

## **PART 3**

### **Draft consolidated budget 2015-16: Finance and legal advice**

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## **Advice provided by the Executive Director of Resources**

### **1. Advice on budget process**

The Local Government Act 2003 places a duty on the Executive Director of Resources, as the statutory Chief Finance Officer, to report on the robustness of the estimates. This is covered within the information and advice provided below.

#### **What were the arrangements for developing the budget proposals?**

The budget process itself involved:

- budget guidance issued by the Mayor throughout the process;
- budget development by functional bodies and both parts of the GLA;
- budget submissions scrutinised and approved by the functional bodies before formal submission to the Mayor;
- Mayor's draft budget proposals considered, prepared and issued for consultation;
- consultation; and
- scrutiny by the Assembly's Budget and Performance Committee throughout the process.

The Mayor issued guidance in July 2014 to the Greater London Authority and the functional bodies for preparing their budget submissions. The guidance sought to ensure that the Mayor's budget proposals were an accurate reflection of his priority aims and objectives within available resources.

There have been meetings between functional bodies and GLA officers and other consultation, and these provided a vehicle to:

- review delivery of the 2014-15 budget and to judge outcomes;
- direct the 2015-16 budget process, ensuring that it remains valid and responsive to emerging needs and that budget information reflects the Mayor's priorities;
- ensure that as far as practical there would be consistency and integration across the GLA group on relevant issues;
- ensure that each body's submission was delivered as required; and
- ensure that the submissions could be readily consolidated into the Mayor's budget proposals and issued for consultation.

Throughout the process careful consideration has been given to the projected resource provision; including responding to and taking into account Government consultations and announcements.

### **How can the estimates of income and expenditure be assessed as representing necessary and reasonable budget provisions?**

To explain each component budget, there is generally a service analysis showing the spending plans for the two year period 2015-16 to 2016-17 for the GLA and each of its functional bodies. In previous years' budgets up to a three year period has been covered; due to the uncertainties around funding from 2016-17 onwards, the decision was taken by the Mayor to cover a two-year period in each of the component budgets. Each service analysis shows:

- the net costs of providing the complete range of services provided by the body;
- estimated specific grants;
- capital financing costs (including capital expenditure charged to revenue);
- transfers to and from reserves;
- any other financial changes and adjustments; and
- the resultant budget and council tax requirement.

Careful attention has been given to explaining the changes from the equivalent figures for 2014-15. Explanations have been provided for the changes in terms of:

- inflation;
- savings and efficiencies;
- new initiatives and service improvements;
- changes in use of reserves;
- net change in government grants; and
- any other adjustments.

More detailed information has also been provided in the public documents relating to the budget proposals considered by the functional bodies and the Assembly's Budget and Performance Committee.

### **What internal and external scrutiny have the budget proposals had?**

The budget proposals are based on submissions that have been subject to scrutiny and approval within the functional bodies. Developing budget proposals have been scrutinised by the Assembly's Budget and Performance Committee and throughout the process further information has been provided in response to the Committee's questions and recommendations.

Details of the budget consultation have been widely circulated to London borough councils, the Corporation of London, London Councils, and a range of business and other representative organisations. The budget consultation document was also placed on the Greater London Authority website with a direct link from the homepage, enabling members of the public to make their comments. The views expressed in the consultation been considered before finalising the draft budget proposals.

## **Conclusion**

The estimates have been put together by, or with the involvement of, qualified finance staff in the functional bodies and the GLA and reflect the approval, scrutiny and challenge process as described above. The estimates represent the best available information held within the GLA about budget pressures and the resources available to meet them.

There are processes within each of the GLA group organisations for proper consideration to be given before expenditure is sanctioned. Budget discipline is supported by a controlled virement system that maximises resource utilisation and allows emerging needs to be taken into account.

There are areas of risk and uncertainty in the budget, particularly the system of business rates retention which increases the potential volatility in respect of some £1.4 billion of the GLA Group's funding. There are significant savings included in the budget and these will require positive management action. There is always the risk that forecast budget variances for 2014-15 could result in a shortfall in the budget funding for 2015-16. In that event the control systems that operate throughout the group allow for component budgets to be reviewed and adjusted accordingly. The scale of future savings required across the GLA Group in future years is substantial. This will require intensive work to deliver and will place significant strain on officers across the whole Group.

Risks are mitigated by insurance arrangements across the GLA Group and by the existence of appropriate reserves. Across the GLA Group the risks associated with major contracts have been recognised and programmes to manage these risks introduced.

The GLA Group takes a prudent approach to the achievability of income and recovery of debts due, making appropriate provision for bad debts, and full provision for realistic estimates of future settlements of known liabilities. The level of external borrowing by authorities is considered affordable having regard to these factors. TfL's borrowing has increased significantly in recent years due to the impact of its investment programme and particularly the Tube upgrade. The GLA is borrowing largely for its contribution to Crossrail and the Northern Line extension.

Overall, on the basis of the information that has been provided to explain the Mayor's 2015-16 budget proposals, the estimates and budgetary provisions set out in the Budget documents represent reasonable and necessary financial provisions consistent with the powers and service obligations of the GLA and the functional bodies, and which are the outcome of a robust budget development process. Advice on equalities implications, 2014-15 monitoring, reserves and balances, Council Tax referenda, Council Tax Freeze Grant, future years' plans and the Assembly's powers to amend the Budget is also provided in this document.

## **2. Advice on the Equalities Implications of the Budget Proposals**

The relevant sections of Part II of the Budget set out a summary of each member of the GLA Group's consideration of equality issues in their budget proposals. This equality statement covers the Mayor's Budget proposals for the 2015-16 financial year.

The Mayor and the Assembly must secure a financially balanced budget. The majority of the rules relating to the budgetary process are set out in sections 85 to 87 and Schedule 6 of the Greater London Authority Act 1999, as amended ("the GLA Act").

The Mayor is required to determine consolidated and component council tax requirements for 2015-16 and it is these that the Assembly has the power to amend. The individual Mayor, Assembly and functional body council tax requirements are consolidated to form the consolidated council tax requirement for the GLA Group.

In order to determine consolidated and component council tax requirements the Mayor has to make estimates of expenditure (including allowance for contingencies and reserves to be raised) and income (including reserves to be used). To make estimates of income the Mayor also has to determine the distribution of revenue support grant and retained business rates to the Mayor, Assembly and functional bodies (the constituent bodies).

For the purpose of this statement the component council tax requirements and distribution of revenue support grant (RSG) and retained business rates (RBR) are referred to collectively as Funding Allocations, and it is the role of the Mayor to determine these allocations subject to the Assembly's power to amend the proposed council tax requirements.

As public bodies, the GLA and the functional bodies must comply with section 149 of the Equality Act 2010, which provides for the "public sector equality duty". This duty requires each body to have due regard to the need to eliminate unlawful discrimination, harassment and victimisation, to advance equality of opportunity, and to foster good relations between people who share a protected characteristic and those who do not. The protected characteristics covered by section 149 are: age; disability; gender reassignment; pregnancy and maternity; race; sex; religion or belief; and sexual orientation. Compliance with the duty may involve, in particular, removing or minimising any disadvantage suffered by those who share a relevant protected characteristic, taking steps to meet the needs of such people; and encouraging them to participate in public life, or in any other activity where their participation is disproportionately low, including tackling prejudice and promoting understanding. In limited circumstances this may involve treating people with a protected characteristic more favourably than those without the characteristic, in particular, making reasonable adjustments for a disabled person; and in some cases a pregnant worker can be treated more favourably.

## Funding Allocations

The budget consultation document “Group Budget Proposals and Precepts 2015-16” set out the Mayor’s proposed Funding Allocations to the constituent bodies. The Funding Allocations are not specifically aimed at persons who share a protected characteristic – albeit these allocations comprise a significant contribution to the total revenues for each individual body. However, the changes to Funding Allocations could, without mitigating action and depending on the spending decisions made by the bodies themselves, have an adverse impact on persons who share a protected characteristic, including through impacts on discrimination and other conduct prohibited under the Equality Act 2010, equality of opportunity and good relations between persons who share a relevant protected characteristic and those who do not.

The Mayor’s proposed Funding Allocations for 2015-16 compared with the previous year are set out in the tables below.

