Committee(s):	Dated:
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.

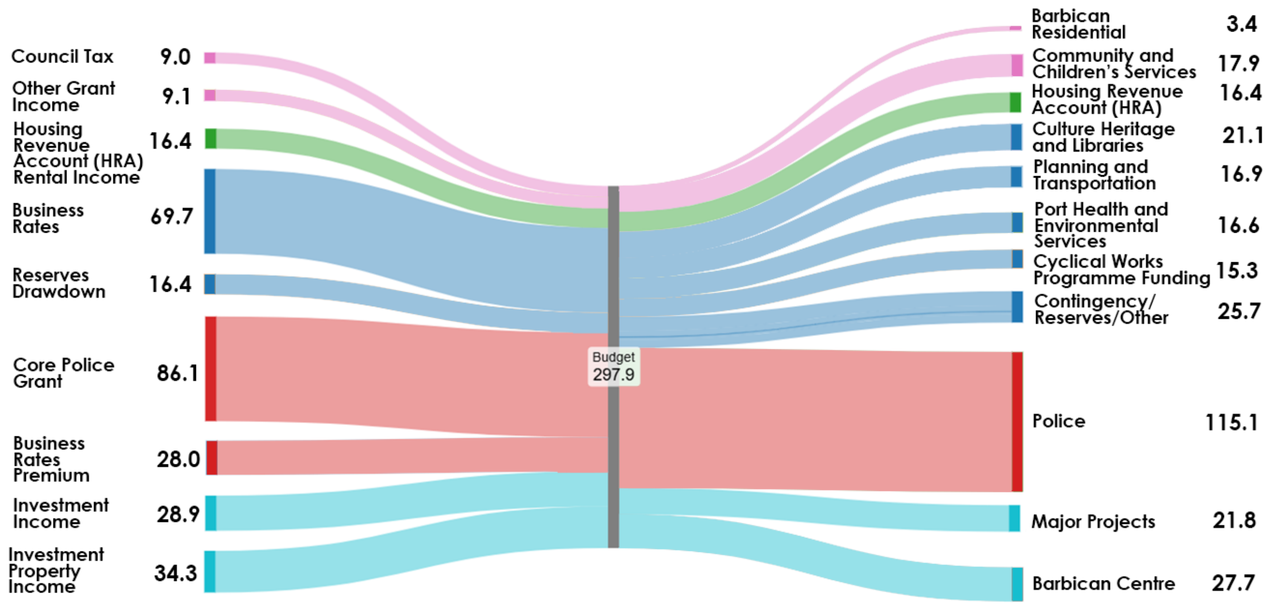
20.0 Efforts must be made to avoid additional revenue pressures during 2025/26 fiscal year, and any that do arise should be managed within local risk. **Policy and Resources Committee and Finance Committee have provided clear guidance that new on-going pressures should be contained within local risk. 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.

Chart 1: 2024/25 City Fund



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)

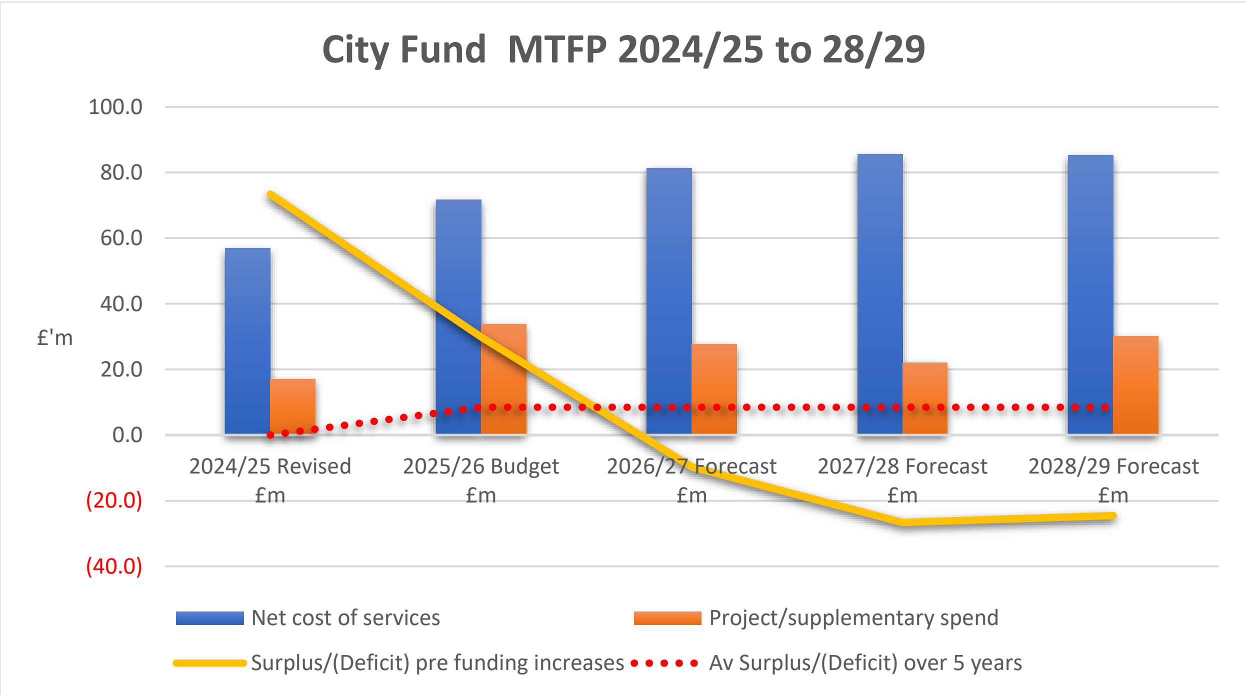
iii. Increase in Supplement Revenue Programme costs £10.6m from reprofiling and the inclusion of the Barbican fire safety works.

