Draft GLA Budget for 2018-19

November 2017

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Background

Legislative framework

1. For the purpose of budget setting, the Mayor of London and the London Assembly are treated as separate constituent bodies. Before preparing separate draft component budgets for each, the Mayor must, under the Greater London Authority (GLA) Act, consult the Assembly. That is the purpose of this submission: to consult the Assembly through its the Budget and Performance Committee.

2. The GLA Act sets out the following definitions for the two GLA components:

   • The component budget for the Assembly comprises the estimates for defined expenditure (essentially its own direct expenditure and London TravelWatch’s), income, and appropriate contingencies and financial reserves for Assembly functions; and

   • The component budget for the Mayor comprises the remainder of the GLA and this includes both expenditure incurred on accommodation in relation to the Assembly’s business and goods and services provided or procured for the Authority in general.

3. Next month the Mayor will publish his Consultation Budget which will set GLA budget proposals in the wider context of GLA Group budget proposals.
**Mayor’s budget guidance**

4. The Mayor’s budget guidance for 2018-19 for the GLA was issued on 13 June 2017. The guidance requested spending plans for 2018-19, 2019-20, 2020-21 and 2021-22 and set out the cash limits within which the Mayor expects the GLA and each functional body to meet in respect of those general resources over which he has direct control for 2018-19; i.e. funding from business rates and council tax. The table below sets out the limits set for the two GLA components.

<table>
<thead>
<tr>
<th>£m</th>
<th>2018-19</th>
<th>2019-20</th>
<th>2020-21</th>
<th>2021-22</th>
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<td>138.8</td>
<td>139.6</td>
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<tr>
<td>GLA: Assembly</td>
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<tr>
<td>GLA: Total</td>
<td>146.1</td>
<td>146.2</td>
<td>147.0</td>
<td>147.0</td>
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</table>

5. The guidance also set out the control total agreed for the capital budget for the GLA for the period 2016-17 to 2020-21. For the Mayoral component this was £5,802.7m. It is not envisaged that the Assembly will require a capital budget.

**Revenue budget**

6. An indicative revenue budget is set out at Appendix 1 which meets the £138.7m funding allocation for the Mayoral component for 2018-19. The latest position on the Assembly component is set out in the text below.

7. The presentation of the budget meets the new approach adopted by the Mayor – and set out in his guidance – whereby funding sources (i.e. Business Rates and Council Tax) are held at a Group level and the GLA and its functional bodies meet the funding allocations set by the Mayor. It should be noted that budget proposals for the two Mayoral Development Corporations (MDCs) – the London Legacy Development Corporation (LLDC) and the Old Oak and Park Royal Development Corporation (OPDC), both of which are functional bodies – form part of the Group budget setting process. The GLA budget will be amended to reflect those proposals.

8. Group items such as the business rates retention tariff payment to the Department for Communities and Local Government (DCLG) and movements in Group reserves (i.e. the MDC reserve and the business rates reserve) are not included in this report but will form part of the Mayor’s Consultation Budget.

9. The Consultation Budget will reflect the impact of announcements made on council tax and business rate taxation policy as announced in the Chancellor’s 2017 budget, the provisional 2018-19 local government, police and fire finance settlements, the Mayor’s decision on his council tax precept and the implications of the planned introduction of a 100% business rates retention pilot in London.
10. The proposed GLA budget will be amended in due course to reflect Group wide funding decisions by the Mayor on the allocation of business rates and council tax income. Estimates of the funding allocations will be included in the Mayor’s Consultation Budget and will be updated in the final draft budget, to be published in February 2018, so as to reflect the council tax base and business rate forecast data for 2018-19 and the expected outturn for each revenue source for 2017-18. The GLA no longer receives a separate general revenue grant as this is now met from retained business rates income.

11. Under the current system of retained business rates, the Mayor is expected to receive around £3bn in business rates in 2018-19 from London billing authorities of which around £700m will be payable to Government to support local services elsewhere in England. The single biggest funding risk to be managed by the GLA is the uncertainty around business rates income and that it may be less than the sums allocated from that source to fund the GLA Group.

12. Volatility in business rate income arises is primarily because of the uncertainty around the level of successful appeals by ratepayers against their valuations alongside other factors such as potential changes in size of the tax base, the final inflation figure used by Government to uprate the multiplier (or tax rate) and any reliefs which may be granted to ratepayers by the Government and/or billing authorities.