<b>2015-16 (£m)</b>	<b>Mayor</b>	<b>Assembly</b>	<b>MOPAC</b>	<b>LFEPa</b>	<b>TfL</b>	<b>Total</b>
Council tax	65.3	2.6	564.2	138.2	6.0	776.3
RSG	41.7	2.5	0.0	129.4	0.0	173.6
RBR	76.6	2.1	0.0	114.7	847.5	1,040.9
<b>Total</b>	<b>183.6</b>	<b>7.2</b>	<b>564.2</b>	<b>382.3</b>	<b>853.5</b>	<b>1,990.8</b>

<b>2014-15 (£m)</b>	<b>Mayor</b>	<b>Assembly</b>	<b>MOPAC</b>	<b>LFEPa</b>	<b>TfL</b>	<b>Total</b>
Council tax	76.0	2.5	564.2	138.2	6.0	786.9
RSG	52.3	2.6	0.0	138.8	0.0	193.7
RBR	57.0	2.1	0.0	112.2	828.5	999.8
<b>Total</b>	<b>185.3</b>	<b>7.2</b>	<b>564.2</b>	<b>389.2</b>	<b>834.5</b>	<b>1,980.4</b>

Change	-1.7	0.0	0.0	-6.9	19.0	10.4
	-0.9%	0.0%	0.0%	-1.8%	2.3%	0.5%

### Notes:

1. For 2014-15 additional one-off funding was allocated to LFEPa to fund implementation costs in respect of its Fifth London Safety Plan and to increase its earmarked reserves.
2. Of the RBR component for the Mayor, a significant proportion of the revenue over the two years is applied through the Mayor’s Resilience Reserve to offset a prior year deficit for 2014-15, to finance the 2015-16 funding allocation projection provided to LFEPa by reallocating revenue support grant to it and manage potential future funding risks. This proportion is not therefore used directly to support GLA services.
3. MOPAC receives grant funding from the Home Office, and in line with the position for police forces outside London the Mayor has chosen not to provide it with funding from Revenue Support Grant or Retained Business Rates but instead to use the council tax precept as the basis for providing additional resources to it in 2014-15 which has been maintained for 2015-16.
4. TfL receives grant funding from the Department for Transport, and the Mayor has decided not to provide it with funding from Revenue Support Grant in recognition of the origin of the original component funding streams which form the basis of the GLA’s allocation.
5. LLDC is not funded from any of the Funding Allocations’ sources – but receives support from resources allocated within the GLA (Mayor) component budget

In summary, the Mayor's proposed Funding Allocations:

- provide the functional bodies with as much certainty as possible over funding sources that are themselves uncertain and volatile. This is achieved by allocating retained business rate income increasing by RPI at the previous September in line with the statutory basis used to uprate the non-domestic rating multiplier and holding their share of council tax income steady;
- provide additional support to LFEPA to offset the impact of the additional cuts in the former fire formula component of the GLA's revenue support grant allocation; and
- manage the reduction in the precept through the Mayor's component budget while maintaining the council tax requirement for LFEPA and MOPAC. The Mayor's Resilience Reserve is used for this purpose (as well as being retained at a level considered to be sufficient to manage the prevailing funding uncertainties, although its adequacy in future years will depend on continued growth in the council tax base and business rates tax base).

### **Other revenues**

The Funding Allocations are not the only source of income for the constituent bodies. They are also supported through locally raised and retained fees and charges including public transport fares and the congestion charge for Transport for London, as well as through a range of other government grants for specific purposes. Any resulting reduction in a constituent body's income could have an effect on the ability of that body to incur expenditure on, in particular, advancing equality of opportunity between persons who share a protected characteristic and persons who do not share it. The impact will depend on the choices made by the constituent body (and in making those choices it is required to comply with the public sector equality duty). Any reduction in a particular service, programme or project may have a greater impact on persons who share a protected characteristic, than on those who do not share such a characteristic. However, some reductions in services will not particularly affect people with protected characteristics, or will only particularly affect those with certain protected characteristics.

If the constituent bodies cannot mitigate any shortfall in funding through making efficiencies, pooling resources or other means, then services may have to be stopped, scaled back or re-shaped. Given that the constituent bodies provide a wide range of services, targeting or impacting upon persons who share a protected characteristic, there could be an impact upon such persons as a result.

## **Impact of Funding Allocations and other revenues**

It is not possible to predict how the proposed changes for 2015-16 will impact on specific persons who share a protected characteristic as this will be dependent on the decisions made by each of the constituent bodies on the allocation of its Funding Allocation and its other revenues. In exercising their functions, including when making policy and spending decisions, the constituent bodies are required to comply with the public sector equality duty. This duty is necessarily iterative and on-going. It includes carrying out a process to identify and actively consider potential detrimental impacts (if any) that may arise for individual protected groups and what mitigations (if any) could be implemented to address them at a level proportionate to the decision being taken. The constituent bodies will continue to undertake this at a budget level and in the implementation of their individual policies, programmes and projects.

The Mayor's proposed Funding Allocations do provide some mitigation of the potential impacts on persons who share a protected characteristic. They have been determined following a lengthy budget development process which has included the constituent bodies responding to budget guidance issued by the Mayor with budget submissions scrutinised and approved by them before formal submission to the Mayor. Throughout this process constituent bodies have been encouraged to consider equality and diversity issues and they have taken their own steps to comply with the public sector equality duty. An initial high level summary of the equality implications of each constituent body was set out in the budget consultation document "Group Budget Proposals and Precepts 2015-16". No specific equalities related issues were raised in response to the consultation on the Mayor's budget.

Also, as explained above, the Funding Allocations provide funding protections for the functional bodies by providing them with as much certainty as possible over funding sources that are themselves uncertain and volatile; providing additional support to LFEPA to offset the impact of the additional grant cuts; and managing the funding uncertainties and the reduction in the precept through the Mayor's Resilience Reserve.

## **Impact of reducing the council tax precept**

For 2015-16, a financially balanced budget is proposed based on various new initiatives and service improvements, savings and efficiencies, income changes and use of reserves across all the constituent bodies. On the basis of that budget, the Mayor proposes a reduction in the Band D precept paid by residents of the 32 London Boroughs from £299.00 to £295.00 – a decrease of £4.00 or 1.3 per cent. The provisional 2015-16 precept for the Common Council of the City of London which is outside the Metropolitan Police district is £80.48 – a decrease also of £4.00.

The impact on council tax payers will depend on their household make up, whether the property is empty or used as a second home and whether they pay council tax in full, in part or are exempt from payment due to their household income or personal circumstances.

All individuals who pay council tax in full will benefit financially from the council tax reduction. Although the reduction is relatively modest (£4 for Band D council tax payers in a two person household), there is a cumulative impact as this would be a reduction for the fourth year in a row (a total cash reduction of £11.72 for Band D council tax payers since 2012-13). The financial benefit would be to a proportionately lesser extent for those individuals who receive some council tax support from their local borough council or are eligible for the 25 per cent single person discount.

Individuals who are exempt from paying council tax or who are eligible for council tax support for 100 per cent of their bill will experience no direct benefit from a reduction in council tax. While this group will not benefit from a council tax reduction, they will not be detrimentally affected by it either.

However, the availability of full council tax support varies depending on the council tax payers' place of residence. In April 2013 decision making on the award of council tax benefit was localised. The Government also granted local authorities the ability to revise exemption and discount policies for second and empty homes. These policies are set in London by the 32 London boroughs and the Corporation of London.

Under the new system eligible pensioner households continue to receive council tax benefit as previously but the billing authorities are free to introduce their own local schemes for working age claimants below pension credit age.

Of the 33 London billing authorities seven decided in 2014-15 to protect working age claimants and continue to provide full council tax support on broadly the same basis as previously – and subject to the formal approval of their full council have indicated that they will continue this policy in 2015-16 although in some cases they may opt not to uprate allowances and deductions used to calculate support by inflation. The remaining 26 introduced local schemes which require some or all working age claimants to pay a share of their council tax liability albeit in some cases any impact is restricted to council tax payers in higher property bands or households with non-dependents rather than a minimum liability being imposed on all working age households.

As a result of the localisation of council tax support it is estimated that over 400,000 households in London have become liable to pay a proportion of their tax bill when previously they would have been exempt entirely due to their low income. Therefore, a greater proportion of households in London will benefit directly from the Mayor's precept reduction than would have been the case prior to 1 April 2013.

