

City of London Corporation Committee Report

Committee(s): Finance Committee – For information	Dated: 13/01/2026
Subject: Provisional Local Government Finance Settlement 2026/27 and Provisional Police Funding Settlement	Public report: For Information
This proposal: <ul style="list-style-type: none"> • provides statutory duties • provides business enabling functions 	Providing excellent services
Does this proposal require extra revenue and/or capital spending?	No
If so, how much?	£ N/a
What is the source of Funding?	N/a
Has this Funding Source been agreed with the Chamberlain's Department?	N/a
Report of:	The Chamberlain
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Summary

The Provisional Local Government settlement has been released, setting out the funding position for City Fund. This settlement is set against a backdrop of significant changes in the allocation of funding to local authorities.

The City Corporation has been identified as a unique organisation requiring a bespoke funding arrangement and has consequently only received a one-year funding settlement, whereas all other local authorities have received three years of funding.

Ongoing discussions with the Ministry of Housing, Communities and Local Government (MHCLG) are taking place and need to be resolved urgently in order to understand the implications for 2027/28 and 2028/29. Focus is on:

- a. The difference in scale of the resident to daily population. Services such as street cleaning and refuse collection are provided to 680,000 people, not the 8,600 reflected in the funding formula.
- b. Services provided on behalf of London or the nation such as the London Archives, Heathrow Animal Reception Centre and Port Health Authority

are not represented anywhere within the funding formula but are within City Fund.

The government has also removed the 4.99% threshold for referendum for 2027/28 and 2028/29 for the City Corporation and five other authorities with historically lower Council Tax levels (Westminster, Wandsworth, Kensington and Chelsea, Hammersmith and Fulham and Windsor and Maidenhead), in a stated attempt to allow their average band D value to get back to the national level. The 4.99% threshold remains in place for the 2026/27.

Separate to the local government funding announcements, the Police funding settlement for 2026/27 was also announced. This was again only a one-year settlement and currently limited to a single high-level funding allocation for each force.

Further details, including decisions on the Neighbourhood Policing Guarantee allocations, are expected in the New Year alongside the Government's White Paper on Police Reform. There is also a significant risk of late communication of non-core funding allocations for CoLP's National work on Fraud, Economic and Cyber Crime. For both City of London Police and for forces nationally, the lack of clarity will present timing challenges for planning and budget setting for 2026/27.

Recommendation

Members are asked to:

- Note the report and the ongoing discussions with MHCLG to reach a bespoke funding allocation for the City Corporation.

Main Report

Background

2. On the 17th December 2025, the government published the provisional local government finance settlement 2026/27. This is a regular event each year where local authorities are provided with a first look at their likely central government funding position for the following year. This would then be confirmed in a finance settlement in February.
3. This year however, the Provisional settlement also provides greater insight and detail into the reforms and redistribution of local government funding proposed by the government. This follows several previous announcements and statements, but in particular the Fair Funding 2.0 consultation in summer 2025 and the Local Government Finance Policy statement 2026/27 to 2028/29 published on the 20th November 2025. This year's settlement is the first multi-year settlement for a number of years, designed to give local authorities the ability to plan and budget more strategically with certainty around their funding levels.
4. The Fair Funding review 2.0 consultation was undertaken alongside a further consultation on the future of retained business rates. The City Corporation provided a response to these consultations raising concern at the number of

simultaneous changes being raised, but also the difficulty in establishing a formula that would capture the unique demographic circumstances of the square mile.

5. The updated formulas work with the following principles in terms of allocating funding to a local authority.
 - a. Establish a baseline funding for 2025/26 based on current “Core Spending Power” which includes, revenue support grant, retained business rates growth and several other central grants.
 - b. The relative needs assessment of an authority, using a number of metrics based on population etc, with a significant weighting for deprivation factors. Comparison to all other authorities, provides a % of funding each authority would need.
 - c. Estimate how much of that funding can be derived from Council Tax using an average band D value
 - d. This then leaves an amount which the government would provide through core grant funding in order to ensure an authority received the total assessed needs by subtracting the amount raised through Council Tax (b-c).
 - e. The new funding formula is to be introduced gradually over the three-year funding period, 1/3 in 26/27 with 2/3 from the old funding allocation (baseline funding), then 2/3 new formula in 2027/28 until fully implemented
 - f. The Policy statement also confirmed a commitment that authorities would be entitled to a 95% funding floor compared to their 2025/26 funding levels, meaning by 2028/29 no authority would be more than a 5% cash reduction from their current funding levels. To achieve this, transitional funding would be provided where required.

Current Position

6. Following these consultations, the provisional settlement contains some significant changes which will impact on the City Corporation’s funding allocations over the settlement period (2026/27 to 2028/29).
7. The first significant change is within the assessment of needs calculation. Following the consultation, and lobbying from other authorities, an element of the formula which included a weighting for daily commuter populations was removed. This has a unique impact on the City Corporation due to the 680,000 daily visitors which can come into the square mile compared to the resident population of 8,600. This has meant that the “Needs share” assessment for the City Corporation has reduced by 76% from the figures consulted on in the summer to the Provisional Settlement. This reduced the value of the Corporation’s needs assessment down from £77m to £18m.