13. As at 31 March 2017, the GLA held £163m of provisions on its balance sheet to meet potential future refunds to ratepayers and further appeals will be forthcoming in due course in respect of challenges to the new rating list introduced following the 2017 revaluation. At present this risk, alongside any potential volatility in council tax revenues and government grants for functional bodies, is managed through the business rates reserve.

14. London government has put forward a proposal to Government for a 100% business rate retention pilot in the capital for 2018-19. The prospectus for the pilot was agreed collectively by the Mayor and London borough leaders last month. In moving to 100% rates retention, DCLG would no longer pay Revenue Support Grant (RSG) to London local authorities in 2018-19.

15. The GLA’s funding baseline for 2018-19 will continue to include its agreed RSG (£136.5m) and Transport for London’s (TfL) capital grant (£976m) allocations but no other existing GLA grant streams will be devolved as part of the pilot. In addition to allowing London to retain 100% of the growth in business rate revenues above its baseline in 2018-19, the levy paid to Government on any growth (currently 25% for the GLA and up to 50% for some boroughs) will be removed thus allowing London government to retain 100% of business rates growth above its business rates baseline.

16. London Councils has estimated that the pilot could generate around £240m in additional revenues for London government in 2018-19, although the final benefit will not be known until the outturn data is confirmed by billing authorities in summer 2019. The piloted approach includes Government guaranteeing that no authority participating in a 100% retention pilot will be worse off than it would have been had they not done so.
Further information on the pilot will be set out in the Mayor’s Consultation Budget, assuming the Government approves the proposal as part of the provisional local government finance settlement for 2018-19. The pilot might only be guaranteed for one year but the aspiration would be to continue it in future years alongside the expected roll out of 100% retention across England in 2020-21 or 2021-22.

**Mayoral component**

In keeping with the practice of previous years, the Mayor has yet to agree a detailed budget for his component. Indicative budget figures are included in the sections below, along with a full commentary on the budget setting process and on the proposals as they currently stand (noting the outstanding issues).

**Assembly component**

The Assembly has proposed to the Mayor the budget set out in the table below. The Mayor has yet to take a view on the Assembly’s submission but has noted that the Assembly expenditure plans amount to £7.7m against a control total in his guidance of £7.4m and that:

- Assembly budget plans include provision for a 1% staff pay rise in both 2017-18 and 2018-19 (in line with the Mayoral component) – a pay award has yet to be agreed for 2017-18; and
- Two new posts are proposed for the Scrutiny & External Relations function.

<table>
<thead>
<tr>
<th></th>
<th>2018-19</th>
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<tbody>
<tr>
<td>Assembly Members</td>
<td>1.8</td>
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<tr>
<td>Committee &amp; Member Services</td>
<td>2.9</td>
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<tr>
<td>Scrutiny &amp; External Relations</td>
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<tr>
<td>Director &amp; Business Support</td>
<td>0.2</td>
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<tr>
<td>London TravelWatch</td>
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<tr>
<td><strong>Assembly expenditure plans</strong></td>
<td><strong>7.7</strong></td>
</tr>
</tbody>
</table>

**Budget process**

The Assembly considered its budget plans at the 11 October 2017 meeting of its GLA Oversight Committee, following discussions between Assembly Members and lead officers.

Plans for the Mayoral budget component have been compiled following a series of meetings held during October and November 2017. The focus has been on staying within the spending plans set out in last year’s budget process and only incorporating growth where necessary. As the Mayor agreed the detailed GLA budget for 2017-18 in March 2017, it has not been necessary to undertake a full review of budget items; teams have rightly been concentrating on delivery.
A thorough technical review of the entire budget has been undertaken, though, and updates and corrections have been made accordingly. Most significantly, an analysis of the pay budget has revealed that the actual spine point staff have reached is, on average, beyond the mid-point on which the budget has, up to now, been based.

Correcting this underbudgeting on pay, to reflect actual expenditure, has led to an addition of £0.9m on the pay budget being introduced from 2018-19 for the Mayoral component. This same issue is not so prevalent for the Assembly component and so there has been no need to make a corresponding adjustment for that budget.

The GLA budget setting process is not yet complete and, as in previous years, detailed allocations will be signed off by the Mayor in March 2018. In the meantime, further work will be done to refine the plans.

