PART 3

Final draft consolidated budget 2018-19: Finance and legal advice

Page

Advice provided by the Executive Director of Resources

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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;
- 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 public consultation; and
- scrutiny by the Assembly's Budget and Performance Committee throughout the process.

The Mayor issued guidance in June 2017 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 2017-18 budget and to judge outcomes;
- direct the 2018-19 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 four-year period 2018-19 to 2021-22 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;
- grant funding;
- 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 2017-18. Explanations have been provided for the changes in terms of:

- inflation;
- savings and efficiencies;
- net changes in service expenditure and income / new initiatives and service improvements;
- changes in use of reserves;
- net change in government grants and retained business rates funding / resources allocated by the Mayor; 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 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.

Assembly's Consideration of the Draft Consolidated Budget for 2018-19

The Mayor presented his Draft Budget to the Assembly on 25 January 2017. 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 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 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. In the event the Assembly did not agree any amendment to the Mayor's Draft Consolidated Budget for 2018-19 by a simple majority of votes cast, and as a result that budget was approved un-amended.

This final stage of the budget process involves the Assembly holding a meeting on 22 February at which the Mayor presents his Final Draft Consolidated Budget for 2018-19. 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). If not amended the final draft budget is deemed approved.

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 and scrutiny 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 £3.2 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 2017-18 could result in a shortfall in the budget funding for 2018-19. 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 2018-19 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, 2017-18 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 2 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 2018-19 financial year.

The GLA (Mayor and Assembly) and all five functional bodies must comply with section 149 of the Equality Act 2010, which provides for the "public sector equality duty (PSED)".

- This duty requires each body to have due regard to three outcomes: (1) the need to eliminate unlawful discrimination, harassment and victimisation; (2) to advance equality of opportunity between those who share a protected characteristic and those who do not; and (3) to foster good relations between such people.
- The protected characteristics covered by section 149 are: age; disability; gender reassignment; pregnancy and maternity; race; sex; religion or belief; and sexual orientation, and in certain circumstances civil partnership or marriage.
- Compliance with the PSED 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. This is not to be taken as permitting conduct that would otherwise be prohibited by or under the Act.

Fulfilling the duty requires due regard that is appropriate in all relevant circumstances. This includes the budget development, preparation and approval process involving the GLA: Mayor, GLA: Assembly and each functional body and the subsequent expenditure involved in implementing their individual budget proposals.

Inclusive London is the Mayor's equality, diversity and inclusion framework that will include relevant evidence and long-term strategic objectives that set out what the GLA Group is aiming to achieve in relation to equality, diversity and inclusion. The strategy will be published in final form later in 2018 with an action plan to follow. This will go beyond the 9 protected characteristics set out in the 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.

The implementation of programmes and projects within the budget framework set by the budget for each body will be subject to a full and detailed assessment of the likely impact on individuals in protected groups before decisions are taken in accordance with the PSED and the emerging Inclusive London strategy.

Funding Allocations

Part 2 sets 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 2018-19 compared with the previous year are set out in section 1 of Part 2 under paragraph 1.26. Details of the additional allocations of funding by the Mayor compared to what was assumed in his draft budget are set out in section 5 of Part 1. 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 £12, in accordance with Home Office expectations;
    - allocating 1 per cent of the revenues raised from the 2.99 per cent increase in the non-police precept to MOPAC (allocated to MOPAC through increasing its retained business rates funding);
    - allocating the additional income resulting from council tax buoyancy being 2.4 per cent rather than the 2.0 per cent assumed in the draft budget (the non-police element of this is allocated to MOPAC through increasing its retained business rates funding);
    - allocating additional business rates funding that from 2019-20 will support an extra 1,000 police officers than would otherwise be affordable. In 2018-19 the additional business rates income will be used to reduce previously planned borrowing, which reduces capital financing costs. This saving will allow on-going support for the Met's Mental Health work in 2019-20 and later years. For 2018-19 the Mayor is supporting three additional projects: £2.1 million for Mental Health, £0.6 million for Violence Against Women and Girls (VAWG) and Female Genital Mutilation (FGM) campaigns and £0.4 million to fund a new Countering Violent Extremism programme.

