Key assumptions used in the forecast

The following paragraphs detail the key assumptions that have been used in the construction of the 2024/25 budget and Medium-Term Financial Strategy (MTFP):

Income

1. The City Fund has two key income streams, 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 2023/24 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 later years 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 will be 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) raised the base rate incrementally from 0.25% which was applicable at 31 December 2021, to 3.5% in December 2022, and more recently to a high of 5.25% in August 2023. It has remained at this rate into 2024 and is forecast to fall through late 2024 to 3% by September 2025. However, there is uncertainty surrounding the forecast, particularly around the timing of the Bank of England's decision on interest rate reductions, reduced too soon and inflationary pressures may well linger, but reduced too late and any downturn or recession may be prolonged. A change of +/-0.25% to the base rate is expected to translate to approximately £1.24m 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 2024/25 budget is 3% inflationary uplift and additional uplift for the agreed pay award from 2023/24;. The provisional settlement in December 2023 confirmed a small increase in the level of funding for social care, with the expectation more will be raised from local taxpayers. £470k pressures on adult social care and children services has been included.

3. Policy and Resources Committee and Finance Committee have messaged clearly that cost pressures should be managed within existing resources. Additional funding has been provided for as outlined in the table 1 below. Following previous concerns raised around the backlog of regular maintenance for the operational estate, the CWP budget has been inflated to reflect the expected need over the five-year period. Where one-off funding/time limited resource is required, this is accommodated through underspends from 2023/24 carried forward.

Table 1: Additional pressures included within the City Fund budget

CITY FUND	2023/24 £'m	2024/25 £'m	2025/26 £'m	2026/27 £'m	2027/28 £'m
Re-profile of FR savings	(0.51)	(3.30)	(0.60)	0.00	0.00
Childrens Social Care (CSC) placements	0.00	(0.16)	(0.16)	(0.16)	(0.16)
Adult Social Care (ASC) placements	0.00	(0.31)	(0.31)	(0.31)	(0.31)
Legal costs, internal recharges	0.00	(0.21)	(0.21)	(0.21)	(0.21)
Electoral Services	0.00	(0.33)	(0.33)	(0.33)	(0.33)
Ambition 25	0.00	(2.00)	(2.00)	(2.00)	(2.00)
Occupational Health	0.00	(0.03)	(0.03)	(0.03)	(0.03)
Member Allowances	0.00	(0.40)	(0.40)	(0.40)	(0.40)
MoL and LSO uplift	0.00	(0.22)	(0.22)	(0.22)	(0.22)
City Fund additional pressures	**(0.51)**	**(6.96)**	**(4.26)**	**(3.66)**	**(3.66)**

Revenue Spending Proposals 2024/25

4. The overall budget requirements have been prepared in accordance with the strategy and the requirements for 2023/24 and 2024/25 are summarised by Committee in the table below. Explanations for significant variations were contained in the budget reports submitted to service committees.

Table 2: City Fund Summary Budget

City Fund Summary by Committee ***Net Expenditure (Income)***	**2023/24 Budget £m**	**2024/25 Budget £m**
Barbican Centre	(29.6)	(27.7)
Barbican Residential	(3.1)	(3.4)
Community and Children's Services	(17.7)	(17.9)
Culture Heritage and Libraries	(20.7)	(21.8)
Finance*	14.7	(2.9)
Licensing	(0.4)	(0.4)
Markets	0.1	(0.1)
Open Spaces	(1.9)	(2.3)
Planning and Transportation	(17.9)	(16.9)
Police	(101.0)	(114.1)
Police Authority Board	(1.0)	(1.0)
Policy and Resources	(4.4)	(5.7)
Port Health and Environmental Services	(15.5)	(16.6)
Property Investment Board	35.2	34.3
City Fund Requirement	**(163.2)**	**(196.5)**

* Finance includes changes to: capital revenue expenditure, supplementary revenue programme, additional one-off cost pressure highlighted in this report. The 23/24 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 for 2023/24 includes additional allocations as set out below:

Changes	**£'m**
2023/24 Original Budget	**(160.5)**
Carry forwards from 2023/24 underspends	(17.5)
Supplementary Revenue Projects	(2,3)
Interest on cash balances	17.1
2023/24 Revised Approved Budget	**(163.2)**