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.

<u>Chart 2: City Fund MTFP (Surplus)/Deficit</u>



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

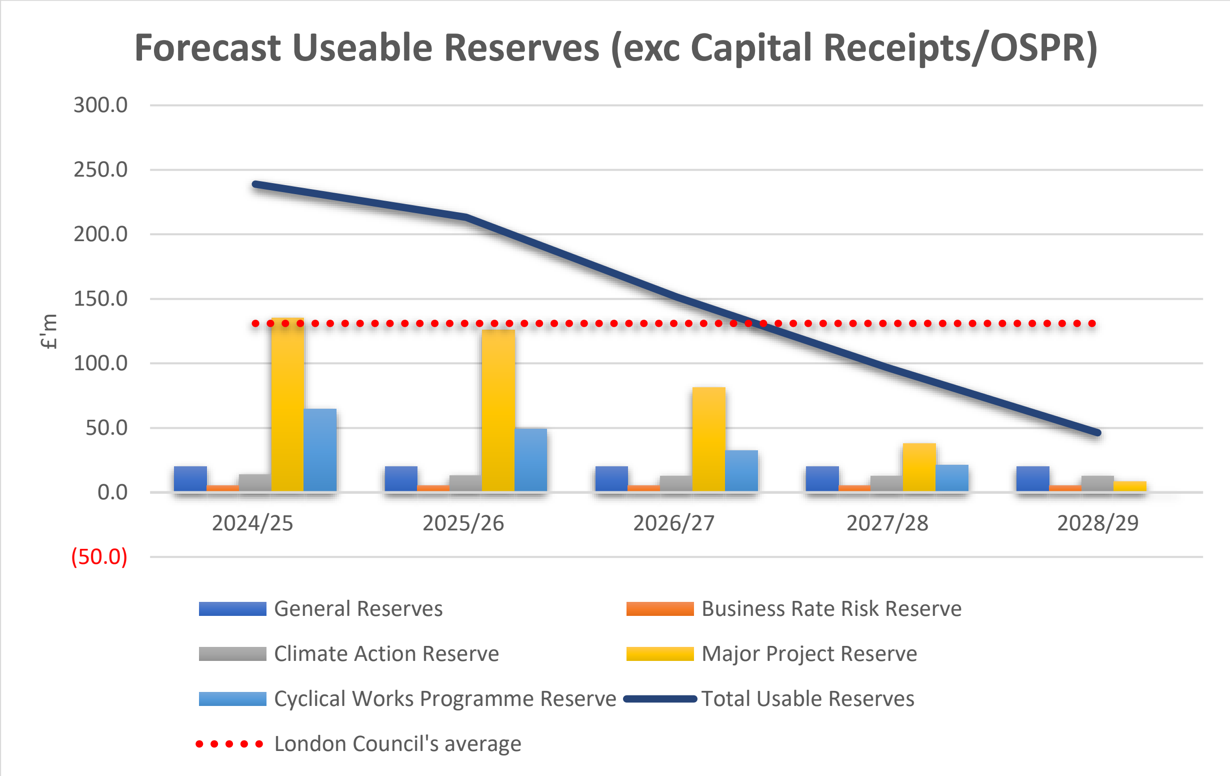
iv. Climate Action Reserve – used to fund the approved Climate Action Strategy