- provide additional funding to LFC through
  - allocating part of the additional income raised from 1.99 per cent of the 2.99 per cent increase in the non-police precept, protecting it from the cuts in the former fire formula component of the GLA's Revenue Support Grant allocation (which has been rolled into the GLA's retained business rates income). The additional amount allocated to LFC is equal to the amount assumed in the draft budget with the remaining additional amount raised from council tax buoyancy being 2.4 per cent rather than the 2.0 per cent assumed in the draft budget being allocated to MOPAC; and
  - ensuring that LFC is not financially disadvantaged by the revised Southwark Fire Station deal by providing temporary funding from business rates.
- provide additional funding to the GLA: Mayor through
  - allocating an additional £45 million to create a fund (£15 million per annum for the 3 years to 2020-21) for projects to assist young people; and
  - Allocating funding of £27.4 million for other projects that include additional funding for environmental projects, a homelessness mental health pilot, economic fairness, and further publicity and research on childcare rights.
- provide additional funding to TfL through
  - allocating an additional £11.6 million to TfL in 2018-19. This sum will be apportioned using the existing needs formula and equates to an average of an additional £350,000 per borough. A provision of an additional £6 million to ensure that toilets are available to bus drivers on every route in London is also made; and
  - allocating an additional £75 million of business rates to TfL compared to 2017-18 for the one-off committed payment to TfL of the £75 million that was removed from its 2015-16 business rates allocation for its share of the GLA Group's business rates deficit from 2013-14 and 2014-15. Effectively this reflects a delayed committed payment to TfL that has been implemented now that the GLA is forecast to reach a cumulative business rates surplus by the close of 2017-18. The Mayor also proposes holding TfL council tax at the same cash level as in 2017-18 and allocating in full business rates (capital) funding replacing capital funding formerly received through Government grant;
- reduce resources allocated to OPDC from £6.9 million in 2017-18 to £6.8 million in 2018-19, after accounting for the impact of forecast underspends carried forward and use of the contingency allocated to OPDC from the GLA's Mayoral Development Corporation Reserve; and
- reduce overall the resources allocated to the LLDC (including factoring in the impact of previous years' carry forwards).

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 Inclusive London (the new equality framework due to be published in early 2018). 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 groups as a result.

Impact of funding allocations and other revenues

It is not possible to predict how the proposed changes for 2018-19 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 from the Mayor 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 developing equality framework. Compliance with the PSED 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 Inclusive London. 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 2018-19", published in December 2017.

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; increasing funding for the police through increases in the precept and business rates; providing additional funding to the LFC through the precept to offset the impact of the additional grant cuts; making the one-off committed repayment to TfL of the £75 million removed from its business rates allocation in 2015-16 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 2018-19, 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 £280.02 to £294.23 – an increase of £14.21 or 5.1 per cent. This reflects the Mayor’s additional funding allocated to MOPAC through an increase in the police element of the precept, and the additional income from the 1 per cent of the 2.99 per cent increase in the non-police precept and the additional income from council tax buoyancy being greater than assumed in the draft budget, which are also allocated to MOPAC. It is also reflects part of the additional income generated from 1.99 per cent of the 2.99 per cent increase in the non-police precept, equal to the amount assumed in the draft budget, that is allocated to LFC. The proposed 2018-19 precept for the Common Council of the City of London which is outside the Metropolitan Police district is £76.10 – 2.99 per cent greater than in 2017-18.

Council tax is a regressive tax because the size of property does not equate to size of income of the occupier and the occupiers of the most expensive properties only pay twice the level of council tax paid for the average property. The Mayor has carefully considered this in proposing his precept increase and has taken the difficult decision to increase the precept and provide additional funding to the police and fire services in the light of his manifesto commitment to increase the council tax where it is necessary to keep Londoners safe.

