee of the City Bridge Foundation Board is responsible for approving the TMSS on behalf of City Bridge Foundation. A Supplemental Royal Charter was approved in June 2023, with various new powers being adopted. These included the power to borrow for the purposes of raising funds towards the cost of replacement, reconstruction and re-building of any of its Bridges. This may be undertaken without security or on the security of the permanent endowment fund or any part of it or its income. However, there are no current plans for borrowing to take place in the short to medium term, and thus the most relevant section for the City Bridge Foundation Board is section 5, of the Annual Investment Strategy (for Treasury Management), which sets out how surplus cash balances will be managed in the forthcoming year (it does not apply to the Charity's longer term investments which are subject to City Bridge Foundation's Investment Strategy Statement). By adopting in the Corporation's treasury management policies, the City Bridge Foundation Board can ensure that treasury risks associated with the Charity's surplus cash balances are managed efficiently and effectively.

The key areas to highlight are:

Updates to Accounting Requirements impacting the 2025/26 Treasury Management Strategy

- ***International Financial Reporting Standard (IFRS) 9: Financial Instruments - Local Authority Statutory Override (see Appendix pages 23-24)***
  Since 2018/19, a statutory accounting override ("the override") has been in place that allows councils to disapply part of International Financial Reporting Standard 9 (IFRS 9), which would otherwise require councils to make provision in their budgets for changes in value (gains or losses) of certain types of financial investments (pooled investment funds).

  Due to the current IFRS 9 statutory override, only the income portion of the total return on pooled investment funds (i.e. Bond Funds for the City of London Corporation) impacts the City Fund (i.e. General Fund) revenue outturn, whilst the more volatile capital component (i.e. Fair Value (FV) movement) is absorbed by an unusable reserve. As at 31 December 2024 the City had £313.6M invested in external funds (excluding MMF's), through its allocation to ultra-short dated and short-dated bond funds representing 28% of the portfolio. Whilst market volatility has seen the capital value (FV) fluctuate, they provide an income return and are held with a long term view.

  The IFRS 9 Statutory Override, which mandates that fluctuations in the fair value of pooled fund investments are taken to an unusable reserve on balance sheet may cease on 31 March 2025 pending response to the current *'Local Government Finance Settlement'* consultation. From 1 April 2025, if the statutory override ceases, fluctuations in the fair value will therefore be reflected in the revenue account as at 31 March 2026. To mitigate against any reduction in value, a ringfenced IFRS9 reserve will be created in 2024/25 with funding from the overachievement of investment income - the initial transfer to this reserve will be determined based on the outcome of the consultation and the 2024/25 outturn position in consultation with the Chamberlain.

- ***International Financial Reporting Standard (IFRS) 16: Leases (see Appendix page 13 & Appendix 2 on page 28)***
  IFRS16 became effective 1 April 2024 and requires that leases previously expensed through expenditure are now recognised as a right of use asset with an equal value liability, where the lease is longer than 12 months and not insignificant. The estimated balance as at 31 March 2025 includes £11.6 million of leases included as a result of the impact of IFRS16 which has been incorporated into the capital forecasts, with the *operational boundary* and *authorised limit* debt ceilings set at a level to accommodate these.