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

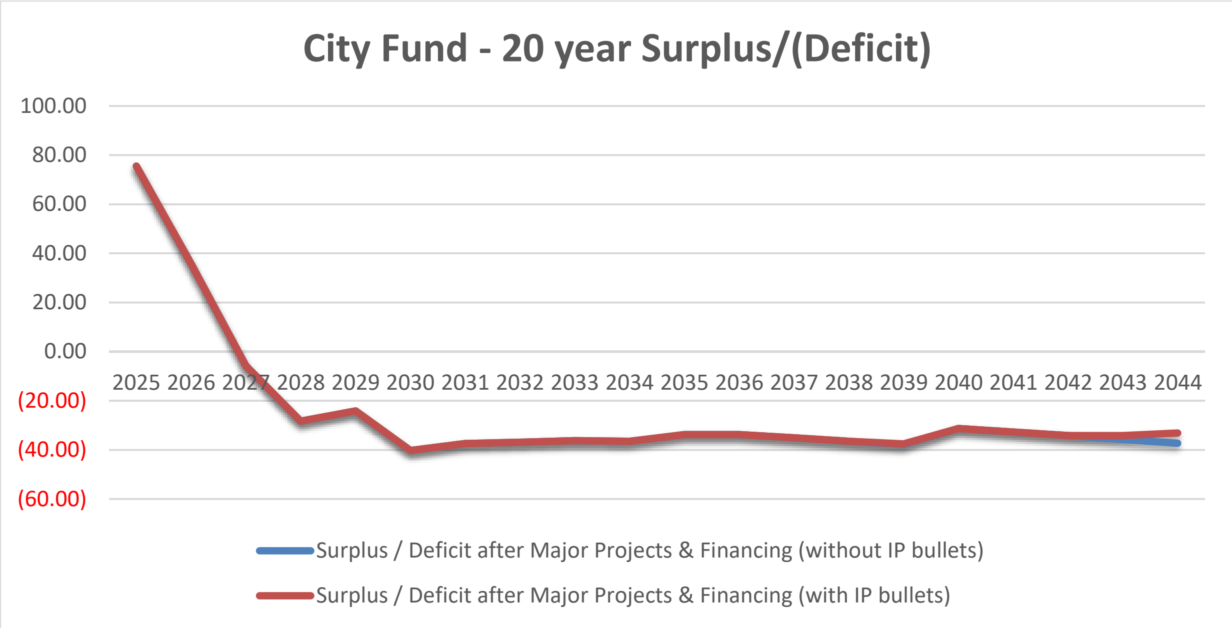
37.0 In addition to the five-year medium-term projections, work has also been undertaken on the 20-year horizons for City Fund. The funding landscape, in particular around Business Rates makes this highly subjective and subject to a high level of tolerance nevertheless provides an insight into future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

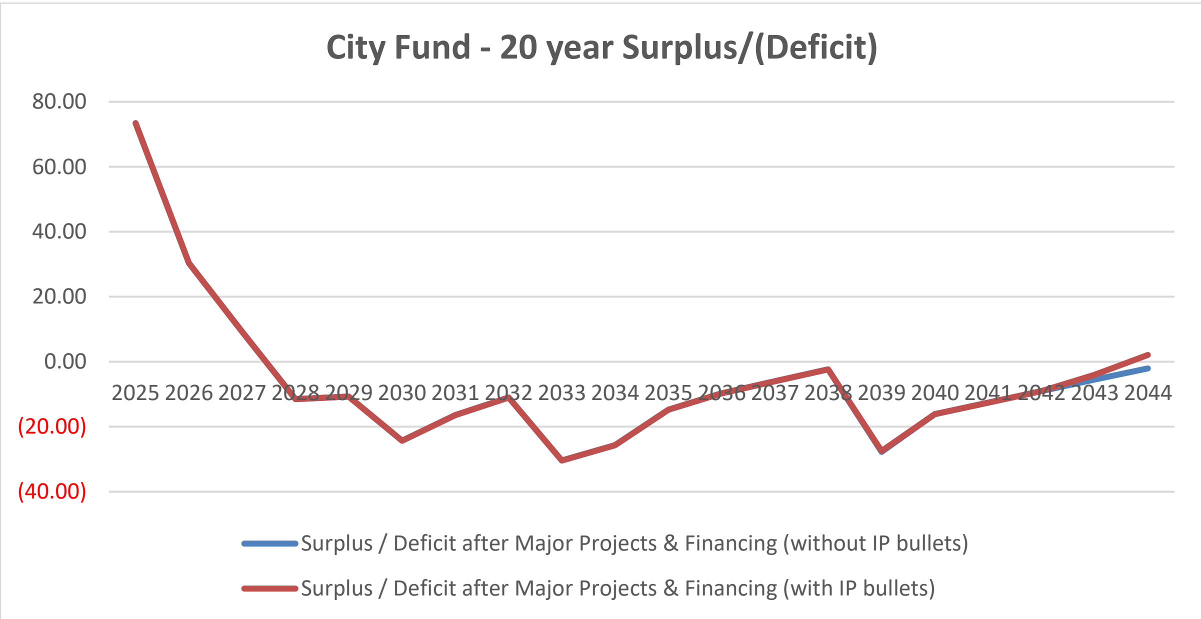
39.0 Chart 4 below sets out the projections for City Fund surplus/deficit over the next twenty-year period. This demonstrates the impact of a business rates reset in 2026/27 and ongoing expected deficit of between £20m to £40m per year. This is set against a gross budget (exc. police) of c£350m per annum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