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 £14.21 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 below.

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

Band	2018-19	2017-18	Change
Band A	£196.15	£186.68	£9.47
Band B	£228.85	£217.79	£11.06
Band C	£261.54	£248.91	£12.63
Band D	**£294.23**	**£280.02**	**£14.21**
Band E	£359.61	£342.25	£17.36
Band F	£425.00	£404.47	£20.53
Band G	£490.38	£466.70	£23.68
Band H	£588.46	£560.04	£28.42

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.

Council Tax Support

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 and whether they have reached or are below their pension credit qualifying age. In April 2013, decision-making on the award of council tax benefit for working age households was localised to individual borough councils / billing authorities. The Government also granted billing authorities the ability to revise exemption and discount policies for second and empty homes. These policies are determined in London by each of 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, in 2017-18 eight protected working age claimants by providing full council tax support on broadly the same basis as prior to 2013-14 subject to applicable uprating for inflation and other parallel changes in national polices for means tested benefits. The remaining 25 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 (up to 33 per cent in one case) or through adjustments to other criteria. For example, in some cases any impact is restricted to council tax payers in higher property bands, or who are not members of defined groups.

Council tax schemes for 2018-19 are not required to be confirmed until 11 March 2018 as the Government has extended the deadline from the 31 January date used in previous years. The GLA will therefore not have details of all council tax support schemes in London until after the Mayor's budget has been set.

In 2018-19, based on consultation proposals issued so far, the GLA understands that the minimum contribution for working age claimants could again be as much as 33 per cent of their council tax liability in at least one billing authority although in up to eight working age claimants will continue to receive up to 100 per cent support. Some authorities – four in 2017-18 – may again also only pay council tax support up to the equivalent Band D or E rate and therefore working age claimants residing in properties in Bands E to H would not in all cases receive additional support for the difference.

There are also different policies applied to different client groups. For example, some authorities apply their policies consistently to all working age claimants whereas others offer greater levels of support to certain vulnerable working age groups (e.g. disabled people, lone parents with young children and war widows). A majority of boroughs have also removed the 25 per cent second adult rebate for two person adult households where one adult is on a low income. Savings limits above which council tax support starts to be withdrawn for working age households vary from £6,000 to the default national guideline of £16,000 (which applies to pensioner claimants not eligible for the guaranteed element of pension credit) in different boroughs.

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 therefore vary across London as it will depend on the local scheme determined by each London billing authority. In designing their schemes these local authorities are required to consult with stakeholders when they make changes and are required to have regard to equalities legislation and duties when approving them.

The GLA does not have diversity data in respect of the 33 local council tax support schemes at individual property level 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. For a working age claimant on a low income paying a minimum liability of 33 per cent (in a borough where that applies) the increase in the Mayor's precept would equate to around 9 pence per week.

It should also be noted that the majority of the council tax increase is being introduced to safeguard police numbers and crime disproportionately affects those who have lower levels of income/savings, with the remainder of the increase being used to ensure the London fire service is adequately funded.

These variations in the schemes arise because of the Government's decision to localise decision making on the setting of council tax support which means that working age claimants are subject to significant variations in their entitlements depending on where they live and the resources available to, and choices made by, their local authority. This is a regrettable consequence of this policy decision over which the Mayor has no direct control.

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 an average household will save around £200 by 2020.

The freeze in TfL fares means that everyone buying a bus or tram ticket in London will pay no more in 2018 than they did in 2016. Pay as you go (PAYG) journeys on the Tube, DLR, Emirates Airline and rail services where TfL fares apply have been frozen. Hire and access on Santander Cycles have also been frozen.

In partnership with London Councils the Mayor has maintained all TfL travel concessions, providing more than £300 million of free or discounted travel every year to children, people over 60, those on income support, and other socially disadvantaged groups.