Capital financing and borrowing

- The Corporation's capital plans create a borrowing requirement across both the City Fund and City's Estate. City's Estate partially addressed this borrowing requirement through the issuance of £450m market debt in recent years. In addition, Investment Committee have approved investment strategies for both City Fund and City's Estate, including risk and return measures to secure the differing rates of return required for each fund. For City's Estate asset allocation target ranges have been set for the allocation between property and financial investments. Both the City Fund and City's Estate capital programme over the next few years to 2028/29 will be supported by Investment Property disposals (as recommended on a separate report on today's agenda), whilst City's Estate will also be supported by Financial Investment liquidations (n.b. these are not held in Treasury Management portfolio) in the short term, pending a disposal programme over the 3-5 year horizon.
- The City Fund borrowing requirement is expected to increase to £226.8m during 2024/25 where it will remain until 2028/29 predicated by proposed Investment Property disposals. Therefore, for the City Fund, there is no immediate requirement to take on external borrowing as it is expected that the City Fund can also continue to temporarily use its own cash balances (internal borrowing) for the foreseeable future. Any new external borrowing would serve to increase cash balances and create additional revenue pressures through a "cost of carry", as the rate payable on external borrowing is currently higher than the interest receivable from treasury management investment activity. Therefore, the proposed treasury management strategy recommends that the City Fund borrowing requirement is managed through the prudent use of internal resources during 2025/26, as supported by the proposed Investment property disposals.
- The benefits of this strategy (lower financing costs and reduced counterparty risk) need to be carefully evaluated against the risk of incurring higher borrowing costs in future. Interest rates peaked at 5.25% in August 2023 where they remained until 1 August 2024 with a reduction to 5.00%, and a further reduction to 4.75% in November 2024. MUFG Corporate Markets (previously known as LINK), the City's treasury investment consultants, are currently forecasting a 25bps reduction to 4.50% in Q1 of 2025, with further quarterly reductions of 25bps reaching 3.75% by March 2026, with no further changes until December 2026 where it assumed to reach 3.50% and plateau. However, there remains uncertainty surrounding the forecast, particularly following the impact on the UK from the Government's Autumn Budget, slower interest rate cuts, modestly weaker economic growth over the medium term, together with the impact of Donald Trump's US Presidential Election victory and uncertainties around US domestic and foreign policy, and the ongoing geo-political risks in Europe, the Middle East and Asia.
- Interest rates are monitored daily and should circumstances change, the Chamberlain will maintain the flexibility to meet some or all of the City Fund borrowing requirement through external borrowing. As such the operational boundary and authorised limit for

external debt (Appendix 2 of the TMSS) have been revised to enable the Corporation to secure external debt to meet some or all of the borrowing requirement.

- Local authorities are legally required to set aside a prudent amount for the provision of the repayment of prudential borrowing from revenue each year. It should be noted that this requirement applies for all unfunded City Fund capital expenditure (i.e. spending that is not immediately financed through capital grants, capital receipts etc.) not just for actual external borrowing. The Minimum Revenue Provision (MRP) Policy Statement for 2025/26 sets out this policy for the forthcoming year and is included at Appendix 2 in the TMSS.

Investments

- As at 31 December 2024, the Corporation has "cash" balances totalling £1,121.3m the majority of which is invested in money market funds and fixed income instruments. Cash is expected to decrease in 2025/26 as the Corporation progresses spending on the major projects programme. Most of the treasury cash balances pertain to the City Fund and comprise of liabilities on City Fund's balance sheet (cash that needs to be paid out to third parties or used for a specific purpose at some point in the future) together with cash backed reserves.
- The Corporation currently manages significant short term investment cash balances. Although these balances are expected to decline in the next few years as the capital programme progresses, the programme across City's Estate will be supported by Financial Investment liquidations (those not held in Treasury) and Investment property disposals, with the City Fund programme only having available the support of property disposals and lease premiums. Under these circumstances, a level of core cash will persist for the next ten years based on current financial plans. One of the most acute challenges within the treasury management strategy is preventing the gradual erosion of the real value of these long-term cash balances from the effects of inflation.
- It is proposed that the City continues to be prepared to lend monies for up to three years' duration based on risk assessments for each opportunity undertaken by Treasury Officers and discussed with the Chamberlain. No changes to the Corporation's creditworthiness policy (as set out in section 5 of the TMSS) are proposed. Officers judge that the current criteria allow the Corporation to achieve adequate diversification amongst a range of high-quality counterparties.
- The main changes to the document from last year's version are highlighted in yellow and underlined.

Recommendations

It is recommended that the **Investment Committee** reviews and approves the attached Treasury Management Strategy Statement and Annual Investment Strategy for 2025/26 and submits it to the Finance Committee and the Court of Common Council as part of the City Fund 2025/26 Budget Report for formal adoption.

It is recommended that the **Investment Committee of the City Bridge Foundation Board** reviews and approves the Treasury Management Strategy Statement and Annual Investment Strategy for 2025/26 on behalf of **City Bridge Foundation**.

Appendix - Treasury Management Strategy Statement and Annual Investment Strategy (relating Treasury Management) 2025/26 **(***for Finance Committee this appendix is within the City Fund 2025/26 Budget report*).

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