
PART 3

Final draft consolidated budget 2017-18: 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 GLA’s 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;
- a private budget ‘challenge’ process designed to test the integrity of each functional body’s own planning and scrutiny processes;
- 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; and
- scrutiny by the Assembly’s Budget and Performance Committee throughout the process.

The Mayor issued guidance in July 2016 and supplementary guidance in November 2016 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 and also covered how equalities impacts should be considered in the budget proposals.

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

- review delivery of the 2016-17 budget and to judge outcomes;
- direct the 2017-18 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.

Assembly’s Consideration of the Draft Consolidated Budget for 2016-17

The above process resulted in the Mayor presenting his Draft Consolidated Budget for 2017-18 to the Assembly’s meeting on 25 January 2017. The Assembly questioned the Mayor and considered whether to approve that budget, with or without amendment. The Assembly did not agree any amendment to the Mayor’s Draft Consolidated Budget for 2017–18 by a simple majority of votes cast, and as a result that budget was approved un-amended.

The final stage of the budget process involves the Assembly holding a meeting on 20 February at which the Mayor presents his Final Draft Consolidated Budget for 2017-18. The Assembly must consider the final draft budget and decide whether to approve it with or without amendment. At this stage the only amendments that can be made by the Assembly are those agreed by a two-thirds majority of votes cast (disregarding absences or abstentions).

This document addresses the contents of the Final Draft Consolidated Budget for 2017-18 presented by the Mayor.

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 four year period 2017-18 to 2020-21 for the GLA and each of its functional bodies. 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 2016-17. 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 business rates funding; 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. The Mayor also introduced a new private ‘challenge’ process whereby the integrity of each functional body’s budget planning and scrutiny processes were tested prior to their submission of formal budget proposals to be included in the Mayor’s Consultation Budget. Developing budget proposals have also 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 and details of how to respond to the consultation were also placed on the Greater London Authority’s website, enabling members of the public to submit their comments. The views expressed in the consultation have 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’s 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 £3 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 2016-17 could result in a shortfall in the budget funding for 2017-18. 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.

Overall, on the basis of the information that has been provided to explain the Mayor’s 2017-18 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, 2016-17 monitoring, reserves and balances, council tax referendums, 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 2017-18 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 2017-18 and it is these that the Assembly has the power to amend. The individual Mayor, Assembly and functional body component 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 allowances 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 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 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.

The Mayor intends that a new Equality Framework for the GLA Group will be published in 2017. This will go beyond the 9 protected characteristics set out in statutory public sector equality duty under section 149 of the Equality Act 2010, and will in particular consider socio-economic inequality. Each member of the Group was directed by the Mayor to assess their budget proposals against the broad question of how they will affect poverty and economic inequality in London, as well as the impact of proposals on the specific protected groups.

Funding Allocations

The budget consultation document “GLA Group Budget Proposals and Precepts 2017-18” 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, it is recognised that changes to Funding Allocations compared to the previous year could, without mitigating action and depending on the spending decisions made by the bodies themselves, potentially 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; good relations between persons who share a relevant protected characteristic and those who do not; and the socio economic status of groups and individuals.

The Mayor’s proposed Funding Allocations for 2017-18 compared with the previous year are set out in section 1 of part 2 under paragraph 1.29. 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;
 - provide additional funding to MOPAC through increasing the police precept by 1.99 per cent, in accordance with Home Office expectations, and also through the allocation of £29.6 million of business rates funding to MOPAC. The council tax requirement for MOPAC has been increased in the final draft budget by £2.5 million as the aggregate council taxbase across the 33 London billing authorities for 2017-18 has increased by 2.4 per cent compared to the 2 per cent assumed in the draft consolidated budget;
 - keep the resources allocated to LFEPA the same in cash terms, protecting it from the additional cuts in the former fire formula component of the GLA’s Revenue Support Grant allocation (which are being rolled into the GLA’s retained business rates income in 2017-18);
 - provide certainty for TfL by holding council tax and business rates (revenue) funding at the same cash level as in 2016-17 and through allocating in full business rates (capital) funding replacing capital funding formerly received through Government grant; and
 - reduce overall the resources to the GLA, with a small increase to LLDC and a small reduction for OPDC.
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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 the body is required to comply with the public sector equality duty and also, as directed by the Mayor, the broad proposals to be fully defined in the new Equality Framework due to be published in 2017. Any reduction in a particular service, programme or project may have a greater impact on persons who share a protected characteristic (including the question of how it will affect socio-economic inequality in London, which will be included in the new Equality Framework), 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 or group as a result.