In addition, the Mayor introduced the 'Hopper' fare in September 2016 allowing customers to make an extra bus journey free, as long as it is within one hour of touching in on the first bus. In early 2018 the Hopper fare will be extended to allow unlimited bus and tram transfers within the hour.

As part of the decision-making process in regards to the introduction of the fares freeze, TfL identified six groups of Londoners who typically face increased barriers to public transport use. These groups were black, Asian and minority-ethnic (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 lesbian, gay, bisexual and transgender (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 are likely to have an adverse impact.

Many of those who comprise the six 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 2017-18 financial monitoring

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

In his 2018-19 Budget Guidance issued in June 2017, the Mayor set out the requirement that the GLA and its functional bodies improve the timeliness and quality of information in their quarterly monitoring reports. In particular, the aim is that all quarterly monitoring reports will within a year include both financial and performance information. The Budget Guidance also required the integration of capital and revenue planning together in each functional body's quarterly report.

These requirements built on the robust systems already in place for regular financial monitoring and reporting within each member of the GLA Group. 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. As the requirements of the users of the reports evolve the format and content is being adjusted. This is an iterative process that is developed as new requirements are identified and the processes required to collate the necessary data are established.

Meetings between the Mayoral team and the GLA and each of its functional bodies are held to consider the quarterly reports. These include discussion of progress with identifying and realising efficiencies and savings as well as potential future variances from budget. Regular officer meetings between the GLA and each functional body are held to discuss the budget process and to advise of any subsequent developments and resolve any queries that might arise. The reports are submitted on a quarterly basis to the Assembly's Budget Monitoring Sub-Committee for each GLA Group member and scrutinised by the Committee.

Part 2 sets out the forecast outturn for each functional body for 2017-18 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 2018 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 2018-19. 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.

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, local 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 requirements – 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.

The Chartered Institute of Public Finance and Accountancy (CIPFA) has published guidance on local authority reserves and balances. 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"*.

The Institute 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"*. In assessing the adequacy of reserves, the Chief Finance Officer should take account of the strategic, operational and financial risks facing the authority, as well as 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 the external auditor's 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 Finance Officers. Further commentary on reserves is outlined within the GLA and each functional body's section in Part 2 of this Final Draft Budget, as well as in their individual published budget proposals.

(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 2018-19. The impact of the business rates retention pool in London, the effect of business rate payer appeals, the 2017 business rates revaluation and the upside and downside risks associated with council tax income will continue to be 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, as well as ensuring that the Mayor's priorities can be implemented.

General reserves

At 31 March 2018 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 2021-22. The GLA's current policy is to maintain a minimum general reserve balance of £10.0 million.

Capital programme reserve

A capital programme reserve has been established to support capital investment on the Mayor's priorities, including affordable housing, energy and environment, which fall outside of schemes funded by central government. It is forecast to have a closing balance of £67.1 million at 31 March 2018. In 2018-19 and subsequent years it is forecast to reduce, reaching £46.1 million in 2021-22. Plans are being developed on how this remaining sum will be allocated.

Earmarked reserves

The balance on reserves earmarked for GLA services (excluding the Mayoral Development Corporation Reserve and the Business Rates Reserve) is expected to be £109.2 million at the end of 2017-18. The reserves are forecast to reduce to £52.8 million by 2021-22. Within the earmarked reserves balance are amounts for the New Homes Bonus grant, set aside to fund regeneration schemes to be carried out by London boroughs, as well as funding for exceptional repairs and maintenance across the GLA estate; it is not possible at this stage to profile when these balances will be spent.