Efficiencies

The GLA continues to pursue efficiencies wherever they are achievable, principally through shared services. TfL has recently assumed responsibility for providing the GLA with an estate management service. The Assembly is shortly to be consulted on the GLA providing the LLDC with an IT service.

In addition, the GLA is looking as to how it can improve its core processes by making greater use of digital technology and more efficient use of City Hall and its space within Union Street. The Assembly will be kept informed of the savings generated by this exercise.

The GLA Group Collaborative Procurement Team was established in April 2015 to manage the common and low complexity procurement expenditure for the GLA and its functional bodies. Since its creation, the team has achieved total gross savings (i.e. cashable and non-cashable savings) of £16.6m for the GLA Group, of which £0.5m relates to the GLA. The biggest beneficiary of the scheme in financial terms is TfL, reflecting the size of its budget compared with those of the GLA and its other functional bodies.

The function is overseen by the GLA Collaborative Procurement Board whose duties include exploring opportunities for further collaboration across more complex areas of expenditure with a view to increasing the level of savings achieved. Work is currently underway to identify those collaborative areas. Initial analysis suggests that there could be significant additional savings achieved in procurement categories not currently managed by the function. These areas will be outlined in due course once the analysis is complete.

The Group Investment Syndicate (GIS), encompassing the treasury activities of the GLA and its functional bodies, with the exception of TfL, remains the primary direct means by which GLA secures efficiencies across the Group and indeed beyond the Group. The London Borough of Haringey will shortly join the Syndicate.
Outstanding issues

30. The budget proposals should be considered in the following context:

- A pay award has yet to be made for 2017-18. The budget includes provision for a 1% pay award in both 2017-18 and 2018-19. Were the pay award in either year to exceed 1%, then the additional call on the budget would need to be factored into that year’s budget from the contingencies available to the Authority. It should be noted that a pay claim for 2017-18 has only very recently been submitted by Unison to GLA management;

- A vacancy rate of 5.85 per cent has been applied where appropriate in keeping with the approach adopted in previous years;

- Additional temporary budget provision was made in last year’s budget setting process to reflect the extra staff resources required to delivered the expanded culture and creative industries programme. The newly appointed Assistant Director will shortly present permanent staffing plans for that area on which the Assembly will be consulted. The team’s staffing budget will be kept under review in the light of the emerging requirements;

- The budgets for the New Year’s Eve and Notting Hill Carnival events have been highlighted as GLA commitments for which no additional resource is required at present but for which security arrangements remain under ongoing review;

- The major events reserve will be refreshed once it has become clear what level of income the GLA will receive from its share of the surplus generated by the London 2017 World Athletics Championship and what level of expenditure will be required for London hosting games at the 2020 European Football Championship (the Mayoral decision from 2014 will be updated shortly to reflect developments in the period since then);

- The ‘provision for debt’ repayment line in the revenue budget will be reviewed in the light of the budget proposals the GLA will receive shortly from its functional bodies;

- The treatment of estates income and expenditure and their interrelationship with the GLA’s commercial trading arm – GLA Land and Property Limited (known as GLAP) – will also be kept under review;

- The forecast level of interest receipts has increased reflecting current forecasts of cash balances and the recent increase in interest rates, but it will be kept under review due to the uncertainties surrounding future interest rates and the timing of receipts and payments;

- The corporate contingency for 2018-19 currently stands at £1.5m, which is subject to review and which will be essential to ensure that the GLA has adequate financial resources to meet budget pressures arising in-year, the contingency for the years following that will be also be kept under review;

- Any additional budget pressures arising for the GLA in the short to medium term, which are in excess of the corporate contingency, will be met from the ‘revenue grants unapplied’ reserve, including any inflationary pressures; and

- Further detailed financial advice will be presented to the Mayor and the Assembly before decisions are taken on the 2018-19 Group budget.
Equalities

31. The budget includes provision for a wide range of measures which will have positive equalities outcomes, including:

- Significant commitments on affordable and family-sized housing;
- Promotion of the London Living Wage, helping those on low pay;
- The promotion of volunteering, as a path to acquiring skills and accessing new employment opportunities;
- Supporting skills development, including apprenticeships;
- Giving young people the best chances by investing in London’s further education facilities; and
- Promoting healthy school and workplace accreditations and healthy food, driving health inequalities down.

32. Equalities impacts will continue to be considered when individual programmes and project specifications are developed and approved through the Authority’s decision-making processes.