Those who will feel the greatest benefit from the reduction in council tax are likely to be those whose circumstances mean that they are only slightly above the level at which they would become eligible for some council tax support. Because of the way in which benefits are calculated, the number of factors that must be taken into account, and the different schemes in operation in the London Boroughs, it is not possible to give a threshold of savings or income (or similar) below which an individual would be eligible for council tax support, or above which a person will not be eligible for council tax support. However, it is likely that those whose financial circumstances place them only just above their local council tax support eligibility threshold will also have low levels of income/savings, relative to the rest of the Greater London population.

Eligibility for council tax support will vary across London as it will depend on the local scheme determined by each London Borough. The GLA does not have diversity data in respect of the 33 local council tax support schemes which could be used to inform an assessment of the likely percentage of people in this group having a particular protected characteristic. Although, probably it can be assumed that, in general, those with lower income/savings relative to the rest of the population (but nevertheless above their local council tax support eligibility threshold) will include greater proportions of disabled people, black and minority ethnic groups, women on maternity leave, lone parents (who are normally women) and families with young children than are present in the Greater London population as a whole. The cumulative reduction in council tax marginally increases their disposable income in both cash and real terms.

### **3. Advice on 2014-15 financial monitoring**

#### **What are the arrangements for monitoring in the GLA and the functional bodies?**

There are systems in place for regular financial monitoring and reporting within each member of the GLA Group. In addition, progress against budget is reported quarterly to the Assembly's Budget Monitoring Sub-Committee for each GLA Group member. The reports detail spending against profiled estimates and provide explanations of significant variances and proposals for any necessary corrective action. Progress on new initiatives, performance against key indicators and outturn estimates against approved budgets are also identified and explained. To provide a full snapshot across the GLA Group, set out below is a summary of the latest monitoring reported to the Assembly. All figures are as at the end of quarter 2 of 2014-15. These current outturn forecasts for 2014-15 have been taken into account in the Budget proposals for 2015-16.

#### **(a) Greater London Authority: Mayor of London**

The net revenue budget for the Mayor of London was forecast to underspend by £24.5 million (12 per cent) against an approved budget of £199.6 million. The GLA's Capital Programme is forecast to underspend by £167.1 million (10 per cent) against an approved Programme of £1.65 billion.

**(b) Greater London Authority: London Assembly**

There was a forecast underspend of around £0.1 million (1 per cent) in the London Assembly's budget.

**(c) Mayor's Office for Policing and Crime**

MOPAC's net revenue budget was forecast to marginally overspend by £4.4 million (0.2 per cent of the £2,448.2 million net revenue expenditure budget). There is a forecast underspend in the Capital Programme of £141.1 million in 2014-15 (38 per cent) against an approved programme of £368.2 million.

**(d) London Fire and Emergency Planning Authority**

LFEPA forecast an overspend of £1.67 million compared to the approved budget of £398.5 million (4.2 per cent). There is a forecast underspend of £2.72 million against a revised Capital Programme of £36.02 million (7.5 per cent).

**(e) Transport for London**

TfL forecast an overall underspend of £116 million in 2014-15. This consists of an underspend on its net revenue budget of £81 million (5 per cent) and an underspend on its Capital Programme of £35 million (1 per cent).

**(f) London Legacy Development Corporation**

LLDC forecast a revenue underspend of £2.2 million (5.4 per cent). LLDC expects its capital expenditure to be in line with its revised Capital Budget for the year.

**Conclusion**

An assessment of the current year's financial outturn is always a crucial element in budgetary and precept deliberations for the forthcoming year. With further spending activity still to take place in respect of this financial year up to 31 March 2015 and with crucial closing of accounts transactions taking place beyond that date in finalising the Accounts for the GLA and the functional bodies, it is not possible to say that other variations will not arise.

The processes in place throughout the GLA group and the responsibilities placed on each Chief Finance Officer do however ensure that the outturn position is closely monitored, controlled and taken into account in preparing the estimates of income and expenditure for 2015-16. In particular, each body monitors progress against delivery of their budget and business plans, instigating any necessary remedial action. In turn this monitoring is reported and reviewed by GLA finance officers and considered by both the Mayor and the Assembly on a regular basis.

Processes are also in place to ensure expenditure is controlled within the resources finally approved for each organisation. If any significant changes to the outturn forecasts emerge in the latest round of monitoring, advice will be provided in time for consideration of the Mayor's final draft budget proposals.

## 4. Advice on reserves and balances

Section 25(1) (b) of the Local Government Act 2003 places a duty on the Executive Director of Resources, as the statutory Chief Finance Officer, to report on the adequacy of the proposed financial reserves. This is covered within the information and advice provided below.

### What are reserves and balances?

When reviewing their medium term financial plans and preparing their annual budgets, authorities should consider the establishment and maintenance of reserves.

Reserves can be held for three main purposes:

- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of **general reserves**;
- a contingency to cushion the impact of unexpected events or emergencies – this forms part of **general reserves**; and
- a means of building up funds to meet known or predicted liabilities – this is often referred to as **earmarked reserves**.

### What are the appropriate amounts to be held in reserves?

The existing legislation requires authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. It is the responsibility of the Chief Finance Officer to advise the authority about the level of reserves it should hold and to ensure that there are clear protocols for their establishment and use. The protocols should set out:

- the reason for/purpose of the reserve;
- how and when the reserve can be used;
- procedures for the reserve's management and control; and
- a process and timescale for review of the reserve to ensure continuing relevance and adequacy.

CIPFA's guidance states that the Institute's view is that *"a generally applicable minimum level [of reserves] is inappropriate, as a minimum level of reserve will only be imposed where an authority is not following best financial practice"*. It confirms that *"local authorities should establish reserves including the level of those reserves based on the advice of their chief finance officers"*, and that *"authorities should make their own judgements on such matters taking into account all the relevant local circumstances."*

Further guidance is provided by Local Authority Accounting Panel (LAAP) Bulletin 99, issued in July 2014. LAAP99 emphasises that in assessing the adequacy of reserves the chief finance officer should take account of the strategic, operational and financial risks facing the authority and also the importance of considering medium-term plans and forecasts of resources, in addition to short-term considerations.

Section 26 of the Local Government Act 2003 gives Ministers in England and Wales a general power to set a minimum level of reserves. However, the Government has undertaken to apply this only to individual authorities in circumstances where an authority does not act prudently, disregards the advice of its Chief Financial Officer and is heading for serious financial difficulty.

An authority's external auditor also has a responsibility to review the arrangements in place to ensure that financial standing is soundly based. This includes reviewing and reporting on the level of reserves taking into account their local knowledge of the authority's financial performance over a period of time. It is not their responsibility to prescribe the optimum or minimum level of reserves for an individual authority or authorities in general.

**Advice: Below is advice on reserves and balances for the GLA and each of the functional bodies reflecting advice received from their own statutory Chief Financial Officers.**

**(a) Greater London Authority: Mayor of London**

No changes are proposed to the GLA's policy on reserves and the policy will be kept under review during 2015-16. In light of the impact of the locally retained business rates financial regime the Mayor's Resilience Reserve is being closely monitored to ensure that volatility in the level of business rates retained by the GLA can be effectively dealt with and also to ensure that the Mayor's plans to support both the council tax precept and LFEPA can be implemented. The estimated annual balances of this reserve will be reported once the data required to forecast business rates and council tax income is received from all of the 33 London billing authorities.

**General Reserves**

At 31 March 2015 general reserves are expected to total £4.9 million representing no movement from the closing balances at the end of 2013-14. This position is expected to be maintained in 2015-16 and 2016-17.

**Earmarked Reserves**

The 2013-14 closing earmarked reserves balance is £302.4 million and is forecast to reduce by £63.2 million so that the balance as at 31 March 2015, including the elections reserve, is forecast to be £239.2 million. Earmarked reserves are forecast to reduce to £101.5 million by the end of 2016-17; this reflects the drawdown of Government grants received in advance.

These forecast positions as at 31 March 2015 and 31 March 2016 include balances of £10.0 million that are held to fund legacy related costs to be incurred following the London 2012 Olympic Games; this represents a prudent level of reserves held to support LLDC in the medium term, should support be required, and accounts for the decision to allow LLDC's own reserves to reach zero by the end of 2016-17 (see subsection (f) below).