8. The next change, which is unique to the City Corporation, is that the Corporation has only been provided a one-year funding settlement for 2026/27, with a recognition that a bespoke funding arrangement is needed for the Corporation outside the formula. A bespoke arrangement has also been agreed for the Greater London Authority. An initial conversation was held with MHCLG to understand the reasons for only one year of transitional funding. The message being that compliance with the published principles of providing a 95% funding floor and transitional funding, would see the Corporation being too much of an outlier in relation to the scale of transitional funding it would be entitled to. On value for money grounds, Ministers had decided to only allocate one year of transitional funding.
9. There had been no prior notice that the Corporation would not be receiving a three-year funding settlement, so this change is very impactful on budget setting for 2026/27 and beyond. There is now a significant amount of uncertainty around funding levels for 2027/28 and 2028/29. Table 1 below shows the illustrative Core Spending Power for the City Corporation as released by the Government as part of the Provisional Local Government Finance Settlement. Note, these assume annual increases in Council Tax rates. However, Council Tax setting remains a local decision to be approved each year by Court of Common Council following recommendation from finance committee as part of budget setting. For 2026/27 the Council Tax referendum remains at 4.99%.

Table 1: Core Spending Power

	24/25 £'m	25/26 £'m	26/27 £'m	27/28 £'m	28/29 £'m
Funding Allocation	107.8	136.1	93.6	TBA	TBA
Council tax requirement*	8.7	10.2	11.1	13.7	16.6
Transitional Funding			34.3	-	-
Total	116.5	146.3	139.0	13.7	16.6

*Council tax figures (from government) for 27/28 and 28/29 assume rates are increased by more than the 4.99% referendum limit to get back to the average band D value which is a local decision

10. Separate to the local government funding announcements, the Police funding settlement for 2026/27 was also announced. This was again only a one-year settlement and currently limited to a single high-level funding allocation for each force, along with an exemplification of council tax precept flexibilities, based on a £15 referendum threshold.
11. Further details, including decisions on the Neighbourhood Policing Guarantee allocations and continued ring-fencing of the Uplift Maintenance Grant are expected in the New Year alongside the Government's White Paper on Police Reform. There is also a significant risk of late communication of non-core funding allocations for CoLP's National work on Fraud, Economic and Cyber Crime. For both City of London Police and for forces nationally, the lack of clarity will present timing challenges for planning and budget setting for 2026/27.

Council Tax referendum limits

12. Due to the way the formula is constructed, government are assuming all authorities charge a similar level of Council Tax by using an average band D value when assessing how much income can be generated in each area. Therefore, any authority with an average band D value below that average, will not be able to generate that income. The City Corporation's current band D value for 2025/26 is £1,101.43 whereas the national average is £2,100.
13. Council Tax increases currently have a 4.99% referendum threshold, meaning any increase above that requires a local referendum to pass supporting a higher increase.
14. In the provisional settlement, the government has removed the 4.99% threshold for referendum for six authorities with historically lower Council Tax levels (City Corporation, Westminster, Wandsworth, Kensington and Chelsea, Hammersmith and Fulham and Windsor and Maidenhead) for 2027/28 and 2028/29 only in a stated attempt to allow their average band D value to get back to the national level.
15. This is still however a local decision in relation to any tax raising. For the City Corporation it is also worth noting that due to the low resident population, an increase of this scale would be a c80% increase and raise an estimated additional £5m per annum.

Follow up with Ministry of Housing, Communities and Local Government (MHCLG)

16. Due to the unique situation of being the only organisation with a one-year settlement figure, the MHCLG have committed to follow up conversations with the Corporation in the new year to discuss funding for 2027/28 and 28/29. This may however, not be resolved before the 2026/27 Medium Term Financial Plan is taken through Finance Committee in February and Court in March which increases the risks significantly in setting these budgets appropriately.
17. In these discussions it will be crucial to emphasize the unique circumstances of the Corporation in relation to:
 - a. The difference in scale of the resident to daily population. Services such as street cleaning and refuse collection are provided to 680,000 people, not the 8,600 reflected by the current formulas.
 - b. Services provided on behalf of London or the nation such as the London Archives, Heathrow Animal Reception Centre and Port Health Authority are not represented anywhere within the funding formulas but are within City Fund.

Financial implications – Contained within the report

Resource implications – Not quantifiable currently, risk of material impact.

Legal implications – Many of the services provided for London are provided under statutory responsibilities. However, funding is currently uncertain.

Risk implications – The lack of uncertainty over future funding levels poses a material risk when budget setting over the medium term.

Equalities implications – It is not currently possible to assess implications until a funding settlement is reached. Will be a consideration in discussions with MHCLG.

Climate implications – Direct implications for funding climate action work

Security implications – No direct implication as security is funded through the Business Rate Premium which is not part of changes.

Conclusion

18. The figures released as part of the provisional local government settlement are a significant deviation from those consulted on during the summer. The City Corporation is also in a severely adverse position by not being provided the certainty around three years of funding or having the commitment to a 95% funding floor being provided beyond 2026/27. Addressing and resolving these issues with MHCLG urgently is required to enable effective budget planning and decision making over the settlement period.

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