Key assumptions used in the forecast

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

Income

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

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

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

Expenditure

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

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

Table 1: Additional pressures included within the City Fund budget

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

Revenue Spending Proposals 2025/26

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

Table 2: City Fund Summary Budget

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

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

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

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

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

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

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

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

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

Table 4: Analysis of Core Government Grants

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

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

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

Table 5: Council Tax requirement

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

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

Business Rates

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

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

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

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

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

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

12. For council tax purposes a property is defined as empty if it is unoccupied and substantially unfurnished.

13. The empty property premium was introduced by Government in 2013/14 to encourage landlords to bring long-term empty property back into use. The City introduced the long-term empty premium for the first time in 2019/20, with a premium increase of 100%. It has subsequently levied the Premium on long-term empty property of 100%, 200% and 300% on properties that have been empty for 2, 5 and 10 years respectively.

14. In 2024/25 the City introduced a new long-term empty property premium of 100% for properties that have been empty for longer than 12 months which will continue in 2025/26.

15. Government have also introduced legislation to permit a Local Authority to charge a Second Home Premium of 100% from 2025/26. The City intends to adopt this premium.

Council Tax Reduction Scheme

16. In 2013/14, the Government introduced a locally determined Council Tax Reduction Scheme. This replaced the national Council Tax Benefit scheme and assisted people on low incomes with their council tax bills. There are no proposals to make any specific amendments to the Council Tax Reduction Scheme for this or future years, beyond keeping the scheme in line with the national Housing Benefit regulations.

17. The Council Tax Reduction Scheme will therefore remain broadly the same for 2025/26 as was administered in previous years subject to the annual uprating s was administered in previous years subject to the annual uprating s was administered in previous years subject to the annual uprating as was administered in previous years subject to the annual uprating of amounts in line with Housing Benefit applicable amounts with a minor amendment set out in paragraph 18.

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

Capital

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

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

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

Major Projects

Barbican Renewal

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

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

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

Museum of London

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

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

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

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

Sailsbury Square / FPEP

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

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

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

Cyclical Works Programme

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

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

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

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

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

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

Table 6: CWP five-year programme

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

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

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