Mayoral Development Corporations Reserve

The Mayoral Development Corporations (MDC) Reserve includes provisions held to support LLDC and OPDC expenditure; neither body holds their own reserves. The reserve is forecast to be £22.0 million at the end of 2017-18; in part, the balances have been built up from underspends by the Development Corporations in previous years. In 2018-19 it is planned to use balances from the reserve to support both LLDC and OPDC's revenue budgets. From 2019-20 onwards the reserve is forecast to remain at £4.1 million based on a contingency of £2.4 million held for unexpected costs arising within LLDC and OPDC and the £1.7 million of specific contingency funding that remains unallocated for OPDC activity (after allowing for OPDC's forecast 2017-18 underspend). This represents a prudent level of reserves held to provide support in the medium term, should it be required.

Business Rates Reserve

The balance on the Business Rates Reserve is forecast to be £188.2 million at the close of 2017-18 and remain at the same level throughout the period to 2021-22. The Business Rates Reserve is used to manage business rates income risk. The forecast balance on the reserve reflects current assumptions of its adequacy; £188.2 million is 6 per cent of the GLA's estimated business rates income receivable in 2018-19 (gross of its estimated share of the tariff payment payable to the Government through the London pool). This is in line with the largest change seen between the GLA's share of the business rates as forecast by the billing authorities and actual outturn, since the introduction of the localised retained rates system.

With the new pooling arrangements there is a more favourable safety net threshold which would imply a reduction in this reserve. However, as the pool pilot is not guaranteed to continue, there is still uncertainty around the appeals process and the increased business rates income is at this stage based on forecasts, the Executive Director of Resources advises that it would be appropriate to maintain the Business Rates Reserve at £188.2 million as a contingency, given that the Mayor plans to commit the additional business rates income prudently identified as recurring on an ongoing basis to MOPAC.

GLA conclusion

The Chief Finance Officer of the GLA judges the GLA's level of reserves to be 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 £1.5 million as at 1 April 2018, which is included within the earmarked reserves total for the GLA: Mayor as set out above. The main purpose of this reserve is to fund resettlement costs when Assembly Members leave office.

(c) MOPAC

MOPAC is forecasting general reserves of £46.6 million as at 31 March 2018; this level of reserves is forecast to maintained across the budget period to 2021-22. MOPAC's policy is to hold general reserves of at least 1.5 per cent of net revenue expenditure; this level of reserves represents in excess of 1.5 per cent of the forecast outturn net revenue expenditure in 2017-18, in line with MOPAC's policy.

Earmarked reserves are forecast to reduce from £142.0 million at the end of 2017-18 to £113.0 million at the end of 2018-19 and to be reduced further to £89.8million at the end of 2021-22. Earmarked reserves are being held for specific purposes, including investment in the Met's transformation and change programme, and managing one-off impacts to the medium-term budget. The forecast total balance by 2021-22 reflects planned spend on the programmes for which the reserves are held. It is important to note that when plans have not been confirmed for a project, its costs are not removed from the reserves. Therefore, the figures tend to overstate the earmarked reserves that are likely to be held at the end of the four-year period.

MOPAC conclusion

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

(d) London Fire Commissioner / London Fire and Emergency Planning Authority

LFEPA's general reserves at 31 March 2018 are forecast to be £13.8 million. They are assumed to remain at the same level across the period to 2021-22. These reserves are based on a level equivalent to 3.5 per cent of the current financial year's budget, in line with LFEPA's policy.

It is forecast that LFEPA will hold £32.0 million of earmarked reserves at 31 March 2018; these reserves will decrease in each of the following years to £16.2 million by the end of 2021-22, as the budget flexibility reserve is fully drawn down.

Also within the earmarked reserves balance is £5.7 million put aside for additional resilience requirements, identified following the London Fire Brigade Commissioner's initial review of response to the Grenfell Tower fire and terrorist incidents, as well as £3.7 million funding for London Safety Plan 2017 implementation. Whilst these amounts are expected to be utilised over the budget period, it is not possible at this stage to profile when these balances will be spent.

The level of reserves will be kept under review and will reflect any updated assessments of financial risks. LFEPA's reserves as at 31 March 2018 will be transferred to the LFC from 1 April 2018.