Impact of funding allocations and other revenues

It is not possible to predict how the proposed changes for 2017-18 will impact on specific persons who share a protected characteristic as this will be dependent on the decisions made by each constituent body 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 and the broad proposals to be covered in more detail in the new Equality Framework (and in particular impacts on socio-economic inequality). 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 and the broad proposals to be set out in detail in the new Equality Framework. An initial high level summary of the equality implications of each constituent body was set out in the budget consultation document “GLA Group Budget Proposals and Precepts 2017-18”.

Also, 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; maintaining support to LFEPA to offset the impact of the additional grant cuts; providing additional support to police services through the increased police precept; holding TfL funding for revenue at 2016-17 levels and passing on in full the retained business rates for TfL capital investment replacing former Government grant; and managing the uncertainties inherent in the retained business rates system through the Mayor’s Business Rates Reserve.

Impact of increasing the council tax precept

For 2017-18, 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.

The Mayor proposes an increase in the Band D precept paid by residents of the 32 London Boroughs from £276.00 to £280.02 – an increase of £4.02 or 1.5 per cent. This reflects the Mayor’s additional funding allocated to MOPAC through an increase in the police element of the precept. The proposed 2017-18 precept for the Common Council of the City of London which is outside the Metropolitan Police district is £73.89 – the same level as in 2016-17.

The impact on council tax payers of the Mayor’s proposals 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.

The GLA precept element of the council tax will increase for all individuals who pay council tax in full (although this could be compounded by increases in the billing authority element of the council tax, particularly for Adult Social Care, but dependent on each individual billing authority’s council tax proposals). The additional amount payable will be dependent on the council tax banding of the council tax payer’s relevant property. The £4.02 increase to the Mayor’s precept applies to properties in Band D. An individual whose bill falls in Bands A to C or E to H will pay proportionately less or more respectively.

This is set out in the table overleaf:

Adjusted amount of council tax paid by taxpayers in the 32 London boroughs (£)

Band	2017-18	2016-17	Change
Band A	£186.68	£184.00	£2.68
Band B	£217.79	£214.67	£3.12
Band C	£248.91	£245.33	£3.58
Band D	£280.02	£276.00	£4.02
Band E	£342.25	£337.33	£4.92
Band E	£404.47	£398.67	£5.80
Band G	£466.70	£460.00	£6.70
Band H	£560.04	£552.00	£8.04

The GLA does not have diversity data covering the population spread across the council tax bands of individuals with protected characteristics including socio-economic status. However, it can probably be assumed that individuals with lower socio-economic status are, in general, more likely to live in property that falls in the lower Bands, thus reducing the impact on such individuals of the council tax increase.

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 impact from an increase in council tax.

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 for working age households was localised. The Government also granted local authorities the ability to revise exemption and discount policies for second and empty homes. These policies are agreed in London by the 32 London boroughs and the Corporation of London subject to consultation with the Mayor and other key stakeholders.

Under the localised 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 it is anticipated that in 2017-18 at least four will continue to protect working age claimants by providing full council tax support on broadly the same basis as prior to 2013-14. The remaining 29 have local schemes which require some or all working age claimants to contribute to the cost of the scheme by paying a share of their council tax liability or through adjustments to other elements of the schemes, 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.

In some authorities the minimum contribution is expected to be as much as 30 per cent of their council tax liability in 2017-18 although in several boroughs working age claimants still receive up to 100 per cent support. Some authorities also only pay council tax support up to the equivalent Band D rate and therefore working age claimants residing in properties in Bands E to H do not receive additional support for the difference. Some authorities apply their policies consistently to all working age claimants whereas others offer greater levels of support to certain vulnerable groups (e.g. disabled people, lone parents with young children and war widows).

