

The Mayor's Supplementary Budget Guidance for 2016-17

20 October 2015

Introduction

1. This Supplementary Budget Guidance sets out advice on three issues:
 - management of the impact of the Government's Comprehensive Spending Review (CSR) announcement;
 - arrangements for the management of the current Business Rates shortfall; and
 - additional information in order to better understand Group cash balances.

Management of the impact of the Government's CSR announcement

2. The Chancellor of the Exchequer is due to make an announcement on the CSR on 25 November 2015 and subsequently details of each member of the GLA Group's individual Settlement with the Government will emerge. This part of the Supplementary Budget Guidance will need to be actioned if the impact of the CSR and individual Settlements is at variance with the funding assumptions the Mayor has made for any Member of the GLA Group.
3. The Mayor intends to issue his Budget Consultation Document as early in the week starting 21 December 2015 as possible. It is anticipated that the Consultation Document will incorporate each Functional Body's budget submission but with the funding stream for each member of the GLA Group adjusted to reflect the impact of the CSR and individual Settlements. Accordingly, each Functional Body is required to work closely with the GLA in late November and December to ensure an overall funding envelope for each Functional Body can be proposed by the Mayor in his Budget Consultation Document. Subject to the impact of the CSR and individual Settlements with the Government, at this stage it is likely that only limited details of how the impact of revised funding levels are to be managed can be included in the Budget Consultation Document but that the scale of any additional savings required or improvement in the overall position will need to be clearly set out.
4. As part of their formal response to the Budget Consultation Document, Functional Bodies are required to set out as much information as is practically possible on how they propose to manage the impact of the CSR, any local settlements agreed with their parent Government Department and the provisional local government, fire and police grant Settlements, where applicable. This information will be reflected in the draft consolidated budget to be considered by the London Assembly on Wednesday 27 January 2016 and the final draft consolidated budget to be considered by the Assembly on Monday 22 February 2016.

5. Clearly the content of such responses will depend upon the scale of variance between the funding envelope the Mayor set out in his Budget Guidance in July and the impact of the actual funding Settlements received between November and early February on the resources available to be distributed through his budget. Nevertheless, at a minimum the Mayor expects Functional Bodies to set out proposals which allow the Assembly to scrutinise any proposed additional savings required to deliver a balanced budget before the final draft consolidated budget is considered on 22 February, 2016.
6. Functional Bodies must also ensure that their public sector equalities duty (PSED) and consultation arrangements in respect of any additional savings are fully discharged. As stated in the earlier Budget Guidance, Functional Bodies are strongly advised to include a full equality statement in their budget submissions (see paragraphs 10.1 and 10.2). Briefly, the PSED requires each body to have due regard to the need to eliminate discrimination, advance equality of opportunity and foster good relations between people with different characteristics (disability, race, sex, age, religion or belief, sexual orientation, gender reassignment, pregnancy and maternity), when carrying out its activities.
7. These statements will form the basis of the overall equality statement that the Mayor will publish as part of his Budget proposals for 2016-17. In the context of potentially having to make additional substantial savings it is particularly important the PSED is robustly and demonstrably complied with to avoid potential legal challenge and reputational scrutiny. In the same way as Functional Bodies are currently preparing their submissions, any additional post-CSR proposals should, within the information available at the time, seek to identify:
 - the likely potential adverse impacts (direct and/or indirect) relevant to their activities and any particular protected group(s) ;
 - any potentially feasible mitigations that could reasonably be used to offset or reduce that impact;
 - whether any of these mitigations are being pursued and, if not, an explanation of why this is the case; and
 - if none are considered feasible, again an explanation.
8. In keeping with the two-stage process set out below, Functional Bodies' submissions should be kept under review and may need to be refined as more information becomes available. This approach will demonstrate that the Mayor and Functional Bodies have properly discharged the PSED in the overall GLA Group budget preparation and approval process. Functional Bodies should continue to demonstrate compliance with the PSED as they implement their approved budgets.

9. Accordingly, to achieve the above, Functional Bodies are required to make two responses to the Budget Consultation Document which is intended to be issued in the week starting 21 December, as follows:
- By 12 January 2016 – for an initial view on managing the impact of the CSR / Funding Settlements; &
 - By 8 February 2016 – to give a final view on managing the impact of the CSR and Funding Settlements.
10. It is recognised that these deadlines are extremely tight but they are driven by the despatch dates for the Budget to be sent to the Assembly and to allow the Mayor time to determine his final Budget proposals. Therefore, Functional Bodies are encouraged to consider their contingency planning arrangements now to ensure that these deadlines can be met. Set out below is an indicative timetable of how the Budget process may operate from late November onwards.