LFC / LFEPA conclusion

The level of reserves is judged prudent by the Chief Finance 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

At 31 March 2018 TfL forecasts general reserves of £150.0 million and these balances are forecast to remain at the same level throughout the period to 2021-22. TfL also maintains a minimum prudent level of cash and short-term investments of around £500 million to ensure that it has sufficient liquidity to meet its financial obligations.

TfL forecasts earmarked reserves of £698.8 million at the end of 2017-18, increasing to £1,144.9 million in 2018-19; by the end of the period earmarked reserves are forecast at a level of £718.0 million in 2021-22. The earmarked reserves are held for capital spending purposes and their movement reflects planned spending on TfL's capital programme, outlined in TfL's Business Plan, published in December 2017.

TfL conclusion

The Chief Finance Officer of TfL considers that the level of reserves 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 2018 LLDC will not hold any reserves. The LLDC's historic reserves are held within the MDC Reserve, part of the GLA's reserves. LLDC's revenue expenditure and a significant proportion of its capital programme are funded by the GLA, the latter through direct grant contributions and a rolling loan facility. The loan is anticipated to be repaid through surplus capital receipts from the sale of development land (further details on this and the Mayor's plan to cap LLDC borrowing are set out in Section 9 of Part 2 of this budget). 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 the MDC Reserve.

LLDC conclusion

The Chief Finance 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 held within the MDC Reserve 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 is held within the earmarked MDC Reserve held by the GLA, as outlined above.

OPDC conclusion

The Chief Finance Officer of OPDC, having taken into account 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 GLA's Executive Director of Resources relies on the individual advice from each of the Chief Finance Officers of the functional bodies in discharging his responsibilities.

The forecast use of reserves to March 2022 is summarised in the table below.

	GLA £m	MOPAC £m	LFC/ LFEPA £m	TfL £m	LLDC £m	OPDC £m	Total
Opening balances 1 April 2017	**332.7**	**239.6**	**37.1**	**1,212.4**	**0.0**	**0.0**	**1,821.8**
Movement on Earmarked reserves	63.9	-51.0	16.0	-363.6	0.0	0.0	-334.7
Movement on General reserves	0.0	0.0	-7.7	0.0	0.0	0.0	-7.7
Balances 31 March 2018	**396.6**	**188.6**	**45.3**	**848.8**	**0.0**	**0.0**	**1,479.4**
Movement on Earmarked reserves	-6.9	-29.0	0.4	446.1	0.0	0.0	410.6
Movement on General reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balances 31 March 2019	**389.7**	**159.6**	**45.8**	**1,294.9**	**0.0**	**0.0**	**1,890.0**
Movement on Earmarked reserves	-37.7	-22.2	-11.4	-480.0	0.0	0.0	-551.3
Movement on General reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balances 31 March 2020	**352.0**	**137.4**	**34.4**	**814.9**	**0.0**	**0.0**	**1,338.7**
Movement on Earmarked reserves	-49.8	-1.0	-4.2	-187.6	0.0	0.0	-242.6
Movement on General reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balances 31 March 2021	**302.2**	**136.4**	**30.1**	**627.3**	**0.0**	**0.0**	**1,096.1**
Movement on Earmarked reserves	-0.9	0.0	-0.1	240.7	0.0	0.0	239.7
Movement on General reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balances 31 March 2022	**301.3**	**136.4**	**30.0**	**868.0**	**0.0**	**0.0**	**1,335.8**

There are forecast reductions in the reserves of the GLA, MOPAC and LFC / LFEPA between 31 March 2018 and 31 March 2022, with an increase in TfL's. This results in a net overall reduction of £143.6 million from 31 March 2018 to 31 March 2022, reflecting the planned use of earmarked reserves. Of the forecast balance on reserves of £1,479.4 million at 31 March 2018, around £220 million is held in general reserves – including £150.0 million for TfL.