As a result of the localisation of council tax support it is estimated that over 430,000 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.

Those who will feel the greatest impact from the increase 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. 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 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. 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 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, Asian 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 increase in Council Tax marginally reduces their disposable income in both cash and real terms. However, it should be noted that the Council Tax increase is being introduced to safeguard police numbers and crime disproportionately affects those who have lower levels of income/savings.

Impact of freezing all Transport for London fares for four years, the freezing of concessionary fares and the introduction of the ‘Hopper’ fare

The budget plans include the impact of the Mayor’s decision to freeze all TfL fares at 2016 levels for four years. TfL forecast that around four million journeys a day across London will benefit and that an average household will save around £200 over the next four years.

The freeze in TfL fares means that everyone buying a bus or tram ticket in London will pay no more in 2017 than they did in 2016. Pay as you go (PAYG) journeys on the Tube, DLR, Emirates Airline and rail services where TfL fares apply will be frozen. Hire and access on Santander Cycles will also be frozen.

In partnership with London Councils the Mayor has maintained all TfL travel concessions, ensuring that children, those over 60, veterans, apprentices and those on Job Seeker’s Allowance continue to benefit from free or discounted travel.

In addition the Mayor introduced the ‘Hopper’ fare in September 2016 which has meant an end to having to pay two fares when changing bus routes within an hour.

As part of the decision making process in regards to the introduction of the fares freeze TfL identified seven groups of Londoners who typically face increased barriers to public transport use. These groups were BAME Londoners, women, older Londoners, younger Londoners, Londoners on low incomes (who tend to be women and older, BAME and disabled people, and those not in work), and LGBT Londoners. Among the key issues for these groups is the cost of fares. Londoners with protected characteristics who are likely to be affected by increases in fares, such as those on low incomes or those who rely on public transport; will especially benefit. However, the increases to Travelcard prices mandated by the train operating companies (TOCs) in line with inflation may have an adverse impact.

Many of those who comprise the seven groups above are likely to benefit from free travel concessions or discounted fares. All current concessionary fare schemes are being maintained in order to keep public transport accessible to people who face barriers to public transport use, and thereby offset or mitigate any detrimental impacts.

3. Advice on 2016-17 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.

Part 2 sets out the forecast outturn for each functional body for 2016-17 although it should be noted that these figures are likely to change before the end of the year.

Conclusion

An assessment of the current year’s financial outturn is an important 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 2017 and with crucial 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 2017-18. 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 GLA’s 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 2017-18. The impact of the pilot 100% business rates retention in London (which sees the GLA’s share of retained business rates increase from 20% to 37%), the effect of the 2017 business rates revaluation and the upside and downside risks associated with council tax income is being closely monitored. This will help ensure that volatility in the level of business rates retained by the GLA and in council tax income can be effectively dealt with and also ensure that the Mayor’s priorities can be implemented.

General reserves

At 31 March 2017 the GLA’s general reserves balance is forecast to total £10.0 million. This balance is assumed at this stage to remain constant through to the end of 2020-21. The GLA’s current policy is to maintain a minimum general reserve balance of £10 million, and therefore on this basis £48.6 million will be released at the end of 2016-17. However, given the need for future capital investment as demonstrated by the Mayor’s priorities for affordable housing, energy, environment, etc., a new capital reserve will be created from funds released (after taking into account amounts which may be necessary for other specific purposes).

Earmarked reserves

The 2015-16 closing usable earmarked reserves balance (including the Mayoral Development Corporation reserve but excluding the Business Rates Reserve) was £185.7 million and is forecast to increase by £20.0 million so that the balance as at 31 March 2018 is forecast to be £205.7 million. This reflects the creation of the GLA capital reserve (which is forecast to have a balance of £67.9 million) and the release of £0.5 million from the Assembly Development and Resettlement Reserve.

The forecast position includes provisions held to support LLDC and OPDC expenditure. This represents a prudent level of reserves held to support LLDC and OPDC 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 2017-18 (see subsection (f) below) and for OPDC to hold no reserves.