Budget plans

33. In certain policy areas additional budget provision has been made to meet Mayoral priorities, particularly where there have been developments in the context in which those policy priorities are delivered. Those areas are: international business engagement, skills and employment, environment and the land fund.

International business engagement

34. The agreed London & Partners (L&P) 2018 to 2021 strategy responds to the changing medium-term context for the promotion of London. The GLA has previously agreed, in principle, to maintain the L&P grant at current levels for the next three years (2018 to 2021).

35. Responding to Brexit creates significant new demand on top of ‘business as usual’ activity in terms of resource and geographic spread. Indeed, Brexit is already impacting L&P’s inward investment pipeline. Since the vote to leave there has been a 18% reduction of new leads and projects.

36. Data from Foreign Direct Investment Markets (FDI) comparing the first six months of 2016 with the first six months of 2017 shows a decrease of FDI into London of 35%. Key competitor cities have either seen an increase i.e. Dublin, Berlin, Munich or a less marked decrease i.e. Paris and Amsterdam.

37. The key action for L&P and GLA is to mitigate against the potential losses by persuading those who have postponed or reconsidered investment that London remains the most viable option for international expansion.

38. Currently L&P is not appropriately resourced to do so, given the size of the Brexit challenge (40-44% of existing investors tell L&P they will review their London operations within the next 12-24 months) and the increase in activity from competitor cities.
39. Global trends indicate that 64% of companies stay in a location if the public-private relationship is managed correctly. Feedback from investors also suggest that they expect, and would welcome, representatives of London/UK to increase their engagement with them in the Brexit era.

40. Subject to the GLA budget planning process and a further review of market conditions, a further £1.355m for the financial year 2018/19, and an additional £1.236m per year thereafter, has been recommended for approval.

**Skills and employment**

41. It is anticipated that, from 2019-20, the Mayor will be responsible for the commissioning, delivery and management of London’s Adult Education Budget (AEB), amounting to circa £400m per annum, and providing opportunities for major improvements in skills and employment outcomes for young Londoners.

42. These significant responsibilities are expected to be granted to the GLA by Government and will have a direct impact on the resources required for the skills and employment team for 2018-19, as a result of the preparatory work required particularly in terms of procurement lead-in times. There are also expected to be additional support costs in the areas of procurement, legal and finance.

43. This proposed devolution of AEB responsibilities in the capital will be subject to a formal consultation exercise under the GLA Act with the Assembly and London boroughs in early 2018.

44. The GLA is still in negotiations with Government as to the level of funding Government will provide for the GLA’s preparatory costs. For this reason, the budget for 2018-19 does not yet include any provision for the additional skills and employment responsibilities.

**Environment**

45. An additional £0.8m has been included for environment to reflect Mayoral priorities and commitments in the following areas:

- **Air quality:** £0.4m; to continue the Mayor’s successful air quality programme, further reducing emissions from new development, ensuring Londoners have the most up to date information and are empowered to reduce their exposure to poor air quality;

- **Bottled water:** £0.3m; to investigate new approaches to reducing plastic bottle waste and increasing access to tap water; and

- **Planning:** £0.1m; to ensure that the planning system delivers key environmental priorities, including making London greener and more resilient.
Land fund

In September of this year the Mayor announced his intention to earmark £250m for City Hall to use for buying and preparing land for new and affordable housing. It is intended that the funding will recycle over time to continue unlocking opportunities across the capital. The Mayor has also made it clear that he is prepared to use City Hall’s statutory powers, including Compulsory Purchase where necessary, to secure land for new and affordable homes.

Plans are currently being worked up on how best to utilise the GLA’s capital receipts to establish this new fund. Appropriate governance arrangements will be established in the form of an investment board to oversee proposed land purchases. The committee will include individuals with property expertise.

Capital financing costs

The budget includes capital financing costs of £117.3m in relation to the GLA’s £3.2bn of Crossrail debt which is funded from ring-fenced business rate supplement revenues, £10m in respect of the Northern Line extension financed by developer contributions and business rate growth in the Battersea and Nine Elms area and a further £6.5m in respect of other GLA debt. A further £8.9m provision has been set aside to repay debt.