Arrangements for the management of the current Business Rates shortfall

11. The GLA's estimated deficit on the business rates retention scheme at 31 March 2015 was around £118m. TfL has received around 85 per cent of the funding under this scheme and its notional share of deficit is some £100m, although this figure is still provisional and subject to change. It is not reasonable for the GLA to carry this deficit as this would potentially require it to call on resources (e.g. council tax precept income) which would more appropriately be made available to support other parts of the GLA Group.
12. Accordingly, it is proposed that TfL's business rates instalments for 2015-16 will be adjusted to recover an appropriate share of the difference between the aggregate sums passported in the Mayor's budgets for 2013-14 and 2014-15 and the final audited sums received from the 33 London billing authorities (including section 31 top up grants from the Secretary of State relating to government supported rates reliefs). This will be set out as a technical adjustment to the previously agreed 2015-16 allocations in the Mayor's Budget Consultation Document – thus offering the Assembly and TfL the opportunity to comment on the proposals. Any clawback would be applied via the instalments due to be paid to TfL on 24 February and 23 March 2016 which would be after the Mayor's final draft budget had been considered by the Assembly on 22 February 2016. The adjustment could therefore be approved as part of the Mayoral Decision approving the 2016-17 precept scheduled to be signed by 23 February 2016.
13. In order to avoid large fluctuations in the sums that would be payable to and from TfL and the GLA, it is proposed that the sum recoverable from TfL be damped by 25 per cent. Accordingly, on the assumption that TfL's share of the deficit is £100m it is estimated that TfL's instalments of retained business rates would be reduced in aggregate by £75m in February and March 2016. The March 2016 instalment would be reduced from £70.6m to zero with the February instalment reduced from £70.6m to

£66.2m. As set out above the estimated deficit is provisional and subject to change. So, there are likely to be marginal changes to the actual level of clawback from TfL.

14. Should there be a surplus in 2015-16 and future years (i.e. the GLA's share of the sums actually collected in rates income by billing authorities exceed the forecasts used in that year's Mayor's budget), subject to decisions to be made by the new Mayor, it is anticipated that TfL would be reimbursed for its contribution to the deficit on a pro rata basis until parity is achieved compared to its baseline position updated by inflation. However, any surplus – or deficit – for 2015-16 will not be known until after 30 September 2016.
15. Given that the Mayor has committed to a fixed level of funding for LFEPA, it is not proposed to deduct an equivalent amount of LFEPA's retained business rates from them. This is in line with the treatment of fire authorities elsewhere in England whose exposure to risk and volatility within the rates retention system is very limited. The GLA will therefore manage the remainder of the deficit not recovered from TfL through the Mayor's Resilience Reserve.

Additional information in order to better understand Group cash balances

16. The Mayor wishes to better understand the current levels of group cash and borrowing balances for the whole GLA Group in order to identify opportunities for synergies and savings and facilitate group wide analysis of borrowing and short term investment risks, feeding into the determination of group prudential and treasury management indicators.
17. Accordingly, Functional Bodies are asked to provide the following information:
 - The Borrowing CFR as at 31 March 2016, i.e. Projected Closing Capital Financing Requirement EXCLUDING credit arrangements;
 - Annual totals for all committed capex expected to be funded by borrowing, including any firm commitments beyond the 3 year budgetary horizon;
 - The full series of annual Minimum Revenue Provision (MRP) and any Voluntary Revenue Provision (VRP) entries and/or applications of capital receipts that will amortise the Borrowing CFR, including the impact of relevant committed capex, to nil;
 - Details of all borrowings, cash and treasury investments as at 30 September 2015; and
 - Forecast for balances of all reserves and provisions (capital and revenue) as at 31 March 2016 and the likely annual drawdown profile, net of any anticipated receipts.

18. The information above will be used to create comparative net cash requirement benchmarks in line with CIPFA's treasury risk management toolkit for local authorities. Comparing these with the maturity profile of existing group borrowing may reveal opportunities for intra-group transactions that could offer significant savings and/or risk-management opportunities.

General

19. The information sought from functional bodies in this Budget Guidance is requested in accordance with the provisions of sections 110 and 125 of the GLA Act 1999.
20. If you have any queries on this Supplementary Budget Guidance, please contact David Gallie, Assistant Director – Group Finance (david.gallie@london.gov.uk)

Indicative Budget Timetable

Date	Issue
25 November 2015	CSR Announcement and Local Settlements may begin to become known
27 November 2015	Assembly/FBs responses received to draft budget proposals issued, including full budget submissions from the Functional Bodies on all aspects of the 2016-17 Budget.
17 December 2015	Parliament recess and so last date that Local Settlements may be announced.
Week commencing 21 December 2015	Budget Consultation Document issued, with impact of CSR / Funding Settlements on funding levels for FBs illustrated.
12 January 2016	Deadline for responses to Budget Consultation Document, including deadline for Functional Bodies to give an initial view on managing the impact of the CSR / Funding Settlements.
19 January 2016	Despatch of draft consolidated budget to Assembly.
27 January 2016	Assembly to consider draft consolidated budget.
8 February 2016	Deadline for Functional Bodies to give a final view on managing the impact of the CSR / Funding Settlements as a final response to the Mayor's Budget Consultation Document.
12 February 2016	Despatch of final draft consolidated budget to Assembly.
22 February 2016	Assembly consideration of final draft consolidated budget.
28 February 2016	Statutory deadline by which the GLA precept must be approved and the Mayor's statutory Capital Spending Plan is published.