**Conclusion**

The level of reserves is judged prudent in the context of known future liabilities, risks and funding uncertainties facing the Authority and will be kept under review, particularly in the light of the management of the pressures on future years' budgets arising from locally retained business rates.

**(b) Greater London Authority: London Assembly**

Most of the GLA's non-election related reserves relate to accommodation or to other cost issues such as legal fees, the environment and estates, and the Assembly and its staff effectively have access to these reserves on the same basis as the rest of the GLA. The Mayor's proposed budget includes a forecast earmarked Assembly Development and Resettlement Reserve of £1.3 million as at 1 April 2015, which is included in the earmarked reserves total for the GLA: Mayor as set out above. The reserve is forecast to remain at this level as at 31 March 2017.

**(c) MOPAC**

MOPAC's policy on reserves is to hold a general reserve of at least 1.5 per cent of net revenue expenditure. This is on the basis that there are appropriate accounting provisions and earmarked reserves; reasonable insurance arrangements; a well-funded budget; and effective budgetary controls in place.

MOPAC is forecasting general reserves of £46.6 million, including the Emergency Contingency Reserve of £23.1 million, as at 31 March 2015. Current proposals are that this position will be maintained at the end of 2016-17. The 2014-15 forecast outturn figure represents 1.6 per cent of the net revenue expenditure in that year, and the 2015-16 and 2016-17 balances represent 1.6 per cent and 1.7 per cent respectively. This is in line with MOPAC's recommended policy.

Earmarked reserves have been established by MOPAC to provide resources for specific purposes. Earmarked reserves are forecast to reduce from £296.8 million at the end of 2014-15 to £240.7 million at the end of 2015-16 and be maintained at this level at the end of 2016-17.

**MOPAC Conclusion**

In the opinion of MOPAC's Interim Chief Financial Officer the proposed approach remains prudent and MOPAC will have in place adequate earmarked reserves and general reserves including the emergency contingency fund.

**(d) London Fire and Emergency Planning Authority**

LFEPA's general reserves at 31 March 2015 are forecast to be £11.9 million. They are forecast to be £12.7 million by the end of 2015-16 and to be maintained at this level at the end of 2016-17. This is in line with its minimum general reserve position equivalent to 2.5 per cent of its annual budget.

LFEPA also forecasts that it will have £6.2 million of earmarked reserves at 31 March 2015, decreasing to £5.5 million at the end of 2015-16 and maintained at this level at the end of 2016-17. The level of reserves will be kept under review and will reflect any updated assessments of financial risks.

**LFEPA Conclusion**

The level of reserves is judged prudent by the Chief Financial Officer of LFEPA in the context of known future liabilities, risks and funding uncertainties facing the Authority and will be kept under review.

### **(e) Transport for London**

TfL seeks to maintain a General Fund balance of at least £150 million (and a minimum cash balance of £250 million), to protect it from the short-term effects of specific risks crystallising and to ensure sufficient liquidity. Should there be a significant call on the General Fund, provision would be made in future years' budgets to rebuild the reserve to this target level.

TfL general reserves are planned to be held at a constant level of £156.6 million from the end of 2014-15 to the end of 2016-17.

Earmarked reserves are reserves set aside for specific policy purposes, namely funding of the Investment Programme, and represent funding received in advance of need. Earmarked reserves are set aside in respect of projects across the Group, excluding Crossrail. They form part of the overall funding pot for the Investment Programme, and will be expended on major projects over the next few years such as the Sub-surface lines upgrade, the Northern line upgrade, supporting the Mayor's Cycling Vision and congestion relief projects such as Tottenham Court Road and Victoria stations. Earmarked reserves (excluding Crossrail and the Street works Reserve - a reserve which is held under statute and which must be applied to reduce the adverse effects caused by street works) are forecast to decrease from £1.97 billion at 31 March 2014 to £712.8 million at the end of 2015-16. They are then projected to fall to £520.4 million by the end of the 2016-17, reflecting the drawing down of earmarked reserves in order to fund TfL's investment programme.

Total TfL usable reserves (excluding Crossrail and the Street Works Reserve) are forecast to decrease from £1.8 billion at 31 March 2015 to £869.4 million at the end of 2015-16 and then be further reduced to £677.0 million by the end of 2016-17 as a result of the movements outlined above.

### **TfL Conclusion**

The Interim Chief Finance Officer of TfL considers that the level of reserves described above is appropriate to meet general requirements in the context of known future liabilities, risks and funding uncertainties facing the Corporation.

### **(f) London Legacy Development Corporation**

As at 31 March 2015 LLDC's general reserves balance is expected to total £17.7 million. LLDC holds no earmarked reserves. The general reserve balance is forecast to decrease to £7.2 million by the end of 2015-16 and then fall to zero by the end of 2016-17.

As noted under sub-section (a) above the GLA holds reserves of approximately £10.0 million in order to fund Olympic legacy related costs; this effectively maintains a prudent balance that accounts for the decision to allow LLDC's own reserves to reach zero by the end of 2016-17.

## LLDC Conclusion

The Chief Financial Officer of the LLDC, taking into account the Olympic Legacy Reserve held by the GLA and noted above, considers that the level of reserves is prudent in the context of current known liabilities, but will need to be kept under review in the light of future funding needs.

## General Conclusion

The above advice reflects the differing nature of the services provided by each organisation. Each body operates independently with its own statutory responsibilities for the proper administration of its financial affairs. The Executive Director of Resources relies on the individual advice from each of the Chief Financial Officers of the functional bodies in discharging his responsibilities.

The use of reserves to March 2016 is summarised in the table below.

	GLA	MOPAC	LFEP A	TfL	LLDC	Total
	£m	£m	£m	£m	£m	
<b>Opening balances 1.4.14</b>	<b>307.3</b>	<b>403.4</b>	<b>19.5</b>	<b>2,126.2</b>	<b>17.4</b>	<b>2,873.8</b>
Movement on Earmarked reserves	-63.2	-60.0	-3.0	-329.2	0.0	-455.4
Movement on General reserves	0.0	0.0	1.7	0.0	0.3	2.0
<b>Balances 31.3.15</b>	<b>244.1</b>	<b>343.4</b>	<b>18.2</b>	<b>1,797.0</b>	<b>17.7</b>	<b>2,420.4</b>
Movement on Earmarked reserves	-66.4	-56.1	-0.7	-927.6	0.0	-1,050.8
Movement on General reserves	0.0	0.0	0.7	0.0	-10.5	-9.8
<b>Balances 31.3.16</b>	<b>177.7</b>	<b>287.3</b>	<b>18.2</b>	<b>869.4</b>	<b>7.2</b>	<b>1,359.8</b>

There are reductions in the reserves of all of the functional bodies. This results in a net overall reduction of over £1.5 billion from April 2014 to March 2016.

Of the forecast balance on reserves of some £2.4 billion at 31 March 2015, around £340 million is held in general reserves – including £157 million for TfL. Only the GLA and MOPAC have made an explicit contingency provision in 2015-16; however, functional bodies have made provisions within project estimates. These are judged adequate to reasonably meet foreseeable adverse changes and make prudent provision for such changes.

As noted in Section 3 LFEP A is reporting an overspend of £1.7 million compared to the approved budget of £398.5 million in 2014-15 and MOPAC is reporting an overspend of £4.4 million against its approved budget of £2.448 billion. Both of these overspends are being met by drawing on reserves in 2014-15. No functional bodies are reporting a revenue account deficit which would need to be provided for.

In conclusion, the Mayor's budget proposals are consistent with the advice provided on reserves and balances. The use of reserves and balances will be kept under close review during 2015-16 and onwards.

## 5. Advice on Council Tax referenda

### What are the rules on Council Tax referenda?

The GLA budgetary process is to a large extent governed by the provisions of sections 85, 86 and 87 and Schedule 6 of the Greater London Authority Act 1999 (“the GLA Act”), as amended, in particular by the Localism Act 2011. Amendments made by section 72, and Schedules 5 and 6 of the Localism Act, set out a requirement for a Council Tax referendum where the proposed increase in the GLA precept in either the City of London (the unadjusted basic amount of council tax) or the 32 London boroughs (the adjusted basic amount of council tax) exceeds a threshold proposed by the Secretary of State and approved by Parliament. The duty to hold a Council Tax referendum in those circumstances replaced the system of Council Tax capping was abolished from the 2012-13 budget year onwards.