In conclusion, the Mayor's budget proposals are consistent with the advice provided on reserves and balances. The use of reserves and balances will continue to be kept under close review during 2018-19 and in future years.

5. Advice on council tax requirements and referendums

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).

Procedure for determining the council tax requirements

The determination of the component and consolidated council tax requirements has taken place following the publication of the Government's final local government finance settlement.

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).

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 GLA Act and Chapter 4ZA of the Local Government Finance Act 1992, as amended. The effect is that there is a requirement for a council tax referendum where the proposed increase in the GLA precept exceeds the threshold set out in the Local Government Excessiveness Principles laid by the Secretary of State and approved by the House of Commons for the same financial year as the budget.

As a result of the way the Metropolitan and City of London Police Forces are funded, the GLA is required to calculate two different "relevant basic amounts of council tax" (on the basis of the council tax Band D) for the City of London (the unadjusted basic amount of council tax) and the 32 London boroughs (the adjusted basic amount of council tax). Both these amounts must be in compliance with the Government's excessiveness principles if a council tax referendum is to be avoided.

If either or both council tax calculations exceed the threshold under the excessiveness principles (e.g. even if only the calculation applying to the City of London exceeds it), a referendum of local electors across the 32 London boroughs must be held. If the adjusted basic amount of council tax only is excessive under the principles electors in the area covered by the Corporation of London do not participate in the referendum but if the unadjusted amount is excessive they do alongside electors in the rest of London. 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 Mayor's formal determination in relation to this is set out at paragraph 6.2 in Part I of this Budget report.

On 6 February 2018, alongside the final local government finance settlement, the Government published the regulations setting out the council tax referendum thresholds for 2018-19 – the 'Referendums Relating to Council Tax Increases (Principles) (England) Report 2018/19'. This was approved by the House of Commons alongside the 2018-19 Local Government Finance Report on 7 February.'

On the basis of these principles a referendum would be required for the GLA if the unadjusted amount of council tax (i.e. the non-police precept) were increased by 3 per cent or more and the adjusted amount of council tax (i.e. the total Band D precept payable in the 32 boroughs) were increased by more than £14.21 (i.e. £12 for policing plus £2.21 – £2.21 being the equivalent of an increase of 1 pence less than a 3 per cent rise in the non-police precept).

The GLA is not required to make levy payments to levying bodies – as for example applies for London boroughs in respect of the Environment Agency, Lee Valley Park Authority and the London Pensions Fund Authority - and therefore the baseline against which the principles are measured is the actual unadjusted and adjusted council tax figures for 2017-18.

<u>Position regarding the City of London</u>

The unadjusted basic amount of council tax proposed by the Mayor for 2018-19 in his final draft budget is £76.10 – which is the sum payable by council tax payers in the City of London. This is £2.21 higher than in 2017-18.

<u>Position regarding the 32 London boroughs</u>

The proposed adjusted basic amount of council tax proposed is £294.23 for a Band D property (i.e. £218.13 for the Metropolitan Police plus £76.10 for non-police services) – this is the sum payable by taxpayers in the 32 London boroughs. This is £14.21 or 5.1 per cent higher than the corresponding figure for 2017-18 of £280.02.

The adjusted and unadjusted amounts of council tax are therefore both lower than the council tax referendum thresholds that will apply for 2018-19 (i.e. £294.24 and £76.11). The final draft budget is compliant with the excessiveness principles for 2018-19 and would therefore not trigger a council tax referendum in either the 32 London boroughs (the area where taxpayers are liable to pay the adjusted relevant basic amount of council tax) or the area of the Common Council of the City of London (the area where taxpayers are liable to pay the unadjusted figure).

<u>Substitute budget</u>

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 comply. 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 £76.10 (in the area of the City of London) and/or an adjusted council tax of £294.23 (in the 32 London Boroughs) depending on which (or both) council tax amount(s) is/are "excessive". These being the council tax amounts proposed by the Mayor in this final draft budget.