Business Rates Reserve

The balance on the Business Rates Reserve is forecast to be £188.2 million at the close of 2017-18. The Business Rates Reserve is used to manage business rates income risk. Balances on the reserve reflect forecast business rates income as well as the allocation of council tax collection fund surpluses.

GLA 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 volatility of locally retained business rates.

(b) Greater London Authority: London Assembly

Many 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 2017, which is included in the earmarked reserves total for the GLA: Mayor as set out above.

(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 as at 31 March 2017. Current proposals are that this position will be maintained at the end of 2020-21. These reserves represent in excess of 1.5 percent of the forecast outturn net revenue expenditure in 2017-18; and the following years’ balances represent in excess of 1.5 per cent in each year respectively. This is in accordance 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 £145.8 million at the end of 2016-17 to £64.0 million at the end of 2017-18 and to be reduced further to £31.3 million at the end of 2020-21. This reduction reflects the Mayor’s review of MPS’s transformation strategy as described in Part I.

MOPAC conclusion

In the opinion of MOPAC’s Chief Financial Officer the proposed approach remains prudent and MOPAC will have in place adequate earmarked reserves and general reserves.

(d) London Fire and Emergency Planning Authority

LFEPA’s general reserves at 31 March 2017 are forecast to be £17.8 million. They are assumed to remain at the same level by the end of 2017-18 and through to the end of 2020-21.

LFEPA also forecasts that it will have £14.2 million of earmarked reserves at 31 March 2017, increasing to £17.0 million at the end of 2017-18. By the end of 2020-21 this is expected to decrease to £11.1 million. 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, 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 also maintains a cash balance of £250 million available for redemption on any business day to ensure that it has sufficient liquidity to meet its financial obligations.

TfL general reserves are planned to be held at a constant level of £150.0 million from the end of 2016-17 to the end of 2020-21.

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 available 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 £1.28 billion at 31 March 2016 to £632.8 million at the end of 2017-18, decreasing to £336.7 million by the end of 2018-19, but increasing to £354.6 million by the end of 2019-20 and to £477.4 million by the end of 2020-21.

TfL conclusion

The 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 2017 LLDC’s general reserves balance is expected to total £6.3 million. The general reserve balance is forecast to be used in full during 2017-18 and remain at nil through to the end of 2020-21. LLDC holds no earmarked reserves.

As noted under sub-section (a) above the GLA holds provisions 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 2017-18.

Although LLDC’s general reserves balances are forecast to be utilised in full by the end of 2017-18, this reflects planned usage of the reserves. LLDC’s revenue expenditure and a significant proportion of its capital programme are funded by the GLA, the latter through a rolling loan facility which is anticipated to be repaid through surplus capital receipts from the sale of development land. The LLDC and GLA carefully manage upside and downside risks associated with LLDC’s expenditure and the impact of any such risks can be managed within the GLA budget both through the use of contingency sums held within the budget and where necessary through the usage of GLA reserves.

LLDC conclusion

The Chief Financial Officer of the LLDC, taking into account the management of any upside and downside risk through LLDC’s own budget and noting the support of the GLA as set out above, considers that the level of reserves is prudent in the context of current known liabilities, but this will need to be kept under review in the light of future funding needs.

(g) Old Oak and Park Royal Development Corporation

OPDC has no reserves. A contingency of £2 million is held in the GLA’s reserves by the Mayor in part to support a ‘self-funding’ proposal to be developed by OPDC. This is part of the earmarked Mayoral Development Corporation (MDC) Reserve held by the Mayor.

OPDC conclusion

The Chief Financial Officer of OPDC, having taking into account the fact that the OPDC is still in the early stages of its establishment and that it is has potential access to the Mayor’s MDC reserve, considers that the reserves position is prudent, 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 2021 is summarised in the table below.