### Advice

The duty described above would require the Mayor to hold a referendum to approve a proposed Council Tax increase where either or both of the two calculations that apply within Greater London (the adjusted and unadjusted relevant basic amount of Council tax) exceeds a threshold under the excessiveness principles proposed by the Secretary of State and approved by Parliament. If either council tax calculation exceeds the threshold under the excessiveness principles, a referendum of local electors across the whole of Greater London must be held.

As a result of the way the Metropolitan and City of London Police Forces are funded, the GLA is unique in that it is required to calculate two different “relevant basic amounts of council tax” (on the basis of the council tax Band D). The first relates to the area of the Common Council of the City of London only (the *unadjusted* relevant basic amount of council tax figure) and the second for the remainder of Greater London (the *adjusted* figure which includes the police element of the precept). Both these amounts must be in compliance with the Government’s excessiveness principles if a council tax referendum is to be avoided. These principles are set out in a report for each financial year, which is laid before the House of Commons, under section 52ZD of the Local Government Finance Act 1992.

At the time of writing the secondary legislation setting out the principles for 2015-16 has not been issued but this is expected to be published around the same date as the final local government finance settlement. Ministers have stated however that the principles which would require a referendum in 2015-16 equate to an increase in council tax of 2 per cent or above compared to the 2014-15 equivalent. For the GLA this 2 per cent threshold is expected to apply both to the adjusted relevant basic amount of council tax for the 32 London boroughs and the unadjusted amount applying in the City of London. As soon as the principles are approved by Parliament the Mayor is under a duty to determine whether either or both of the two Council Tax figures are excessive under the principles applying to the GLA.

The GLA is not required to make levy payments to levying bodies – as for example applies to London boroughs – and therefore the baseline against which the principles are measured is the actual unadjusted and adjusted council tax figure for 2014-15.

The unadjusted basic amount of council tax proposed by the Mayor for 2015-16 in his draft budget is £80.48 – which applies to council taxpayers in the City of London. This is £4 or 4.7 percent lower than the corresponding figure for 2014-15 of £84.48

The adjusted basic amount of council tax proposed is £295.00 for a Band D property (i.e. £214.52 for the Metropolitan Police plus £80.48 for non police services) – this applies to taxpayers in the 32 London boroughs. This is £4.00 or 1.3 per cent lower than the corresponding figure for 2014-15 of £299.00.

The adjusted and unadjusted amounts of council tax are therefore both lower than the GLA's estimate of the council tax referendum thresholds that we anticipate will apply for 2015-16 (i.e. £304.97 – a 2 per cent increase on the adjusted amount for 2014-15 of £299.00 less one pence and £86.16 – a 2 per cent increase on the unadjusted amount for 2014-15 of £84.48 less one pence).

In practice this means – on the basis of the council taxbase figures assumed for the purposes of the draft budget – that a referendum could be triggered if the council tax requirement for non police services exceeded £227,125,395 – a non police precept of £86.16 - and/or the combined council tax requirement for police and non police services exceeded £791,291,749 – a total precept exceeding £304.97 (assuming that there was no change to the MOPAC requirement proposed by the Mayor in this draft budget of £564,166,354).

In the event that the draft budget did not comply with the principles the Mayor would be required to present, additionally, a substitute budget that did. This, subject to any amendments agreed by the required two thirds majority in the final draft budget, would become the default budget if the referendum seeking approval for an increase above the threshold was lost. This substitute budget would be in effect one consistent with an unadjusted council tax of £86.16 (in the area of the Common Council of the City of London) and/or an adjusted council tax of £304.97 (in the 32 London Boroughs) depending on which (or both) council tax amount(s) is/are “excessive”.

On the basis of the information available to the GLA at the date of publication, the council tax levels proposed by the Mayor would therefore not trigger a council tax referendum in either the 32 London boroughs (the area of the adjusted relevant basic amount of Council tax) or the area of the Common Council of the City of London (the area of the unadjusted figure). The Government will confirm the council tax referendum thresholds and the associated secondary legislation prior to the publication of the final draft budget and the Mayor's proposals will have regard to the implications of these.

However, should the final budget not meet the approved principles (i.e. the proposed increase in the Council Tax requirement exceeded the threshold set for the GLA for that budget year) then the Mayor would also be required to present an alternative substitute budget to the Assembly that was in compliance. The Mayor's final budget in this scenario would then be subject to a London-wide referendum (at substantial cost) even if the “excessive” increase only applied to the precept payable by taxpayers in the area of the Common Council of the City of London.

If the final budget was rejected in that referendum then the alternative substitute final budget would become the final budget for the year. No such substitute budget has been prepared as the Mayor is proposing a precept level which, on present information and expectations, would not trigger a referendum.

The amount of council tax paid by taxpayers in the City of London is likely to change before the Mayor's final budget. The precise Band D amount will be dependent on the council tax base, collection fund surplus data and retained business rates forecasts provided by billing authorities which are due to be received in the last week of January.

## **6. Advice on Council Tax Freeze Grant**

The Secretary of State has confirmed the Government's intention to work with local authorities in England to meet its commitment to deliver a council tax freeze in 2015-16.

The scheme will be voluntary and will apply separately to each billing and major precepting authority in England (including police and fire and rescue authorities). Decisions by individual billing or precepting authorities to raise their council taxes will not impact therefore on the eligibility of other precepting or billing authorities in that area to qualify for the Freeze Grant.

If the amount calculated by the GLA under s. 89(3) of the GLA Act for 2015-16 is no more than the same amount calculated by the GLA for 2014-15 (i.e. the adjusted band D council tax for the London boroughs), the GLA will be eligible to receive an estimated grant of £9.4 million in 2015-16. The exact amount of the grant cannot be determined until final Council Tax base figures from the 33 London Billing Authorities are received. The GLA is required to confirm to the Secretary of State that it meets the terms of the scheme. This is achieved through the submission of the Council Tax Requirement 3 statistical return which must be submitted to CLG within 7 working days of the final budget being approved.

Any increase in the unadjusted Band D council tax applying in the City of London has no impact on the eligibility for council tax freeze grant if the adjusted amount is the same or lower than in 2014-15. It is theoretically possible therefore for the GLA to be eligible to receive council tax freeze grant but for its council tax to be deemed excessive and to require a referendum. This would occur if the unadjusted Band D amount was increased by 2 per cent or more but the adjusted amount was the same or lower compared to 2015-16 – as might potentially occur if the Band D council tax for MOPAC was reduced but this was fully or partially offset by an increase in the non police figure sufficient to breach the excessiveness principles.

Taking into account the loss of Council Tax Freeze Grant which would occur, for any precept increase above the corresponding 2014-15 level to produce any marginal additional spending power the precept needs to be increased by over 1 per cent in 2015-16. (i.e. it is only at this point that the additional precept income is greater than the Freeze Grant). Conversely, if the Council Tax precept were reduced or maintained, the GLA would still be in receipt of the full Council Tax freeze grant.

In the light of the earlier advice on Council Tax referenda and this advice on freeze grants, effectively the Government is prescribing that any overall increase in the adjusted Council Tax for the GLA would need to be above 1 per cent (if the increase is to raise more revenue than would be received by way of freeze grant) but below 2 per cent (unless the GLA wishes to hold a referendum on the Council Tax precept).

The Assembly may also wish to have regard however to the possibility that the council tax freeze grant for 2015-16 may not be baselined into revenue support grant as has been the case for the 2013-14 and 2014-15 grants – so may not continue to be payable in 2016-17 and subsequent years. Such decisions will be a matter for the Secretary of State to determine in relation to the 2016-17 grant settlement.

## **7. Advice on future plans**

### **What are the medium-term planning arrangements?**

The overall aim of the GLA's medium-term planning arrangements is to have financial plans and business plans that are based on Mayoral objectives and priorities. This means ensuring that there are sound medium-term financial plans within which all priorities and objectives are adequately funded. The Mayor issues guidance each year to ensure this objective is fully implemented across the GLA Group.