The Mayor's final draft 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 draft 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 2 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 2018-19 the Mayor and the Assembly should have regard not just to the in-year funding position for 2018-19 but also the overall uncertainty concerning the resources that will be available to the GLA Group in future years.

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 component council tax requirement for both the Mayor and the Assembly.

What is the restriction on the Assembly changing its own council tax requirement?

The Mayor proposes a council tax requirement for the Assembly as part of his Draft Budget. The Assembly may amend this but does not have to. However, the GLA Act places limits on the extent to which the Assembly can amend its own component requirement by reference to changes – up or down (if any) - in the budget for the Mayor's council tax requirement figure, as compared to the previous financial year.

- If the Mayoral council tax requirement figure increases then the Assembly cannot amend the budget to increase its own component requirement figure by a greater percentage.

- If the Mayoral council tax requirement figure decreases then the Assembly's amendment to its own council tax requirement (if any) can be equal to but not less than the percentage decrease made by the Mayor to his own council tax requirement i.e. the Mayoral decrease acts as a ceiling on any Assembly decrease.

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 2017-18;
- 'New' Mayor will be the Mayor's proposed council tax requirement for the Mayor for 2018-19 after any adjustments made; and
- The percentage change in the Mayor's council tax requirement from 2017-18 is calculated using these amounts.

The Assembly's council tax requirement for 2017-18 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 GLA 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 £2.623 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 £2.685 million. Any such decision by the Assembly would need to be mindful of the advice on council tax referendums, 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 2018-19	67.659
Deduct: Nil	-0.000
Add: Nil	0.000
NM (Mayor's adjusted council tax requirement for 2018-19)	**67.659**
Deduct: OM (notional Mayor's council tax requirement for 2017-18)	65.891
Add: Nil	0.000
Deduct: Nil	0.000
OM (notional Mayor's council tax requirement for 2017-18)	**65.891**
Amount NM is greater than OM council tax **requirement**	**1.768**
Percentage Increase	**2.68%**

Assembly Budget: adjusted previous component Council Tax Requirement	**£m**
Notional component Council Tax requirement for the Assembly for 2017-18	2.615
Add: Percentage change in NM compared with OM	0.070
Adjusted previous component Council Tax requirement	**2.685**

Legal Advice

1. Overview

This section of Part 3 to the Mayor's Final Draft Consolidated Budget sets out legal advice on the scope of the Assembly's amendment powers not covered elsewhere in the budget reports.

Details about council tax referendums and the limit on the Assembly's power to amend the Mayor's council tax requirement for the Assembly can be found in sections 5 and 7 of this document, alongside the advice provided by the Executive Director of Resources.

2. Scope of Assembly's amendment powers

<u>Statutory definitions</u>
Paragraph 1 of Schedule 6 of the GLA Act imposes a duty on the Mayor and the Assembly, in accordance with that Schedule, to prepare and approve for each financial year—
(a) a budget for each of the constituent bodies as such (a "component budget"); and
(b) a consolidated budget for the Authority (a "consolidated budget").

"Component budget" is defined as statements of—
(a) the amount of the component council tax requirement for each of the seven constituent bodies; and
(b) the calculations under section 85(4) to (7) of the GLA Act which give rise to that amount for each.

"Consolidated budget" is defined as statements of—
(a) the amount of the Authority's consolidated council tax requirement;
(b) the amount of the component council tax requirement for each constituent body; and
(c) the calculations under section 85(4) to (8) of the GLA Act which give rise to each of the amounts mentioned in paragraphs (a) and (b) above.

<u>What is the Assembly's power of amendment?</u>

The Assembly's power to amend the final draft 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. This is because the GLA Act defines the component council tax requirement solely in terms of the statutory calculations.

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 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. This is because the budget is defined solely in terms of those calculations because they produce the council tax requirement.

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 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 22 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).