Other budget plans

Other budget plans include the following growth for 2018-19:

- HR items: £0.3m comprising a range of items including £0.2m to boost recruitment capacity in the light of an increased workload and a focus on the GLA’s diversity and inclusion agenda;
- Press office: £0.1m for two extra posts, reflecting an increased workload;
- Culture programme: £0.3m to cover the Culture Infrastructure Plan, the Summer of Music and the Suffrage programme of events for 2018;
- FM: £0.5m, comprising £0.4m to reflect an increase in rates and £0.1m to reflect actual Union Street accommodation costs following the estimate provided in last year’s budget setting process;
- New posts in the Mayor’s Office relating to the transfer of functions for fire and rescue services following the abolition of LFEPA: £0.3m to cover the new Deputy Mayor’s remuneration, a Senior Adviser post and PA support;
- Mayor’s Office: £0.1m for a new post to provide direct support to the Mayoral Director of Policy on strategy and performance work;
- Grenfell Inquiry: £0.4m held centrally comprising two posts – one in the Mayor’s Office and one in Housing & Land – to coordinate GLA input to the Inquiry (the Mayor has been awarded core participant status) and an estimated £0.2m for the initial tranche of legal fees likely to be incurred by the GLA in submitting its evidence; and
- Night Czar - £0.1m per annum for a full time Night Czar post in the Mayor’s Office for the period up to May 2020.
Staffing implications

50. The Assembly will be consulted on staffing proposals as they arise. The most significant staffing proposal is expected to arise from the devolution of the adult education budget from Whitehall to the GLA which will involve the creation of a new skills team with its own Assistant Director. As stated above, there is also due to be a restructure of the culture and creative industries team to reflect its additional responsibilities.

Associated performance data

51. The GLA is in the process of embedding a new approach to performance management. The initial focus is on five themes:

- Air quality;
- Culture and the creative industries;
- Future economy;
- Housing; and
- Social integration.

52. For each of these themes, outcomes are being articulated that will both guide the GLA’s work and provide a framework for the monitoring of progress. The outcomes are closely aligned to the statutory and other Mayoral strategies, most of which have already or will soon be consulted on. Linked to the outcomes, indicators are being developed that will allow the impact of GLA programmes to be tracked. The GLA will also be explicit about what else it is hoping to achieve – its most important ‘deliverables’ – and will report progress against these.

53. Dashboards for the air quality and housing themes will be reported to the 13 December Budget Monitoring Sub-Committee. The Sub-Committee will also receive pro formas setting out the focus for future monitoring in the other three themes. Performance against all themes will be reported to the Sub-Committee’s quarter three meeting.

Reserves

54. An indicative reserves statement is set out at Appendix 2. The analysis shows how reserves are expected to be used to support the budget proposals. This analysis does not include Group reserves used to fund the functional bodies and manage volatility in council tax and business rates revenues (i.e. the MDC and business rates reserves). The forecast balances on these will be reported in the Mayor’s Consultation Budget reflecting the impact of the Chancellor’s 2017 budget, the 2018-19 local government, fire and police settlements and the implications of the implementation of the London 100% business rates retention pilot.

55. The expected major changes are explained further below, but the position and approach will be reviewed in the light of changes to the forecast outturn for this year and as the budget process develops.
**General reserve**

56. GLA has a general reserve totalling £10m as at 1 April 2017 in keeping with the policy set out in last year’s budget process.

**Earmarked reserves**

57. Earmarked reserves have been rationalised in line with the arrangements set out in last year’s budget process. An update on the major events reserve is provided above.

58. Reserve movements have been presented so as to show transfers from capital expenditure to revenue expenditure. Such transfers are highlighted in financial decision-making forms as and when they arise. They are principally used to provide revenue support to capital programmes. For example, it has been agreed that up to ten per cent of the Growth Deal 3 capital programme can be converted to revenue support costs.

**GLA Group Reserves**

59. GLA Group Reserves have not been included in this report as they will be subject to decisions to be made on the functional bodies’ budgets, the outcome of funding settlements and the need to review Group reserves in the light of the 100% business rates retention pilot. Full details of GLA Group reserves will be shown in the Mayor’s Consultation Budget.

**Capital spending plan**

60. An indicative capital budget is set out at Appendix 3. It has been updated to reflect the latest position on the allocation of Growth Deal 3. Also, it should be noted that, in terms of the estimates of capital spending by the LLDC, its funding by the GLA is subject to on-going review, including the submission of its proposed capital spending plans later this month.