Appendix H of Part II of the Budget sets out the prospects for the GLA and GLA Group for future years. It emphasises that there remains much uncertainty about the prospects over the next few years, particularly as a result of the uncertainty concerning funding from 2016-17 onwards. The Government has indicated that planned government revenue spending in 2016-17 and 2017-18 is expected to fall by a further 4.4 per cent and 4.1 per cent respectively – considerably greater than the 2.0 per cent in 2015-16. Therefore in setting council tax requirement levels for 2015-16 the Mayor and the Assembly should have regard not just to the in year funding position for 2015-16 but the expectation that grant income will continue to decline until potentially beyond 2018.

## **8. Advice on the limit on the Assembly's power to amend the Mayor's Council Tax requirement for the Assembly**

### **What is the Council Tax Requirement for the Assembly?**

The GLA is required to determine a separate Council Tax requirement for both the Mayor and the Assembly. In order to derive these two separate requirements it is necessary to apportion the Government grants and retained business rates between the Mayor and the Assembly. Section 2 of Part II of the Budget sets out the apportionment made.

### **What is the restriction on the Assembly changing its Council Tax Requirement?**

The GLA Act limits the Assembly's power of amendment in respect of its own Council Tax Requirement. The Assembly can only increase its Council Tax Requirement (as proposed by the Mayor) by reference to the following:

- If the Mayor's proposed Council Tax Requirement for 2015-16 for the Mayor is **greater than** the Council Tax Requirement for 2014-15 then the Assembly cannot amend the Assembly's Council Tax Requirement so that it would increase by more in percentage terms than the increase in the Mayor's Council Tax Requirement; or
- If the Mayor's proposed Council Tax Requirement for 2015-16 for the Mayor is **less than** the Council Tax Requirement for 2014-15 then the Assembly cannot amend the Assembly's Council Tax Requirement so that it would decrease by a smaller percentage than the decrease in the Mayor's Council Tax Requirement.

The GLA Act uses the terms OM and NM in defining how this works in practice i.e. 'Old' Mayor and 'New' Mayor:

- 'Old' Mayor will be the notional Council Tax Requirement for the Mayor for 2014-15;
- 'New' Mayor will be the Mayor's proposed Council Tax Requirement for the Mayor for 2015-16 after any adjustments made; and
- The percentage change in the Mayor's Council Tax Requirement from 2014-15 is calculated using these amounts.

The Assembly's Council Tax Requirement for 2014-15 is then adjusted by the same percentage. This figure then becomes the '**adjusted previous component Council Tax Requirement for the Assembly.**'

#### **How is a like for like comparison ensured?**

To facilitate a like for like comparison the Chief Finance Officer may direct amounts to be included or excluded from the comparison of the Mayor's Council Tax Requirement for the Mayor with the notional Council Tax requirement for the Mayor for the preceding year. The Chief Finance Officer must have regard to any Secretary of State guidance on the direction (GLA Act Schedule 6, paragraph 5A).

#### **Chief Finance Officer's direction**

The Secretary of State has not issued any guidance on the direction and the Executive Director of Resources has directed that there should be adjustments to facilitate a like for like comparison. These adjustments are set out below.

#### **Can the Assembly amend the Mayor's council tax requirement for the Assembly?**

Using the Act's methodology and applying it to the draft Council Tax requirement figures, the Assembly could not amend their own council tax requirement so that it would increase by more than the Mayor's proposal. This is because the Mayor is proposing a Council Tax requirement of £2.5 million (following the usual convention of setting budget requirements rounded to the nearest £1,000) and the application of the Act would allow the Assembly to amend its council tax requirement up to £1.950 million.

This is explained in the table below but it is important to note that this is a provisional determination and has the potential to change in the final draft budget because of the impact of the council taxbase, retained rates income forecasts and collection fund surplus and deficit data which are due to be supplied by the 33 billing authorities before 31 January.

<b>Mayor's Budget: Calculation of NM and OM</b>	<b>£m</b>
Proposed council tax requirement for the Mayor for 2015-16	65.340
<b>Deduct:</b> Nil	-0.000
<b>Add</b> estimated Collection Fund surplus	5.600
<b>NM</b> (Mayor's adjusted council tax requirement for 2015-16)	<b>70.940</b>
<b>Deduct:</b> OM (notional Mayor's council tax requirement for 2014-15)	76.022
<b>Add:</b> Forecast collection fund surplus for council tax for 2013-14	15.142
<b>Deduct:</b> Other adjustments	-0.000
<b>OM</b> (notional Mayor's council tax requirement for 2014-15)	<b>91.164</b>
<b>Amount NM is less than OM council tax requirement</b>	<b>20.224</b>
<b>Percentage Decrease</b>	<b>22.1%</b>
<b>Assembly Budget: adjusted previous component Council Tax Requirement</b>	
	<b>£m</b>
Notional component Council Tax requirement for the Assembly for 2014-15	2.500
<b>Deduct:</b> Percentage change in NM compared with OM	-0.550
<b>Adjusted previous component Council Tax requirement</b>	<b>1.950</b>

## **Legal Advice**

### **1. Overview**

- 1.1 The Mayor is responsible for the preparation of the budget for both parts of the GLA, that is, the Mayor and the London Assembly, and for the functional bodies, the budgets for all of which together constitute the consolidated budget for the GLA and the consolidated council tax requirement. The Assembly's role is to scrutinise the budgeting decisions of the Mayor, to approve the Mayor's Budget (with or without amendments), and to set a budget in the event that the Mayor does not do so in the required time. Any amendments to the Assembly's own draft component council tax requirement must not cause it to exceed the adjusted previous component council tax requirement for the Assembly, which is determined by reference to the Mayor's draft component council tax requirement. If the Mayor's component council tax requirement is greater than that for the previous financial year, the Assembly may not increase its component council tax requirement by a greater percentage; if the Mayor's component council tax requirement is reduced from the previous financial year, the component council tax requirement for the Assembly is to be reduced by the same percentage.
- 1.2 The Mayor and the Assembly must secure a financially balanced budget, with a fair and reasonable balance between the discharge of statutory and discretionary responsibilities for the provision of services and the financial burden upon those required to finance the net cost.
- 1.3 The GLA's major sources of revenue are council tax, grants paid by the Secretary of State, retained business rates, fares, a business rate supplement levy, and other sources such as advertising and road user charging.
- 1.4 The majority of the rules relating to the budget process are set out in sections 85 to 87 and Schedule 6 to the Greater London Authority Act 1999, as amended ("the GLA Act"). Significant amendments were made by provisions in the Localism Act 2011.

### **2. Capital spending plans**

- 2.1 Under section 122 of the GLA Act, each financial year the Mayor is required to prepare a capital spending plan for the GLA's four functional bodies: the Mayor's Office for Policing and Crime (MOPAC); the London Fire and Emergency Planning Authority (LFEPA); Transport for London (TfL); and the London Legacy Development Corporation (LLDC).
- 2.2 Under section 123 of the GLA Act, the Mayor is required to send a copy of the draft capital spending plan to the London Assembly and each of the functional bodies before 15 January each year, inviting them to submit written comments to him within 21 days. The Draft Consultation Budget circulated on 19 December includes, for the purposes of consultation, the draft of the Mayor's capital spending plan for 2015-16.

2.3 Before 28 February the plan has to be sent to the Secretary of State (DCLG) and copies have to be sent to the Assembly and each of the functional bodies. Before finally determining the plan, the Mayor must consider any comments submitted and make such revisions as he sees fit, having had regard to the responses made. The Assembly does not have a power to amend the plan.

2.4 The format of the capital spending plan and its contents are specified by section 122 of the GLA Act. The plan is to be in four sections. They can be categorised as follows:

**Section A** – a statement of the resources each functional body will have for capital expenditure by virtue of capital grants other than from the GLA and capital receipts;

**Section B** – a statement of the resources each functional body will have for capital expenditure by virtue of borrowing and grants - if any - from the GLA;

**Section C** – a statement for each functional body of total expenditure for capital purposes that the Mayor expects the body to incur and the total amounts which the Mayor expects to be treated as borrowing in the year (collectively the functional body's "total capital spending"); and

**Section D** – a breakdown of how each functional body's total capital spending is funded i.e. how much the Mayor expects the body to meet out of capital grants, capital receipts, borrowing and revenue.