	GLA	MOPAC	LFEPA	TfL	LLDC	OPDC	Total
	£m	£m	£m	£m	£m	£m	
Opening balances 1 April 2016	440.7	296.6	33.0	1,425.1	12.4	0.0	2,207.8
Movement on Earmarked reserves	-68.1	-104.2	-4.8	-112.4	0.0	0.0	-289.5
Movement on General reserves	-48.6	0.0	3.8	0.0	-6.1	0.0	-50.9
Balances 31 March 2017	324.0	192.4	32.0	1,312.7	6.3	0.0	1,867.4
Movement on Earmarked reserves	79.9	-81.8	2.8	-529.9	0.0	0.0	-529.0
Movement on General reserves	0.0	0.0	0.0	0.0	-6.3	0.0	-6.3
Balances 31 March 2018	403.9	110.6	34.8	782.8	0.0	0.0	1,332.1
Movement on Earmarked reserves	0.3	-21.7	3.3	-296.1	0.0	0.0	-314.2
Movement on General reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balances 31 March 2019	404.2	88.9	38.1	486.7	0.0	0.0	1,017.9
Movement on Earmarked reserves	-5.9	-25.3	-7.6	17.9	0.0	0.0	-20.9
Movement on General reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balances 31 March 2020	398.3	63.6	30.5	504.6	0.0	0.0	997.0
Movement on Earmarked reserves	-14.5	14.4	-1.6	122.8	0.0	0.0	121.1
Movement on General reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balances 31 March 2021	383.9	78.0	28.9	627.4	0.0	0.0	1,118.1

There are reductions in the reserves of virtually all of the functional bodies. This results in a net overall reduction of just under £1.1 billion from April 2016 to March 2021 reflecting the planned use of earmarked reserves. Of the forecast balance on reserves of £1.9 billion at 31 March 2017, around £224.4 million is held in general reserves – including £150 million for TfL.

Only the GLA and LLDC have made explicit contingency provisions in 2017-18; 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.

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 2017-18 and onwards.

5. Advice on council tax referendums

What are the rules on council tax referendums?

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 that 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 B and 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.

On 15 December the Government published the draft regulations setting out the council tax referendum thresholds for 2017-18 – the ‘Referendums Relating to Council Tax Increases (Principles) (England) Report 2017-18.’ On the basis of these principles for the GLA a referendum would be required if the increase in either or both of the adjusted and unadjusted amounts of council tax was 2 per cent or higher. Parliament is expected to approve the final regulations alongside the Local Government Finance report on 22 February 2017.

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 2017-18.

The unadjusted basic amount of council tax proposed by the Mayor for 2017-18 in his draft budget is £73.89 – which applies to council tax payers in the City of London. This is the same amount as in 2016-17.

The adjusted basic amount of council tax proposed is £280.02 for a Band D property (i.e. £206.13 for the Metropolitan Police plus £73.89 for non police services) – this applies to taxpayers in the 32 London boroughs. This is £4.02 or 1.5 per cent higher than the corresponding figure for 2016-17 of £276.00.

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 2017-18 (i.e. £281.51 – 1 pence lower than the figure resulting from a 2 per cent increase on the adjusted amount for 2016-17 of £276.00 and £75.36 – 1 pence lower than the figure resulting from a 2 per cent increase on the unadjusted amount for 2016-17 of £73.89).

In practice this means – on the basis of the final 2017-18 council taxbase figures – that a referendum could be triggered if the council tax requirement for non-police services exceeded £216,976,853 – a non police precept of £75.36 – and/or the combined council tax requirement for police and non police services (applying elsewhere in Greater London) exceeded £809,069,367 – a total Band D precept of £281.51 comprising the maximum non police precept of £75.36 and a revised police precept of £206.15.

In the event that the final 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 £75.36 (in the area of the City of London) and/or an adjusted council tax of £281.51 (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 publish and confirm the council tax referendum thresholds and the associated secondary legislation after this document has been despatched. Further advice will be supplied to the Mayor and the Assembly as appropriate.

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 even if the “excessive” increase only applied to the precept payable by taxpayers in the area 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.

6. 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 I 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. Therefore in setting council tax requirement levels for 2017-18 the Mayor and the Assembly should have regard not just to the in-year funding position for 2017-18 but the expectation that overall resources to the GLA Group will continue to decline.

7. 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.

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 2017-18 for the Mayor is **greater than** the Council Tax Requirement for 2016-17 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 2017-18 for the Mayor is **less than** the Council Tax Requirement for 2016-17 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 2016-17;
 - ‘New’ Mayor will be the Mayor’s proposed Council Tax Requirement for the Mayor for 2017-18 after any adjustments made; and
 - The percentage change in the Mayor’s Council Tax Requirement from 2016-17 is calculated using these amounts.
-

The Assembly’s Council Tax Requirement for 2016-17 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 are no adjustments he requires to facilitate a like for like comparison.