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)

		2023/24 Budget £m	2024/25 Budget £m	Para. No.
1	Net expenditure on services	(232.8)	(241.8)	
2	Capital Expenditure funded from Revenue Reserves	(3.4)	(5.5)	
3	Cyclical Works Programme expenditure financed from revenue	(12.4)	(19.1)	
4	Requirement before investment income from the City's Assets	(248.6)	(266.3)	
5	Interest on balances	44.3	28.9	
6	Estate rent income	41.2	40.9	
7	**City Fund Requirement**	**(163.2)**	**(196.5)**	
	Financed by:			
8	Government formula grants	135.5	148.7	
9	City offset	12.5	12.8	
10	Council tax	9.7	9.0	
11	NNDR premium	28.0	31.3	
12	Total Government Grants and Tax Revenues	185.7	201.8	
13	Drawdown on Reserves	19.6*	16.4**	
14	**(Deficit)/Surplus transferred (from)/to reserves**	**42.1**	**21.7**	

*Includes transfer from reserves to support 21 New St Rent and carry forward requests from previous years underspend;
**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

	2023/24 Original £m	2024/25 Draft £m	Variance £m	Variance %
Revenue Support Grant	9.1	9.1	(0.3)	(3.3)
Rates Retention: baseline funding	14.5	19.0	4.5	31.0
Rates Retention: growth	35.2	35.2	0.0	0.0
Subtotal:	**58.8**	**63.5**	**4.7**	8.0
Police	76.7	85.4	8.7	11.3
Total Core Government Grants	**135.5**	**148.7**	**12.9**	**9.5%**

7. The City Fund budget requirement for 2024/25 is £266.3m plus a contribution to reserves of £21.8m resulting in a net City Fund budget requirement of £201.8m, an increase of £16.1m 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	2023/24 Original £m	2024/25 Original £m
Net Expenditure	(229.2)	(266.3)
Estate Rental Income	41.2	40.9
Interest on balances	27.5	28.9
Budget Requirement	(160.6)	(196.5)
Drawdown from Earmarked reserves	(2.0)	16.4
Proposed contribution to reserves	(23.3)	(21.8)
Net City Fund Budget Requirement	**(185.7)**	**(201.8)**
Financing Sources:		
Business Rates Retention	58.8	63.3
Police Grant	76.7	85.4
City Offset	12.5	12.8
NDR Premium	28.0	31.3
Collection Fund Surplus (CoL share)	0.8	0.0
Council Tax Requirement	**(8.9)**	**(9.0)**

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 54.6p and a small business National Non-Domestic Rate multiplier of 49.9p for 2024/25. The increase to the standard multiplier is in line with September CPI (6.7%). 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 56.4p and a small business National Non-Domestic Rate multiplier of 51.7p for the City for 2024/25.

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:** is extended by Government for a fifth year into 2024/25 and remains at 75 % (up to a cap of £110,000 per business).
- A new **Nursery Discoun**t - 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.

12. **Business Rates Supplement -** The Mayor of London is proposing to levy a Business Rates Supplement of 2.0p in the £ on properties with a rateable value of £75,000 and above to fund Crossrail.

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

13. For council tax purposes a property is defined as empty if it is unoccupied and substantially unfurnished.
14. 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.
15. From 2024/25 the City is recommending the introduction of a new long-term empty property premium of 100% for properties that have been empty for longer than 12 months.
16. Government have also introduced legislation to permit a Local Authority to charge a Second Home Premium from 2025/26. 12 months' notice is required to introduce this additional charge. A recommendation has been made to determine that a Second Home Premium is introduced in 2025/26.

Council Tax Reduction Scheme

17. 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.

18. The Council Tax Reduction Scheme will therefore remain the same for 2024/25 as was administered in previous years subject to the annual uprating of amounts in line with Housing Benefit applicable amounts.

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. Spending on these types of activity 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. The City has historically not used external loans to finance these schemes and current plans do not envisage borrowing from third parties.

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

Cyclical Works Programme

22. 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, members directed for total funding of £133m (across both City Fund and City’s Estate) to be included within the ongoing MTFP assumptions to address the backlog and provide sufficient resources for the following three-year period. This is broken down into £55m for the “bow wave” and £75m for the forward plan with c£3m ringfenced to resource to deliver the works.