### 3. Overview of steps in budget process

- The Mayor consults the Assembly and then prepares draft component budgets for Mayor and Assembly;
- The Mayor consults each functional body and then prepares the draft component budget for each functional body;
- The Mayor prepares the draft consolidated budget covering both parts of the GLA and all of the functional bodies;
- The Mayor consults the Assembly and other appropriate bodies on the draft consolidated budget;
- Before 13 February - as set out, for the 2015-16 financial year, in the Greater London Authority (Consolidated Council Tax Requirement Procedure Regulations) 2014 - the Mayor determines the final contents of the draft consolidated budget and presents it to the Assembly at a public meeting;
- The Assembly approves the draft consolidated budget, with or without amendment, by a simple majority (subject to limitations in relation to its own budget). If no amendment is made then the draft consolidated budget is deemed to have been approved;
- By the last day of February, the Mayor prepares the final draft budget (with or without Assembly amendments), publishes it and presents it to the Assembly at a public meeting. If the Mayor has not adopted the amendments (if any) passed by the Assembly to the draft consolidated budget, he must state his reasons for not doing so;

- By the last day of February, the Assembly approves the final draft budget, with or without amendment. Any amendments made by the Assembly require the support of two thirds of the Assembly (absentions and absentees not counted) and are subject to limitations in relation to the Assembly's own budget;
- The final budget approved by the Assembly (with or without amendment) is the GLA's consolidated budget and consolidated council tax requirement for the financial year; and
- As soon as practicable after its approval, the Mayor is required to publish the GLA's consolidated budget and the component budget of each of the Mayor, the Assembly and each functional body.

Note: The first two stages above can proceed simultaneously but all other stages are sequential. Alternative steps are to be followed in case of default by the Mayor or the Assembly.

#### **4. The council tax requirement process**

##### **4.1 Component and consolidated council tax requirements**

The Mayor must calculate council tax requirements for the Mayor, the Assembly, and the functional bodies (Transport for London, the Mayor's Office for Policing and Crime, the London Fire and Emergency Planning Authority, and the London Legacy Development Corporation). These component council tax requirements for the Mayor, Assembly and functional bodies together constitute the GLA's consolidated council tax requirement (s.85 and Schedule 6 ("Schedule 6"), paragraph 1, GLA Act).

##### **4.2 Procedure for determining the council tax requirements**

The determination of the component and consolidated council tax requirements is expected to take place between December, following the publication of the government's provisional financial settlement, and the end of February, when the budget is required to be finalised (Schedule 6, paragraph 8).

The council tax requirement for each body is calculated by determining the difference between projected expenditure, and projected income excluding income from any precept. Insofar as expenditure will exceed income, that amount is the body's component council tax requirement for the year (s.85 (6) GLA Act). The Mayor must also consult the Assembly and functional bodies and others as appear appropriate to the Mayor before preparing the draft component budgets for the Assembly and functional bodies (s.87 and paragraph 2 of Schedule 6 GLA Act and s.65 Local Government Finance Act 1992 ("LGF Act 1992")).

As soon as reasonably practicable after the House of Commons has approved the "Excessiveness Principles" (usually in late January or early February) for the forthcoming financial year under the LGF Act, the Mayor must determine whether his proposed budgets and any council tax increase (if applicable) to the unadjusted and adjusted relevant basic amounts of council tax for 2015-16 compared to 2014-15 would be regarded as excessive under those principles. If either is to be regarded as excessive then the Mayor must make substitute calculations to be presented to the Assembly alongside his draft consolidated and/ or final draft budgets.

### **4.3 Consideration of and Approval of the budget**

The draft consolidated budget for 2015-16 is required to be presented to the Assembly at a public meeting on or before 13 February 2015, as required by the Greater London Authority (Consolidated Council Tax Requirement Procedure) Regulations 2014. This meeting is to take place on 28 January 2015.

If the Mayor has failed to comply with these requirements, the Assembly is required to prepare draft component and consolidated budgets (Schedule 6, paragraph 4). If the draft consolidated budget is approved at a public meeting of the Assembly, that approved draft becomes the GLA's final consolidated budget for the forthcoming financial year (Schedule 6, paragraph 4) and the budget process comes to an end.

After the Mayor presents the draft consolidated budget to the Assembly, the Assembly must approve it, with or without amendment, by a simple majority of the members voting. If approved (with or without amendment) or not explicitly approved, the draft consolidated budget is deemed to be the GLA's consolidated budget for the year in question (Schedule 6, paragraph 4).

The Assembly's power to amend the draft consolidated budget extends only to making changes to the figures required to be calculated under section 85 (4) to (8) in respect of each body's component budget and council tax requirements and the resulting consolidated budget and council tax requirement.

The Assembly's right of amendment in respect of its own budget is also limited insofar as it cannot vote an increase in its own council tax requirement which is proportionately more than that proposed in respect of the Mayor. If the draft component council tax requirement for the Mayor is reduced in the approved draft budget, the component council tax requirement for the Assembly is reduced by the same percentage. (Schedule 6, paragraph 5A).

After the Assembly's approval of the draft consolidated budget (or after such period as the Mayor considers reasonable has elapsed without such approval), the Mayor must prepare a final draft of the consolidated budget (final draft budget). This can be:

- the draft consolidated budget as approved by the Assembly including any amendments made by the Assembly;
- the draft consolidated budget as amended by the Mayor; or
- the unamended draft consolidated budget (Schedule 6, paragraph 6(3)).

If the proposed final draft budget would give rise to an increase in council tax (the unadjusted - City and/ or adjusted - elsewhere) basic relevant amount of council tax) that is regarded as being excessive under the approved principles applying to that financial year, then the Mayor must prepare and present substitute calculations complying with those principles for consideration by the Assembly alongside his final draft budget.

The Mayor must present the final draft budget to the Assembly (and any substitute calculations) and publish it before the last day of February. This final draft budget to be presented to the Assembly on 23 February 2015. If the Assembly approved the draft consolidated budget with amendments, but the Mayor has not accepted these amendments, the Mayor must lay before the Assembly a written statement of his reasons for not accepting the amendments (Schedule 6, paragraph 6(5)).

The Assembly must approve the final draft budget with or without amendment by the end of February (Schedule 6, paragraph 8). Any amendments by the Assembly at this stage require a two-thirds majority of the members voting (Schedule 6, paragraph 8 (4)).

The Assembly's power to amend the draft consolidated budget is limited to making changes to the figures required to be calculated under section 85 (4) to (8) in respect of each bodies component budget and council tax requirements and their resulting consolidated budget and council tax requirement. In the event that any successful amendment to the final draft budget would give rise to an increase in council tax (adjusted and/ or un-adjusted relevant basic amount of council tax) that is excessive under the principles then the Assembly must also approve substitute calculations that do not give rise to an excessive increase in council tax (as defined).

The Assembly's right of amendment in respect of its own budget is again limited. Any increase in the component council tax requirement for the Assembly cannot be more in percentage terms than any increase for the Mayor; where the Mayor's component council tax requirement has reduced, the Assembly's component council tax requirement is to be reduced by the same percentage (Schedule 6, paragraph 8A).

The Assembly cannot amend the retained business rate allocation put forward by the Mayor in his final draft budget, although the Assembly could legally approve an amendment to that budget predicated on a different allocation figure, thereby changing the component and consolidated council tax requirement figures. Any business rates retention allocation figure approved by the Assembly as part of that process is not binding on the Mayor and only has the status of a proposal. This is because it does not fall within the definition of the final draft consolidated budget that the Assembly has the power to amend i.e. it falls below or underneath the level of the statutory calculations required by section 85 (4) to (8) that comprise the legal definition of the budget under the GLA Act 1999.

In the same way the Assembly cannot amend budget lines that exist underneath or below the statutory calculations required by section 85 (4) to (8) i.e. it cannot amend the figures that give rise to those statutory calculations. The Assembly can only amend the statutory calculations themselves.

Amendments to one or more of the statutory calculations in the Final Draft Budget passed by a two thirds majority of votes cast will amend that budget. The particular component council tax requirement and (potentially) the consolidated council tax requirement may change as a result. However, these amendments are not binding on the Mayor in the sense that he and/ or the constituent body concerned may make compensatory changes within the overall envelope of the amended component Council Tax requirement to vitiate its effect. In addition the Mayor is not required to implement a “subject amendment” passed for a particular purpose, even where this involved a change to a statutory calculation figure.