Can the Assembly amend the Mayor’s council tax requirement for the Assembly?

Using the Act’s methodology and applying it to the final draft Council Tax requirement figures, the Assembly could amend their own council tax requirement so that it would increase by an amount equal to the Mayor’s proposal. This is because the Mayor is proposing a Council Tax requirement of £2.615 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 to £2.832 million. Any such decision by the Assembly would need to be mindful of the advice on Council Tax referenda, set out at section 5 of this document.

This is explained in the table below.

Mayor’s Budget: Calculation of NM and OM	£m
Proposed council tax requirement for the Mayor for 2017-18	65.891
Deduct: Nil	-0.000
Add: Nil	0.000
NM (Mayor’s adjusted council tax requirement for 2017-18)	65.891
Deduct: OM (notional Mayor’s council tax requirement for 2016-17)	60.833
Add: Nil	0.000
Deduct: Nil	0.000
OM (notional Mayor’s council tax requirement for 2016-17)	60.833
Amount NM is greater than OM council tax requirement	5.058
Percentage Increase	8.31%
Assembly Budget: adjusted previous component Council Tax Requirement	£m
Notional component Council Tax requirement for the Assembly for 2016-17	2.615
Add: Percentage change in NM compared with OM	0.217
Adjusted previous component Council Tax requirement	2.832

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 GLA’s 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 draft consolidated and final draft budgets (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 at least 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. These are detailed in Section 4 below.
- 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.
- 1.5. The Policing and Crime Act which received Royal Assent on 31 January 2017 abolishes the London Fire and Emergency Planning Authority (LFEPA) and establishes the London Fire Commissioner (LFC) as a corporate body. The Home Office has now confirmed that its intention is for LFEPA’s last day of operation to be 30 September 2017 with the new governance arrangements to commence on 1 October 2017. Exact transitional arrangements are to be determined. The Mayor has set a budget for LFEPA for 2017-18 which will be adopted by the LFC.

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 five functional bodies: the Mayor’s Office for Policing and Crime (MOPAC), Transport for London (TfL), the London Fire and Emergency Planning Authority (LFEPA), the London Legacy Development Corporation (LLDC) and the Old Oak and Park Royal Development Corporation (OPDC).

- 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 20 December included, for the purposes of consultation, the draft of the Mayor’s capital spending plan for 2017-18.
- 2.3. Before 28 February the plan has to be sent to the Secretary of State (in practice, the Department for Communities and Local Government - 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. The council tax requirement process

3.1. Component and consolidated council tax requirements

The Mayor must calculate council tax requirements for the Mayor, the Assembly, and the five functional bodies. These component council tax requirements for the Mayor, Assembly and functional bodies together constitute the GLA Group’s consolidated council tax requirement (s.85 and Schedule 6 (“Schedule 6”), paragraph 1, GLA Act).

3.2. Procedure for determining the council tax requirements

The determination of the component and consolidated council tax requirements took place between December 2016, following the publication of the government’s provisional financial settlement, and the end of February 2017, 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 2017-18 compared to 2016-17 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.

This year the House of Commons is expected to be asked to approve the Excessiveness Principles on the 22 February 2017, after the Assembly’s final budget meeting on 20 February 2017. These budget reports have been prepared on the basis that the Government’s proposed principles are approved. In addition Part I of the budget papers includes a determination that the Mayor’s proposed relevant basic amounts of Council Tax (both for the City and for the 32 boroughs) are not excessive under those principles.

3.3. Consideration of and approval of the budget

The draft consolidated budget for 2017-18 was required to be presented to the Assembly at a public meeting on or before 15 February 2017, as specified by the Greater London Authority (Consolidated Council Tax Requirement Procedure) Regulations 2016. This meeting took place on 25 January 2017.