23. A proposal as to how this could be funded was taken to, and endorsed at, Finance Committee on the 12th December 2023. It should be noted this £133m excludes Housing and Institutional property with ring fences budgets (i.e. Independent Schools, City of London Police, City Bridge Foundation, Billingsgate and Spitalfields Market). This amount also excludes the Barbican Arts.

24. The Barbican Arts Centre received £25m approved by Court of Common Council in March 2023 to support critical health and safety needs, and conditioning surveys which will enable the Barbican Arts Centre to carry out works over the next two years.

25. 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 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	Total £m
City Fund						
City Fund Capital	4.0	4.0	4.0	4.0	4.0	**19.8**
City Fund Revenue	7.5	7.7	7.8	7.8	7.7	**38.5**
City Fund OSPR	2.6	1.1	0.8	-	-	**4.4**
City Fund Total	**14.1**	**12.7**	**12.5**	**11.8**	**11.6**	**62.7**
City Cash						
City Cash Capital	3.3	3.3	3.3	3.3	3.3	**16.7**
City Cash Revenue	10.7	10.8	10.9	11.0	10.8	**54.3**
City Cash Total	**14.1**	**14.2**	**14.3**	**14.3**	**14.2**	**71.0**
Combined Total	**28.1**	**26.9**	**26.8**	**26.1**	**25.8**	**133.7**

26. Within the City Fund the funding is set to come from reserves so the in-year impact is significantly mitigated.

27. There are a number of reasons for the build-up of the "bow wave" of works which have now required specific action. One of the reasons was linked to the uncertainty of funding due to the annual CWP bid process which required a new programme to be formally submitted and approved each year. As per the above Table 6, the majority of this expenditure is revenue, and this type of governance is not undertaken in the same way for other revenue areas. It is therefore proposed for a review of the governance processes linked to CWP funding to ensure this is not a barrier to effective medium-term planning. This does not mean there cannot still be a formal approval of the annual programme, but this could be completed separately to the funding if the above envelopes are taken as the available funds in each year. Whilst the additional funding has been added to the MTFP period, consideration also needs to be given to the period beyond. It is expected at least c£15m per annum will need to be included split across both funds on an ongoing basis to support the future forward plans to ensure a similar backlog does not develop.

28. In addition to the figures included in Table 6, a further £12.5m of funding has been included within City's Estate for works at the Guildhall School of Music and Drama (GSMD). This includes £0.5m in 2024/25 to being the scoping and preparation for further works in 2025/26 to (2028/29).

Key risks and uncertainties

29. As well as those elements more within the City Corporation's sphere of control, there are a number of significant areas of risk and uncertainty which have the potential to impact significantly on future projections. These include;

    a. Inflation and interest rates – over recent years the impact of inflation has been the single biggest external driver of financial pressures. Having peaked inflation has now fallen significantly over the latter half of 2023 however, the price increases incurred over the last two years are now embedded in a number of areas. The Office for Budget Responsibility

(OBR) are forecasting that inflation will return to c2% in 2025 but this is unlikely to remove the pressure that has built up. 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 and start to reduce in 2024 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.

b. <u>Business Rate reforms</u> – Business Rate growth provides c£28m of additional income to the City Fund each year. Should the proposed reform to business rates take place and a “reset” occur, the expectation is that this growth would be taken back and redistributed across the country. Current assumptions are for this to occur in 2026/27. 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.

c. <u>Collection Fund surplus/deficit timing</u> – 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 are made and impact can make the amounts flowing through revenue budget fluctuate significantly. Recent changes to the business rate appeals provision are anticipated to see a spike in income for 2024/25 and potentially 2025/26. The detail behind these estimates are being worked through with external consultants to ensure they are accurate and reflected appropriately.

d. <u>Political situation</u> – the fixed term nature of current Parliamentary cycles mean that a general election will occur in the next financial year. Whilst the outcome of that election is not known, current polling suggests there is a high probability of a change in government. This brings with it significant uncertainty in a number of areas such as the potential for rate reform, local government financial support and also potential VAT charging on private school fees which are a significant income stream within City’s Estate.