Subject to the issue of excessiveness, the final draft budget approved by the Assembly (with or without amendment) is the GLA’s consolidated budget for the financial year (Schedule 6, paragraph 8(6)). If the Assembly fails to approve the budget before the last day of February, the final draft budget presented to the Assembly will be the GLA’s consolidated budget for the year (Schedule 6, paragraph 9).

Again, subject to the issue of excessiveness (see below), if the Mayor, having presented a draft consolidated budget, fails to present a final draft budget, the Assembly must meet and agree by simple majority the component council tax requirement of each of the constituent bodies, and the consolidated budget is deemed to have been agreed accordingly (Schedule 6, paragraph 7).

If the final drafted budget for the year (whether as originally presented by the Mayor or a result of amendments by the Assembly) would give rise to a council tax increase (either the adjusted or unadjusted relevant basic amount) regarded as excessive under the principles approved by the House of Commons for that financial year, then a referendum must be held of local government electors across the whole of Greater London (see further below).

The Mayor is required to publish the consolidated and component budgets as soon as practicable, and they must be available for inspection by, or supply to, the public, for six years thereafter (Schedule 6, paragraph 11).

#### **4.4 Restriction on challenge to the calculation of the council tax requirements**

Provided that the Mayor’s calculation of the council tax requirements was made in accordance with the statutory procedures, the calculation may not be questioned except by way of judicial review (s.66 LGF Act 1992).

#### **4.5 Minimum budget for the Mayor’s Office for Policing and Crime**

If it appears to the Secretary of State that the budget set by the GLA for MOPAC is too low to restore or maintain an efficient or effective police force for its area, the Secretary of State may if satisfied that it is necessary for the safety of metropolitan police district residents direct the GLA to increase the component budget requirement to a level not less than an amount specified by him in the direction (s.95 GLA Act, as amended by the Police Reform and Social Responsibility Act 2011).

## **5. Sources of revenue**

### **5.1 Council tax**

The GLA is a major precepting authority (s.82 GLA Act). It raises money indirectly by issuing a precept to the London boroughs and the City of London (separately “a London billing authority”) in respect of the amount the GLA sets as its council tax. The method of calculating the GLA’s council tax is broadly similar to that of other precepting authorities, although for the GLA the council tax requirement in respect of MOPAC is treated separately. This is necessary because MOPAC is responsible for the police service in the inner and outer London boroughs, but not in the City of London. Council tax payers in the City of London pay directly for their own policing provided via the City of London police.

Each London billing authority must include the precept when it calculates its own council tax bill (s.30 LGF Act 1992). The London boroughs then collect the precept from the council tax payers in their areas and pass it on to the GLA. The precept issued by the GLA must state the amount of the council tax which the GLA has calculated in respect of each category of dwellings and the amount it has calculated to be payable by the billing authority for the year (s.40 LGF Act 1992).

The Mayor sets separate council tax requirements for the Mayor, the Assembly and each of the functional bodies, which together form the basis of the calculation of the basic amount of council tax (s.85 GLA Act). A precept for any given financial year should be issued before 1 March in the year preceding the financial year for which it is issued (s.40 LGF Act 1992).

### **5.2 Council tax referendums**

Prior to the Localism Act 2011, the budget requirement set by the Mayor could be limited or “capped” by the Secretary of State under Chapter IVA of the LGF Act if the Secretary of State considered that the budget requirement calculation was excessive by comparison with a previous year’s calculation. Under Chapter 4ZA of the LGF Act (inserted by the Localism Act, section 72 and Schedule 5), there is instead a duty to hold a referendum if a proposed council tax increase exceeds thresholds set by the Secretary of State and approved by Parliament. There are two thresholds for the GLA – one for the adjusted basic amount of council tax and one for the unadjusted basic amount as calculated under the LGF Act, reflecting the fact that the GLA sets separate council tax amounts including and excluding the element for the Metropolitan Police.

The Government has not yet finalised the Council Tax excessiveness principles it is proposing for 2015-16, under which, if the GLA were to seek to increase either of its basic amounts of Council Tax by more than the threshold set by the Secretary of State, a referendum would be triggered. However the Secretary of State indicated in the provisional local government finance settlement that the Council Tax increase at or above which the Mayor would be required to hold a referendum in 2015-16 on the basis of the Government’s expected principles is 2 per cent for the adjusted amount (applying in the 32 boroughs) and 2 per cent for the unadjusted amount (applying in the City and excluding the policing element of the precept).

The unadjusted basic amount of council tax proposed by the Mayor for 2015-16 in his draft budget is £80.48 – this is lower than the unadjusted figure for 2014-15 of £84.48. The adjusted basic amount of council tax proposed is £295.00 for a Band D property. This is £4.00 lower than the corresponding figure for 2014-15 of £299.00. Therefore in neither case would the expected excessiveness principles be breached under the Mayor’s draft budget proposals.

Should the possibility arise of a referendum being triggered in respect of the GLA budget as a result of an Assembly amendment for 2015-16, further advice would be provided.

### **5.3 Grants paid by the Secretary of State**

Grants from the Secretary of State include a GLA transport grant paid for the purposes of Transport for London (section 101 of the GLA Act), revenue support grant, Home Office police grant, principal police formula grant and other specific grants (including counter-terrorism funding, fire revenue grant, council tax freeze grants as applicable and the council tax support grant for local policing services which replaced council tax benefit subsidy from April 2013).

Section 100 of the GLA Act as amended by section 4 of the Local Government Finance Act 2012 gives the discretion to the Secretary of State to pay a GLA General Grant if he/she so decides in any financial year. However no discretion is expected to be used for 2015-16.

### **5.4 Non-domestic rates and business rates retention**

Up to and including 2012-13 non-domestic rates were allocated to local, police and fire authorities in proportion to their relative needs and resources as assessed by Government and shared between authorities according to the services they provide under the Local Government Finance Act 1988. This will continue in respect of police formula grant and other funding streams not being provided through business rates retention. From 2014-15, however, part of the GLA, LFEPA and TfL’s funding has been provided through retained business rates paid by London boroughs and the Corporation of London.

The Non-Domestic Rating (Rates Retention) Regulations 2013 provide for billing authorities in London (the 32 boroughs and the City of London) to pay part of their non-domestic rating income to the GLA.

The GLA is forecast to receive around £1.4 billion from London billing authorities in retained business rates annually – and from this sum it will be required to make an annual tariff payment to DCLG, estimated at £355.7 million in 2015-16, until the rates retention system baselines are reset. The balance of any rates income received from billing authorities – allowing for volatility in the rating list year on year – will be available to support GLA Group services. The Government proposes that these baselines will be reset in 2020.

### **5.5 Fares**

The Mayor sets the general level of fares for all transport services under his control (s. 174(1) GLA Act) by way of a Mayoral decision issued to TfL under s.155 of the GLA Act.

## **5.6 Road user charging net revenues**

Net revenues from the Congestion Charging Scheme are ring-fenced for spending on measures that support the Mayor's Transport Strategy. Although no surplus is expected from the Greater London Low Emission Zone charging scheme, any such surplus would be similarly dealt with (Schedule 23, paragraph 16, GLA Act).

## **5.7 Business rate supplement for Crossrail**

The GLA is defined as a levying authority under s.2 of the Business Rate Supplements Act 2009 ("BRS Act") and has the power to levy a business rate supplement ("BRS") on non-domestic ratepayers in Greater London for expenditure on a project that it is satisfied will promote economic development in Greater London. In April 2010 the GLA introduced the Crossrail Business Rate Supplement to raise moneys for the Crossrail Project.

The GLA must ensure that the sums it receives in respect of a BRS are used only for expenditure on the project to which the BRS relates and that the GLA would not have incurred that expenditure had it not imposed the BRS; it may make arrangements with a functional body for some or all of the sums that the GLA receives in respect of a BRS imposed by the GLA to be used by the body for expenditure on the project to which the BRS relates (s.3 BRS Act).

The GLA has made such arrangements with TfL in respect of the Crossrail Business Rate Supplement. The GLA must keep a revenue account that is used solely for the BRS and must secure that sums received in respect of it are credited to that account (Schedule 3, paragraph 1 (1) BRS Act).