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

The Mayor did present the draft consolidated budget to the Assembly on 25 January 2017, and the Assembly was required to 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 would be 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 extended 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 resulted consolidated budget and council tax requirement. The Assembly approved the draft budget on 25 January without amendment.

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. 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)).

3.4. Scope of Assembly’s amendment powers

The Mayor must present the final draft budget to the Assembly and publish it before the last day of February. This final draft budget is being presented to the Assembly on 20 February. If the Assembly approved the draft consolidated budget with amendments, but the Mayor does not accept 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)). No such amendments were approved at the meeting on 25 January so this scenario does not apply.

The functional bodies’ component budgets in the final draft budget submitted to the Assembly’s final budget meeting are not the same as those in the draft budget previously considered on 25 January. The changes reflect the amount of additional revenue available resulting from the council tax and business rates forecasts submitted by the billing authorities in January 2017 and also various updated budget assumptions reflecting latest forecasts by the functional bodies. The Mayor’s statement of the changes and the reasons for the changes are detailed in Part I of the final draft budget.

If the proposed final draft budget would give rise to an increase in the council tax (the unadjusted – City – and/ or adjusted – London apart from the City – relevant basic 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. This area is covered in Section 5 above.

What is the Assembly’s power of amendment?

The Assembly’s power to amend the final draft consolidated budget is limited to making changes to the figures required to be calculated under section 85 (4) to (8) of the GLA Act (“the statutory calculations”) in respect of each of the component bodies’ component budget and council tax requirements and the resulting consolidated budget and consolidated 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 approved excessive principles then the Assembly must also approve substitute budget calculations that do not give rise to an excessive increase in council tax (as defined). This area is covered in Section 5 above.

Assembly’s own component budget

As discussed above, 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 (which in any event is subject to the rules on excessiveness and council tax referenda – see section 5 above); where the Mayor’s component council tax requirement has reduced, the Assembly’s component council tax requirement is to be reduced by at least the same percentage (Schedule 6, paragraph 8A).

Amendments to the retained business rates allocation

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.

Amendment of underlying budget lines

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.

Enforceability of successful budget amendments

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.

Mayor’s failure to present final draft budget

Again, subject to the issue of excessiveness, if the Mayor, having presented a draft consolidated budget, fails to present a final draft budget, the Assembly must meet and agree by a 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). This should not apply as the Mayor is presenting his draft consolidated budget to the Assembly on 20 February.

Assembly failure to approve final draft budget

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).

3.5. Restriction on challenge to the calculation of the council tax requirements

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).

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).

3.6. 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, and the Secretary of State is satisfied that it is necessary for the safety of metropolitan police district residents, then the Secretary of State may 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).

4. Sources of revenue

4.1. Council Tax

The GLA is a major precepting authority (s.82 GLA Act). It raises money indirectly by issuing a precept to the 32 London boroughs and the City of London (each of which is “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 (i.e. the Metropolitan Police), 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).

4.2. 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 1992 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 1992 (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. This subject is covered above.

4.3. 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), Home Office police grant, principal police formula grant and other specific grants (including counter-terrorism funding, European Union funding and TfL’s London Overground grant).

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 this discretion is not expected to be exercised for 2017-18.

4.4. 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 has continued in respect of police formula grant and other funding streams not being provided through business rates retention. Since 2013-14, however, part of the GLA, LFEPAs 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. Regulations are expected to be brought forward before 1 April 2017 to increase the GLA’s retained share of business rates from 20 per cent in 2016-17 to 37 per cent in 2017-18.

The GLA is forecast to receive around £3.02 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 £720.2 million, reflecting the impact of the 2017 revaluation and the increase in its business rates share from 20 to 37 per cent and an estimated levy payment of £33.5 million in 2017-18. 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.

4.5. 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.

4.6. 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).

4.7. 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).

The Mayor published the final policies for the Crossrail BRS for 2017-18 on 2 February. The rateable value threshold for the BRS will be increased from the current £55,000 to £70,000 which will mean that 85 per cent of non domestic premises in London will not be liable to pay the supplement in 2017-18. The revenue from the BRS is forecast to increase by £51.3 million to £275.8 million in 2017-18 and this income will be used to finance the GLA’s outstanding £3.3 billion of Crossrail related debt